



Providing the greatest
“Joy of Eating” in the world

NH Foods Group
Integrated Report 2018

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Forward-looking statements

This integrated 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.

Editorial policy

Since the reporting for the fiscal year ended March 31, 2018, we have published this document as an integrated report in order to convey our value creation, integrating financial information with non-financial information such as that associated with the environment, society, and governance to our shareholders, investors, and all our other stakeholders, in an easy-to-understand manner. When editing this report, we made reference to the International Integrated Reporting Framework published in December 2013 by the International Integrated Reporting Council (IIRC).

Time frame

Fiscal 2017 (April 1, 2017 – March 31, 2018)

Note: Some fiscal 2018 content is also included.

Scope

NH Foods Ltd. and 85 consolidated subsidiaries (55 in Japan; 30 overseas)
10 affiliated companies

IR information:

<https://www.nipponham.co.jp/eng/ir/>

CSR information:

<https://www.nipponham.co.jp/eng/csr/>



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.

Message from the President

We will aim to be a company that increases corporate value with a forward-looking view, and is able to contribute to a sustainable society.

I was appointed President and Representative Director starting this year.

Since our founding in 1942, the NH Foods Group has been striving to elevate culinary culture amid such changes in society as diversification of food and lifestyles through the “Joy of Eating,” which is the cornerstone of a happy life, by delivering a wide variety of foods to our customers, from hams and sausages, fresh meats, and processed foods to marine products, dairy products, and health foods. However, in order for the NH Foods Group to further grow, we must further evolve from conventional corporate activities. Unprecedented changes have occurred at unprecedented speed. For instance, globally, a sense of crisis over a stable food supply has been heightened due to population growth and climate change, and fully autonomous, more efficient operations have been brought on by technological innovation through AI and the IoT. While in Japan, low childbirth and the aging population is progressing, the number of farms, which are the most upstream point in our value chain, is declining. There are labor shortages in factories and other sites due to the falling labor population and new lifestyles are appearing due to increasing diversity. We must help solve the challenges facing society by creating new value, making these changes into growth opportunities.

In April 2018, the NH Foods Group started its Medium-Term Management Plan 2020. This plan describes our Ideals for 2040 and sets out initiatives over the next three years based on these ideals. Positioning “High-level Management for No.1 Quality” as our foundation, we will strive to improve products, management, and human resource quality and strengthen compliance and corporate governance. At the same time, we will increase our corporate value in terms of the environment, society, and the economy by facing the future in a medium- to long-term perspective, and aim to be a company that can contribute to a sustainable society.

Yoshihide Hata

President and Representative Director

The NH Foods Group Vision

Present

Medium-Term Management Plan 2020

Theme:
Building systems
that pave the way
to the future

Ideals for 2040

We will bring people
together everywhere by
creating great-tasting
fare that contributes to
happy and healthy lives

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.

Remaining True to Our Corporate Philosophies and Management Principles

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.

Value Creation Trajectory of the NH Foods Group

The NH Foods Group, which started as a ham and sausage manufacturing plant in 1942, has since grown to handle everything from fresh meat to processed foods, marine products, dairy products, and extract seasoning. Today, it is one of the top food manufacturers in Japan in the fields of hams and sausages and fresh meats, and it continues to grow as a global company with international production, processing, and sales operations.

1981

Broadened food operations
Entered the marine products business



1966

Launched skinless wiener line that is both easy to eat and delicious

Introduced *Winny*®



1973

Implemented integration system

Established Nippon Pork Co., Ltd. (now Nippon Food Packer Kagoshima, Inc.)



1981

Ultrathin-sliced ham launched for particularly health-conscious consumers

Introduced *Thin Slice*® Hams



1942

Proposing a new culinary culture

Established the Tokushima Meat Processing Plant and started producing hams and sausages



1968

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

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



1972

Responding to the diversification of culinary culture

Entered the processed foods business



1985

Launched coarse-ground pork wieners for customers seeking authentic products

Introduced *SCHAU ESSEN*®



Medium-Term Management Plan*

1985 to 2003
Part I to VI

* Fiscal years indicate April to March

1967

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

1969

Introduced the Consumer Delegate Committee System, a unique monitoring system

1973

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

SOCIALLY SIGNIFICANT TRANSITIONS COMPLETED BY THE GROUP

1950s

Founding days: Contributing to the diversification of food culture

- Electric refrigerators become commonplace
- First supermarket in Japan opens

1960s

Pursued stable supply of safe and reliable products

- Westernization of eating habits
- Tokyo Olympics held

1970s

Proposals for a new food culture

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

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

1991
Advanced research into food safety and reliability and healthy foods and ingredients

Completed the Research and Development Center in Tsukuba, Ibaraki



1993
Built system for swift delivery of high-quality fresh meats

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



2002
Started swift delivery of fresh meats via one of the largest logistics centers in Japan

Established Nippon Logistics Center, Inc.



1987
Brought out easy-to-prepare chicken for eating at home

Introduced CHIKICHIKI Bone®



1992
Launched the yogurt and lactic acid probiotic beverages business

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



1994
Brought out easily prepared authentic Chinese meals

Launched the Chuka Meisai® series



2002
Brought out chilled pizza with authentic taste

Launched the Ishigama Kobo® series



1988
Implemented integration system overseas, contributing to stable supply of fresh meats

Purchased Whyalla Feedlot (Australia)



1993
Brought out distinctively creamy desert yogurt

Introduced Vanilla Yogurt



1995
Entered the seasoning extract business

Established Nippon Pure Food, Inc.



2002
Launched major domestically produced chicken brand

Launched Sakurahime®



1989
Expanded processed foods manufacturing sites overseas

Established Thai Nippon Foods Co., Ltd.



1993
Enhanced fresh meat safety and reliability

Began branding fresh meats



1997
Branded overseas beef

Launched Omugi-Gyu



2003
Entered the cheese business

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



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"

1990s
Proposals for a product lineup suited to diversifying lifestyles

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

2000s
Improved customer satisfaction with high-level management for No. 1 quality

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

SALES TARGET
FOR THE FISCAL YEAR
ENDING MARCH 31, 2021:

1,410
billion yen

2004

Launched allergen-free products
Launched the *Minna-no-Shokutaku*® series



2011

Launched loin ham with focus on savory taste and fragrance
Launched the *Irodori Kitchen*® series



2014

Achieved melt-in-your-mouth fat through slow fattening
Launched *Dolce Porco*®



2016

Offering hamburgers cooked to maximize delicious flavor of meat

Introduced *Kiwami-yaki*®
Hamburg Steak



2005

Wasting nothing from the Bounty of Nature

Introduced *Glucosamine Chondroitin EX*



2011

Brought out bite-sized cheeses enabling customers to enjoy a variety of flavors

Introduced *ROLF Baby Cheese*



2015

Offering high-quality pork through plant-based feed

Launched *Mugikomachi*®



2017

Brought out wiener sausages with focus on juiciness

Introduced *Hojun*® coarse-ground wieners



2006

Brought out gift products using integration system

Launched *Domestic Premium*®
Utsukushi-no-Kuni



2013

Brought out delicious, easily prepared breakfasts

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



2015

Responding to increasing demand for chicken driven by heightened health

consciousness
Acquired Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi



2017

Added new beef suppliers
Acquired stock in Breeders & Packers Uruguay S.A. (BPU)



New Medium-Term Management Plan*

2004 to 2006
Part 1

2007 to 2009
Part 2

2010 to 2012
Part 3

2013 to 2015
Part 4

2016 to 2018
Part 5

Medium-Term Management Plan 2020*

2019 to 2021

2005

Established the Group brand

2014

Changed the Group brand

* Fiscal years indicate April to March

2010

Pioneering the future of food

- Consumption tax hike
- UN Sustainable Development Summit held
- Paris Agreement signed

Food Megatrends Affecting NH Foods Group

The NH Foods Group aims to support the lifestyles of people around the world, working to balance solving social issues with its businesses. For this reason, the NH Foods Group will use its unique business model to reaffirm its core competence and strive for sustainable growth and value creation for all its stakeholders.

Changes in the supply-demand balance of food due to the world's growing population*1	2017 World Population	7.55 billion	→	2040 Forecast	9.21 billion
Support for increased consumption of fresh meat worldwide*2	2014-16 Average Beef Consumption	59.7 million tons	→	2027 Forecast	71.4 million tons
	2014-16 Average Pork Consumption	117.9 million tons	→	2027 Forecast	132.2 million tons
	2014-16 Average Chicken Consumption	91.7 million tons	→	2027 Forecast	115.7 million tons
Progress of Japan's aging society*3	2017 Percentage of the population aged 65 or older	27.7 %	→	2040 Forecast	35.3 %
Decrease in the number of domestic livestock farmers*4	Cattle 1965 Households	1,440 thousand	→	2017	50 thousand
	Hogs 1965 Households	702 thousand	→	2017	4.7 thousand
	Broilers 1965 Households	20.5 thousand	→	2017	2.3 thousand
Drop in Japan's food self-sufficiency ratio*5	1965 Japan's food self-sufficiency ratio (calorie basis)	73 %	→	2016	38 %
Numbers of households where both/one partner(s) works*6	1980 Both partners work	6,140 thousand households	→	2016	11,290 thousand households
	1980 One partner works	11,140 thousand households	→	2016	6,640 thousand households
Number of people with food allergies domestically*7	2014 Rate of food allergies		→		Infants: approx. 10 % 3-year-olds: approx. 5 %
Problems concerning food safety and reliability*8	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) 2018"

*2 The Ministry of Agriculture, Forestry and Fisheries, "World Food Demand Forecast for 2027"

*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 The Ministry of Agriculture, Forestry and Fisheries, "Food Self-Sufficiency Ratio in 2016"

*6 Gender Equality Bureau Cabinet Office, "White Paper on Gender Equality 2017 (Summary)"

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

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

The NH Foods Group Delivers the Joy of - Value Creation Process -

We have achieved continuous growth by building on our unique strengths, including the development of a vertical integration system. We remain committed to supporting the lifestyles of people around the world by delivering the Joy of Eating while facing social issues, based on the Medium-Term Management Plan 2020.

Megatrends affecting food

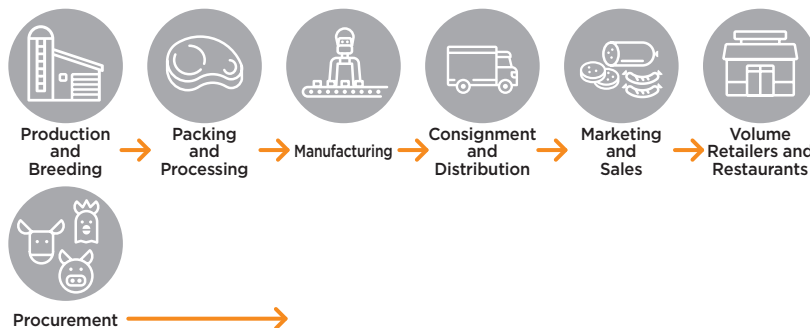
- Changes in the supply-demand balance of food due to the world's growing population
- Support for increased consumption of fresh meat worldwide
- Progress of Japan's aging society
- Decrease in the number of domestic livestock farmers
- Drop in Japan's food self-sufficiency ratio
- Changing lifestyles
- Increase in the number of people with food allergies domestically
- Problems concerning food safety and reliability*

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
- **Sales capabilities from top market shares** in three livestock species (cattle, hogs, and chickens) in Japan
- **Ability to develop** category-leading products

BUSINESS MODEL

VERTICAL INTEGRATION SYSTEM



See page 32 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: 25 business sites
 - FSSC22000 certification: 12 business sites
- Human resources supporting the level of quality:
- Quality Assurance Managers: Japan: 788 / Overseas: 226
- Connection with consumers represented by the Consumer Delegate Committee, established in 1969

Eating while Facing Social Issues

Medium-Term Management Plan 2020

THEME

Building systems that pave the way to the future

See page 20 for details. →

MANAGEMENT STRATEGY

- Strengthen profitability by improving the efficiency of existing businesses
- Create value through dialog with consumers
- Enhance and develop technological capabilities for conceptualizing and realizing the future of food
- Change gears in overseas market deployment
- Pursue sustainability

QUANTITATIVE GOALS FOR THE FISCAL YEAR ENDING MARCH 31, 2021

Net sales ¥ **1,410.0** billion Operating income ratio **4.0** %
 Operating income ¥ **56.0** billion Profit attributable to owners of parent ¥ **35.0** billion



Social value to be created

- Promotion of livestock industry in Japan
- Offering safe and reliable foods
- Offering convenient processed foods that can be cooked quickly
- Expanding our lineup of health-conscious products
- Offering allergen-free foods

Five important CSR issues and related SDGs

Producing food that is safe and reliable



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



Maintaining workplaces that motivate employees



Sustainable food supply for the next generation



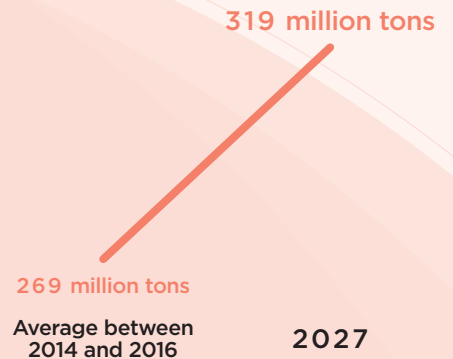
Preserving the environment



1 Tackling the Challenges of Rising Food Consumption Worldwide and a Declining Number of Livestock Farmers in Japan.

It is estimated that the global population will exceed 9 billion by 2040. Food production would thus have to expand 1.55-fold from 2000. Japan is the world's biggest food importer, and faces a plunging number of livestock farmers, making stable food supplies a key issue for the nation

WORLD FRESH MEAT (BEEF, PORK AND CHICKEN) CONSUMPTION FORECASTS



Source: "World Food Supply and Demand Projection to 2027 (in Japanese)", Ministry of Agriculture, Forestry and Fisheries of Japan



ANNUAL HOG SHIPMENTS

Around

620,000 hogs

(3/18 result)

ANNUAL CHICKEN SHIPMENTS

Around

71 million chickens

(3/18 result)

ANNUAL WHYALLA BEEF SHIPMENTS

Around

140,000 head

(3/18 result)

Stable Supplies of High-Value-Added Fresh Meat from a Vertical Integration System

As Japan's population ages, fresh meat purchases by elderly individuals are growing. We thus expect fresh meat consumption to keep increasing. The Group built a vertical integration system that encompasses everything in the supply chain from production and breeding, packing and processing to consignment, distribution and sales to provide safe, top-quality fresh meat to consumer tables. While the size of farms per farmer are expanding in Japan, the number of farmers is decreasing. Domestic fresh meat production volumes are thus unlikely to rise. Another factor to consider is such livestock disease risks as BSE, avian influenza, foot-and-mouth disease, and the porcine epidemic diarrhea (PED) virus. Through aggressive investments in farms and processing facilities and by stepping up efforts to increase production, the Group will help maintain and improve the nation's food self-sufficiency rate in livestock farming while establishing competitive advantages of domestic business.



Reinforcing Fresh Meat Procurement from Abroad

To stabilize supplies of fresh meat, the Group has invested extensively in overseas fresh meat production and processing companies while expanding its vertical integration system. In Japan, we anticipate further expansion in the poultry market. Key drivers are a rising health consciousness among consumers, the expansion of the Halal market from increasing inbound tourism, and the attractive pricing. We responded to such market developments by investing in Panus Poultry in Thailand in January 2018 to provide stable supplies of Thai processed chicken, for which demand is increasing in Japan.



Panus Poultry is an integrator covering chicken farming and production through manufacturing processed foods and sales. It is the tenth biggest chicken packer in Thailand. We will continue to tackle the challenges of ensuring stable supplies of fresh meat by mergers and acquisitions and capital partnerships.

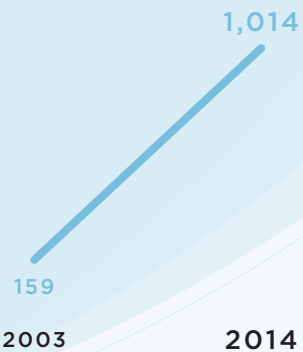


2

Delivering Safe and Reliable Foods

With consumers increasingly aware of the need for food safety and reliability, any food incident could threaten the viability of our businesses. As demand for food safety intensifies, it is vital to build a management system that guarantees food safety.

VOLUNTARY FOOD RECALL CASES IN JAPAN



Source: The Food and Agricultural Materials Inspection Center, an Incorporated Administrative Agency (Annual figures)



NUMBER OF EXTERNALLY
CERTIFIED NH FOODS
GROUP BUSINESS SITES

151

(3/18 result)

Delivering Safe Products to Customers

We consider it a key social responsibility to deliver safe products to customers. The Group has accordingly organically linked the three functions of safety assessments, quality audits, and safety inspections, and develops human resources in these areas.

We maintain a groupwide commitment to safety.



Note: See our website for more details.

WEB <https://www.nipponham.co.jp/quality/system/>

Obtaining International Certifications for Safety and Reliability

To meet global safety and reliability standards, we reviewed our quality assurance rules in 2016, and have deployed food safety management systems and have acquired certification under international standards. Our quality assurance system complies with the latest guidance of the GFSI (Global Food Safety Initiative) and encompasses requirements for food defenses and fraud. For external certification, we built optimum management systems and obtained certifications depending on the type of businesses and business partners' requirements. Examples include Safe Quality Food (SQF) international certification for farms and production plants and FSSC22000 certification for safety management frameworks at food processing facilities.

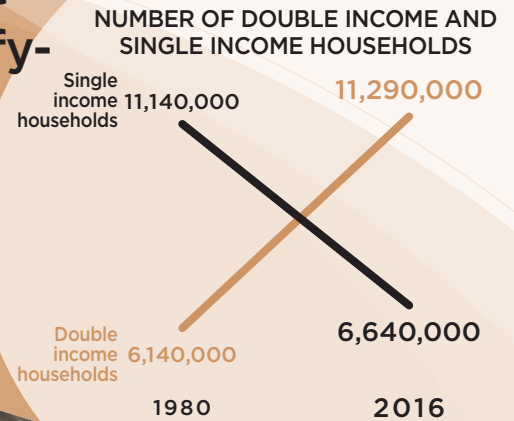
Note: See our website for more details.

WEB <https://www.nipponham.co.jp/quality/authentication/>

3

We Provide Highly Convenient Products that Cater to Diversifying Lifestyles

Japanese households are transforming significantly, key changes including a rising number of working mothers, more fathers participating in child-raising, and government initiatives to reform work practices. With demand surging for dishes that are faster and easier to prepare, household tables are increasingly featuring new offerings that contribute to the “Joy of Eating.”



Source: “White Paper on Gender Equality 2017 (Summary)”, Gender Equality Bureau Cabinet Office



Launched Lifestyle Research Office

In April 2018, the Group established the Lifestyle Research Office to promote in-house understanding about consumers and provide high-value-added products and services. Through collaboration between divisional product development teams, we create proposals that match social changes by developing products from consumer perspectives.

NUMBER OF HAM AND SAUSAGE ITEMS*

130

NUMBER OF DELI AND PROCESSED FOODS ITEMS*

180

*Excluding commercial-use products and private brand products (on domestic production basis as of March 31, 2018)

Speedy, Professional Results with *Chuka Meisai*[®]

Chuka Meisai is a series of chilled food products for tasty and nutritiously balanced Chinese dishes made just by adding one kind of vegetable. The packaging contains other pre-prepared ingredients and sauces created utilizing the skills of Chinese chefs, so there is no need for extra preparation like cutting or deep-frying of meat. The series comprises a variety of dishes that make authentic Chinese cuisine accessible to households even on busy nights. Offerings include sweet and sour pork and prawns in chili sauce that only require the addition of an onion. There is also twice cooked pork to which you add cabbage, as well as chop suey with Chinese cabbage.



Authentic Taste and Convenient Packaging *Entier*[®]



In Europe, the heartland of sausages, slowly grilled fresh sausages with a natural taste are very popular. While most sausages in Japan are precooked, *Entier* is uncured, making it easy for consumers to enjoy the authentic taste. To enhance user friendliness,

Entier is provided in easily separable packaging for use in smaller portions.

Saba Mizuni (Canned Mackerel) as a Main Dish or Snack

The Group company's Hachinohe Plant cans ocean-fresh mackerel in Japan, seasoning it only with salt to optimize the taste of fish caught during the best season. There is no need to use a can opener. The food is equally delicious and simple to prepare as a main dish or a snack.

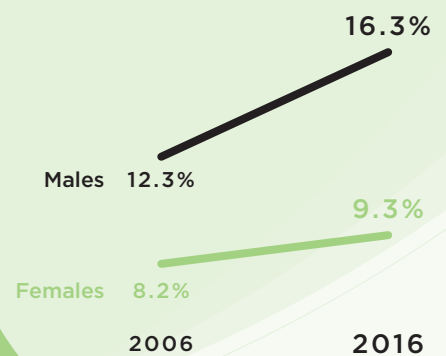




4 Responding to Growing Consumer Interest in Health as Life Expectancies of 100 become More Realistic

To develop a society in which people can live active and healthy lives even during old age, it is vital to care about health and to prevent lifestyle-related diseases when middle aged and to avoid functional impairments later in life. We are responding to a growing need for balanced and healthy diets and foods.

PERCENTAGE OF POSSIBLE DIABETES SUFFERS (AFTER THE AGE OF 20)



Source: "Summary Report on Result of National Health and Nutrition Survey 2016", Ministry of Health, Labour and Welfare

NUMBERS OF ITEMS FOR HEALTH-CONSCIOUS CUSTOMERS*

Ham and sausages 15
 Deli and processed foods 12
 Dairy products 6

* Low or zero carbohydrates, low salt products and others for ham and sausages and deli and processed foods. Lactic acid probiotic beverages, functional foods, and others for dairy products (at March 31, 2018)

Healthy Kitchen® for Health Needs

Healthy Kitchen is a ham and sausage series developed for people with concerns about carbohydrates in their diets or their blood pressure. Although the hams and half-sized bacons in the Healthy Kitchen ZERO series contain zero carbohydrates*, they offer the solid textures and great taste of regular meat. In



the Healthy Kitchen Green Label series, a line of foods with function claims, the low-salt pork loin hams and half-sized bacons contain γ-amino butyric acid (GABA), which is good for people concerned about their blood pressure.

* We directly analyzed the carbohydrate content. Less than 0.5g of carbohydrates per 100g is considered zero under food labeling standards.

Tokimeki Cafe Series Smoothies Not Just Tasty but Healthy

Tokimeki Cafe series smoothies contain lactic acid bacteria. They are a source of vegetable and fruit supplements with easily drinkable and enjoyable texture. The three offerings in this series are Green Smoothie, with 6 g of dietary fiber, which is the recommended quantity per meal; Red Smoothie, with the recommended dietary fiber requirements for one meal, and chia seed; and Purple Smoothie, with 5.2 g of iron.



Contributing to Communities by Fostering Healthy Bodies and Minds

The philosophy of the Hokkaido Nippon-Ham Fighters is “Sports Community”, which aims to build communities with sports and to foster healthy bodies and minds.



Based on that philosophy, the team set up the Hokkaido Nippon-Ham Fighters Baseball Academy in 2004 and the Hokkaido Nippon-Ham Fighters Dance Academy in 2009 to not just teach skills but to educate children about the attitude toward their dreams or goals and the importance of interacting with people through sport.

Performance Highlights (Fiscal year ended March 31, 2018)

Financial Highlights

(US GAAP)

OPERATING INCOME

¥ **49.2** billion

NET INCOME ATTRIBUTABLE TO NH FOODS LTD.

¥ **37.1** billion

OVERSEAS NET SALES

¥ **125.2** billion*

* Net sales to external customers

RATIO OF OPERATING INCOME TO NET SALES

3.9%

ROE

8.8%

PAYOUT RATIO

30.4%

ROIC

6.2%

CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION

¥ **41.5** billion/
¥ **21.2** billion

Business Highlights

DOMESTIC MARKET SHARE



Hams and sausages **18.4**%

(SCI data from INTAGE Inc.)

DOMESTIC MARKET SHARE



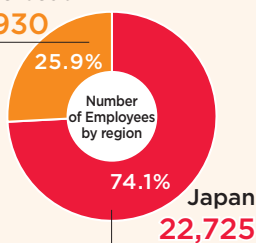
Fresh meats **20.5**%

Note: See page 49 for livestock species market shares.
(Based on NH Foods data)

NUMBER OF EMPLOYEES BY REGION

30,655

Overseas
7,930



(As of March 31, 2018)

NUMBER OF QUALITY ASSURANCE MANAGERS

Japan **788**

Overseas **226**

Total **1,014**



(As of March 31, 2018)

INTERACTION WITH CUSTOMERS

Introduced Consumer Delegate Committee System in **1,969**

Total meetings held **584**

Total Consumer Delegate Committee Members **1,950**

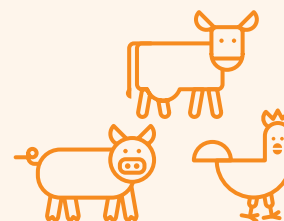


(As of March 31, 2018)

NUMBER OF OWN FARMS

Japan **122**

Overseas **27**



(As of April 1, 2018)

ECO HEART®-REGISTERED VEHICLES

Approx. **4,100**



Note: The Group's proprietary system to aggregate and share fuel and other information relating to the environment

INTERACTION WITH STAKEHOLDERS ON THE TOPIC OF FOOD EDUCATION

Number of participants in wiener sausage making workshops

25,236



(Fiscal 2015 – 2017)

RATIO OF FEMALE EMPLOYEES IN SUPERVISORY AND LEADERSHIP POSITIONS (GROUP)

10.8%



(As of March 31, 2018)

NUMBER OF DOMESTIC PRODUCTION BASES



(As of April 1, 2018)

Consolidated Financial Highlights

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

	Millions of Yen					Thousands of U.S. dollars
	2018	2017	2016	2015	2014	2018
Net Sales	¥1,269,201	¥1,202,293	¥1,229,324	¥1,199,956	¥1,110,766	\$11,973,594
Operating Income	49,218	53,802	49,207	47,770	36,089	464,320
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	50,455	49,112	35,309	43,797	35,673	475,989
Net Income Attributable to NH Foods Ltd.	37,147	35,004	21,779	31,048	24,524	350,443
Total Assets	755,076	720,276	682,855	661,567	627,220	7,123,359
Total NH Foods Ltd. Shareholders' Equity	440,793	404,126	356,353	353,664	320,984	4,158,424
Interest-Bearing Debt	110,948	138,284	154,583	136,758	144,901	1,046,679
Net Cash Provided by Operating Activities	54,626	65,254	52,535	29,681	32,952	515,340
Net Cash Used in Investing Activities	(49,006)	(38,271)	(49,139)	(31,517)	(27,021)	(462,321)
Free Cash Flow	5,620	26,983	3,396	(1,836)	5,931	53,019
Net Cash Provided by (Used in) Financing Activities	(27,508)	(11,439)	8,182	(17,187)	(9,373)	(259,509)
Capital Expenditures	41,466	43,765	36,799	35,694	29,152	391,189
Depreciation and Amortization	21,234	19,765	19,445	18,951	18,649	200,321

Per Share Amounts:

	Yen					U.S. dollars
Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 348.46	¥ 343.59	¥ 245.56	¥ 297.70	¥ 248.02	\$ 3.29
Discontinued operations		(0.12)	(31.72)	7.16	(3.79)	
Total	¥ 348.46	¥ 343.47	¥ 213.84	¥ 304.86	¥ 244.23	\$ 3.29
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 342.07	¥ 322.66	¥ 230.61	¥ 279.50	¥ 225.27	\$ 3.23
Discontinued operations		(0.12)	(29.72)	6.72	(3.44)	
Total	¥ 342.07	¥ 322.54	¥ 200.89	¥ 286.22	¥ 221.83	\$ 3.23
Total NH Foods Ltd. Shareholders' Equity	¥4,100.70	¥3,832.95	¥3,498.72	¥3,472.37	¥3,151.94	\$38.69
Cash Dividends	¥ 53.00	¥ 52.00	¥ 33.00	¥ 46.00	¥ 37.00	\$ 0.50

Financial Indicators:

Ratio of Operating Income to Net Sales	3.9%	4.5%	4.0%	4.0%	3.2%
Return on Equity (ROE)	8.8%	9.2%	6.1%	9.2%	8.0%
Return on Invested Capital (ROIC)	6.2%	7.0%	6.5%	6.4%	4.9%
NH Foods Ltd. Shareholders' Equity Ratio	58.4%	56.1%	52.2%	53.5%	51.2%
Debt/Equity Ratio	0.25 times	0.34 times	0.43 times	0.39 times	0.45 times
Interest Coverage Ratio	44.7 times	57.4 times	35.1 times	24.2 times	21.3 times
Payout ratio (Consolidated)	30.4%	30.3%	30.9%	30.2%	30.3%

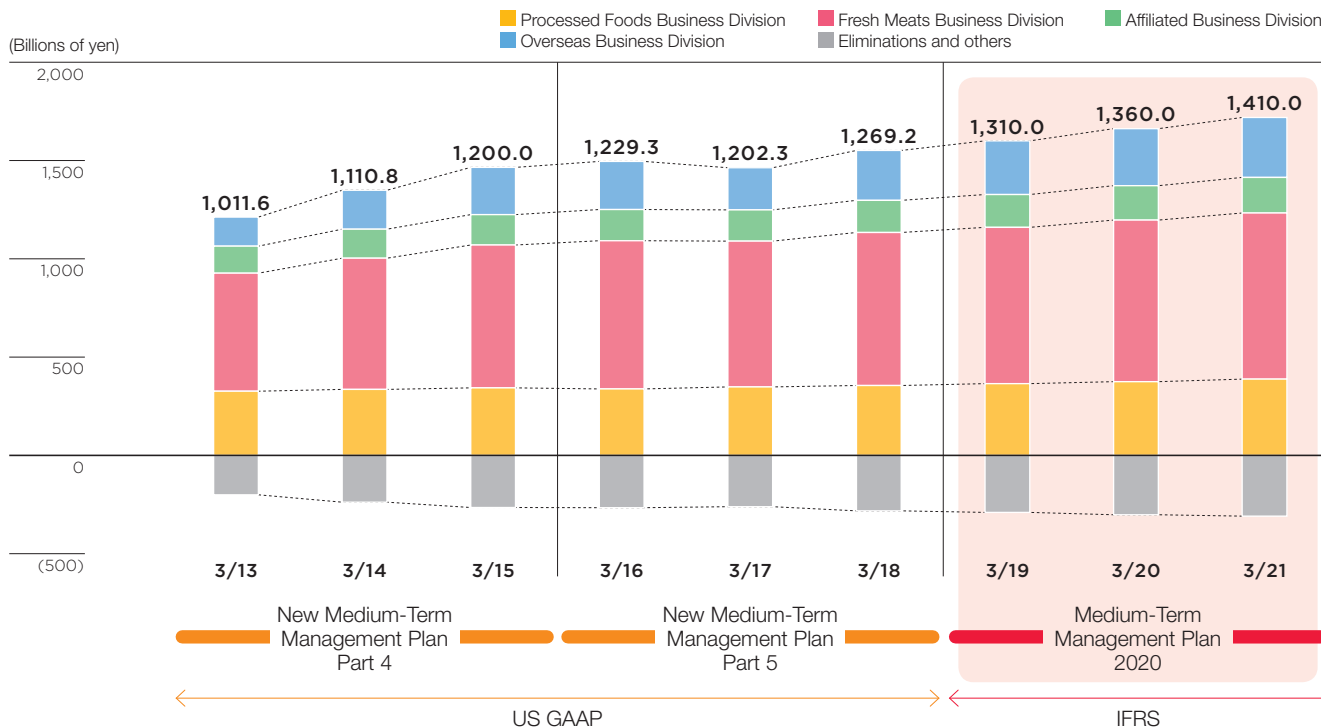
Notes

- 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 ¥106 = \$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.
- As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock. Total NH Foods Ltd. shareholders' equity per share, Basic earnings per share attributable to NH Foods Ltd. shareholders and Diluted earnings per share attributable to NH Foods Ltd. shareholders were computed on the assumption that the share consolidation was carried out at the beginning of the year ended March 31, 2014. Cash dividends represent the actual payment prior to the relevant share consolidation. Also for the year ended March 31, 2018, both the highest and lowest stock prices same as before and after the stock consolidation are stated in "[.]"
- 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
ROIC = (Operating income after tax / (Total equity + Interest-bearing debt)) × 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

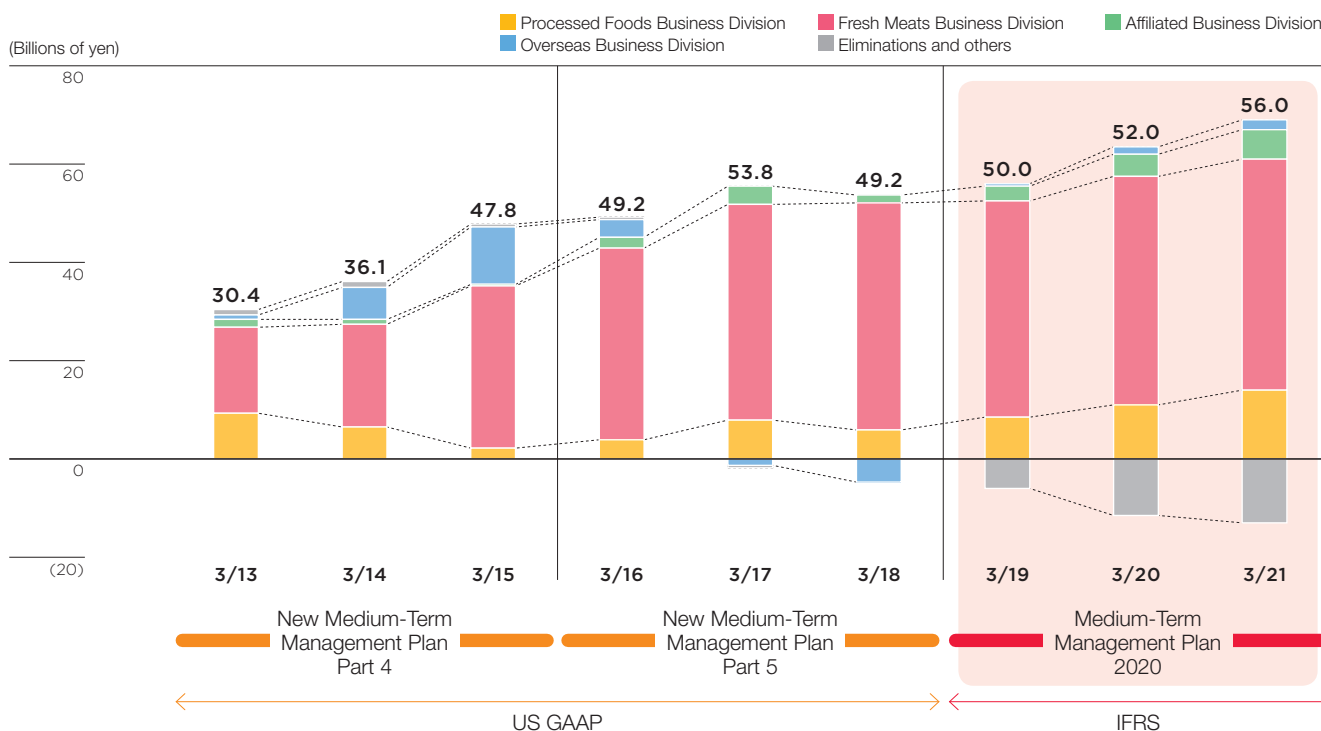
Achievements under New Medium-Term Management Plan and Overview of Medium-Term Management Plan 2020

Note: Until the fiscal year ended March 31, 2018, we applied Generally Accepted Accounting Principles in the United States of America. From the fiscal year ending March 31, 2019, we have voluntarily applied International Financial Reporting Standards (IFRS).

NET SALES



OPERATING INCOME



Overview of the Medium-Term Management Plan 2020

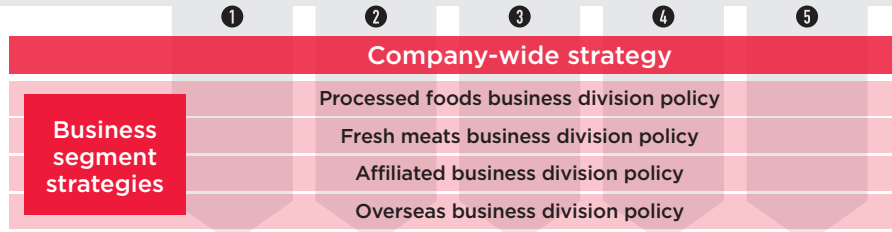
Theme

Building systems that pave the way to the future

Management strategies

Business policies

- ① Strengthen profitability by improving the efficiency of existing businesses
- ② Create value through dialog with consumers
- ③ Enhance and develop technological capabilities for conceptualizing and realizing the future of food
- ④ Change gears in overseas market deployment
- ⑤ Pursue sustainability



Functional strategies

Strategy formulation and promotion

Business segment sustainability improvement

Internal and external communications

Foundation

High-level Management for No.1 Quality

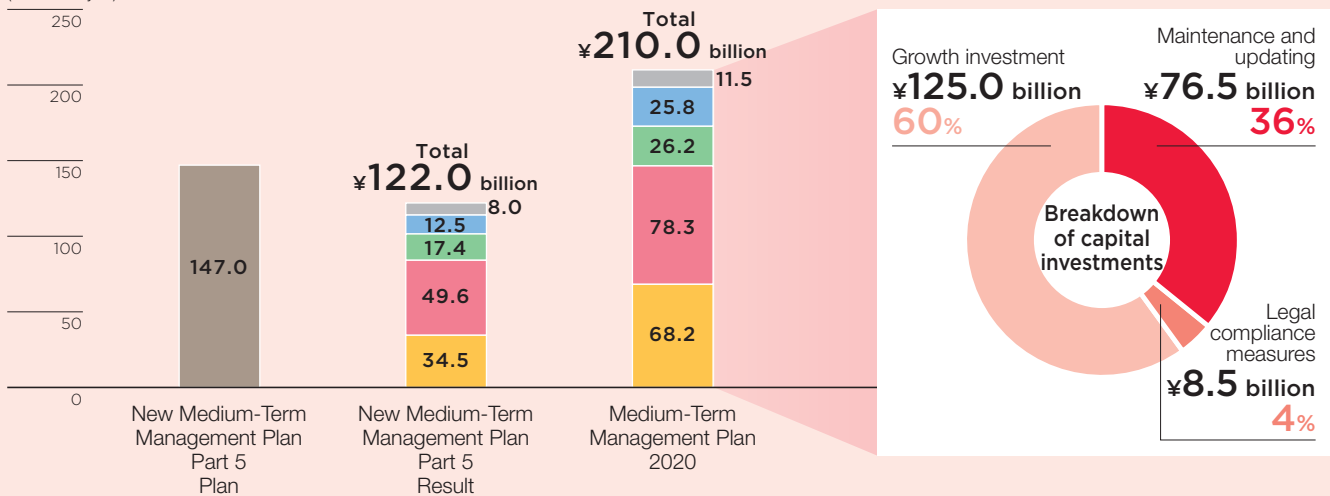
Improved product, management and human resource quality

Ongoing strengthening of compliance and governance

Capital Expenditures under Medium-Term Management Plan 2020

■ Processed Foods Business Division
 ■ Fresh Meats Business Division
 ■ Affiliated Business Division
 ■ Overseas Business Division
 ■ Others

(Billions of yen)



Cash Flow Plan

(Billions of yen)

	New Medium-Term Management Plan Part 5 initial cumulative forecasts	New Medium-Term Management Plan Part 5 cumulative results	Medium-Term Management Plan 2020 cumulative forecasts
Operating cash flows	160.0	172.4	179.5
Investment cash flows	(148.0)	(136.4)	(198.6)
Free cash flows	12.0	36.0	(19.1)

* Medium-Term Management Plan 2020 forecasts do not include strategic investments.

**Yoshihide Hata,
President and Representative Director**

Joined Nippon Meat Packers, Inc. in 1981 and worked in the Accounting & Finance Department. While in the Information System Department, helped develop and introduce a system to streamline accounting operations and shorten results processing lead times. From 2002, reinforced corporate governance and risk management. Appointed Vice President and Representative Director in 2015 and President and Representative Director in January 2018.

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 and Executive Officer) and General Manager of Corporate Management Division of NH Foods Ltd.

January 2018

President and Representative Director (President and Executive Officer) of NH Foods Ltd., (current position)



President and Representative Director

Yoshihide Hata

A Message to Stakeholders

Starting NH Foods Group's Medium-Term Management Plan 2020 Contributing to a sustainable society from medium- to long-term perspectives by undertaking initiatives under the theme of Building Systems that Pave the Way to the Future.

Under the New Medium-Term Management Plan Part 5, the NH Foods Group has endeavored to create a stable business model through reforms than empower it to become a world leader in delivering the "Joy of Eating." But while we generated record operating income in the year ended March 31, 2017, net sales rose while operating income declined in the period under review, the final year of our plan. We now face the challenge of reinforcing profitability.

It is against this backdrop that the NH Foods Group embarked on Medium-Term Management Plan 2020 in April 2018 to pursue long-term growth. We have positioned this three-year initiative as a period for building systems that pave the way to the future and materialize the NH Foods Group's ideals. We will focus on building systems so we can contribute to a sustainable society.

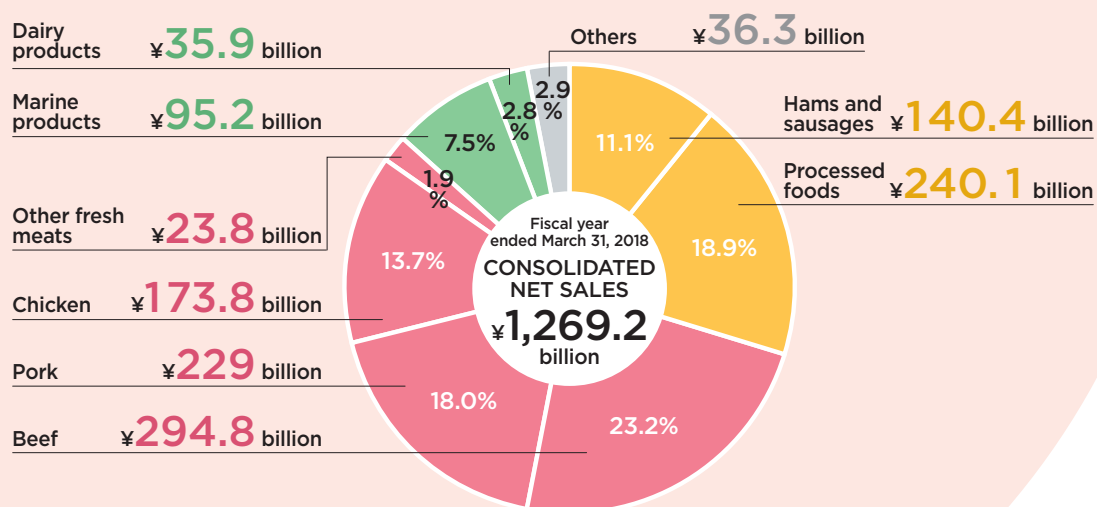
REFLECTING ON THE NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

Net sales in the year under review reached ¥1,269.2 billion, while operating income dropped to ¥49.2 billion (under Generally Accepted Accounting Principles in the United States).

Under the New Medium-Term Management Plan Part 5 started in the year ended March 31, 2016, we endeavored to build a stable business model through reforms focusing on continuous strengthening of profitability in domestic businesses, expansion of overseas net sales at an early stage, promotion of strategic branding and reinforcement of cross-Group corporate functions.

To continuously strengthen the profitability of our domestic business, we endeavored to reinforce the vertical integration system that is a key strength for the Group. In the domestic fresh meats business, we deployed capital expenditures to expand market share by bolstering our supply system. In processed foods business, we built a ham and sausage plant by integrating existing sites to optimize our production structure. We created foundations to generate Group synergies. For example, we developed processed foods using *Sakurahime*® domestically produced chicken and *Dolce Porco*® from slowly fattened Italian hogs and set up a hybrid site for collaboration between the fresh meat and processed foods businesses. While the fresh meat business expanded significantly during the three years of the plan, there were several issues that we have had to address. Among them were delays in restoring profitability in processed foods business owing to hikes in the costs of key raw materials and intensified sales competition. Another issue is improving profitability in marine and dairy products businesses.

CONSOLIDATED NET SALES (BY PRODUCT CATEGORY)



We have invested a total of ¥36 billion to swiftly expand overseas sales. We have made investments in Breeders & Packers Uruguay S.A. (hereinafter called BPU) to grow our beef business. We also invested in Ege-Tav Ege Tarim Hayvancilik Yatirim Ticaret ve Sanayi A.S. in Turkey, Lay Hong Berhad in Malaysia, and Panus Poultry in Thailand to build our poultry business, accelerating our penetration of large markets and emerging nations in which fresh meat demand is increasing. At the same time, we optimized businesses, notably by restructuring businesses in China and selling Texas Farm, LLC, a hog farming operation. In our Australian beef business, improving profitability is a major task, because earnings have deteriorated significantly amid surging cattle procurement costs and declining prices.

To reinforce cross-Group corporate functions, we adopted a return on invested capital (ROIC) approach and strove to improve our performance in that regard. We will keep endeavoring to develop high-value-added products, invest effectively to improve productivity by rolling out advanced manufacturing lines, and shorten inventory turnover periods. At the same time, we will make ROIC a key benchmark at all sites to streamline management.

In the fiscal year ended March 31, 2018, net sales rose ¥66.9 billion from a year earlier, to ¥1,269.2 billion. Operating income decreased ¥4.6 billion, to ¥49.2 billion.

BACKGROUND TO CREATING THE MEDIUM-TERM MANAGEMENT PLAN 2020 Aligning the Group Ideals with Medium- to Long-Term Social Issues

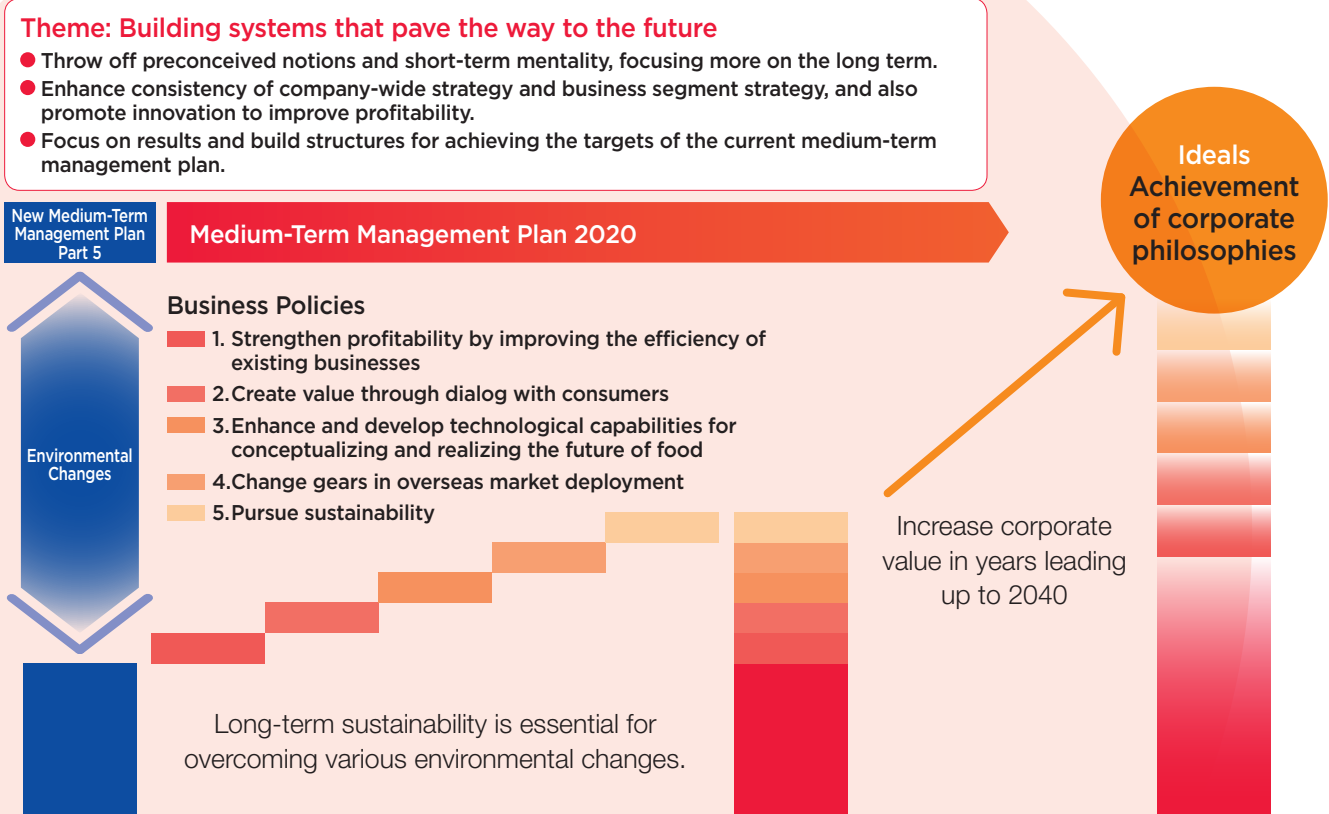
A range of social issues has emerged. Among them are rising concerns about the stability of food supplies as the global population rises and the acceleration of climate change. To expand consistently in changing times, we need to enhance our strengths, eschewing short-termism and thinking out of the box in pursuing long-term perspectives to resolve social issues.

To materialize our corporate philosophy over the long term, the Group drew on its ideals to determine its direction toward 2040. We took into account the views of mid-career employees who will drive us forward. Under our ideals, we are committed to delivering the pleasures of good eating and the joys of health to people around the world. We are also dedicated to food culture innovations by discovering and proposing new foods as an underpinning of life. We will construct a global network with those who share our philosophical stance to materialize our vision for the NH Foods Group to support the healthy lives of people through our products and services.

BUILDING SYSTEMS THAT PAVE THE WAY TO THE FUTURE THROUGH MEDIUM-TERM MANAGEMENT PLAN 2020

Under Medium-Term Management Plan 2020, we will focus on building systems that pave the way to the future to solidify efforts to materialize our ideals. To ensure that these initiatives succeed, we will deploy five business policies at all divisions to align our groupwide strategies with them. At the same time, we will undertake a functional strategy to help execute strategies.

OUTLINE OF MEDIUM-TERM MANAGEMENT PLAN 2020



MEDIUM-TERM MANAGEMENT PLAN 2020 QUANTITATIVE TARGETS

	Previous Plan	Medium-Term Management Plan 2020		
	FY3/2018	FY3/2019	FY3/2020	FY3/2021
Net sales (¥ billion)	1,269.2	1,310.0	1,360.0	1,410.0
Operating income (¥ billion)	49.2	50.0	52.0	56.0
Operating income ratio	3.9%	3.8%	3.8%	4.0%
ROE	8.8%	7.5%	7.3%	7.4%
ROIC	6.2%	→	→	5.5% or above
D/E ratio (times)	0.25	0.36	0.42	0.41

* US GAAP standards used for FY3/2018. IFRS to be used for FY3/2019 onwards. ROIC and D/E ratios provided for reference

BUSINESS POLICY 1 Strengthen Profitability by Improving the Efficiency of Existing Businesses

To develop products in rapidly growing areas and optimize manufacturing, sales and distribution, we will formulate and deploy plans focused on businesses, products, channel strategies, and our value chain, reinforcing profitability from medium and long terms to secure new sources of consistent growth. The new Group Sales Planning Department will spearhead our channel and area strategies.

BUSINESS POLICY 2 Create Value through Dialog with Consumers

To date, the Group has based its consumer dialog efforts on feedback from customer consultation desks and the Consumer Delegate Committee. By stepping up efforts to aggregate and analyze feedback, we will better understand customers and consumers to create new value. More specifically, we will reinforce marketing to deepen consumer understanding by leveraging collaboration between the new Lifestyle Research Office and product development units in each Business Division.

BUSINESS POLICY 3 Enhance and Develop Technological Capabilities for Conceptualizing and Realizing the Future of Food

We will transform environmental changes into growth opportunities by reinforcing the Group's strengths. These are creativity and a pioneering spirit through research, technology investments, management, and specialized and global human resources. We will take a range of initiatives, such as research focusing on the long-term future, streamlining production through automation that harnesses artificial intelligence (AI) and Internet of Things (IoT), and leveraging these resources to further expand existing businesses and position them as unique strengths.



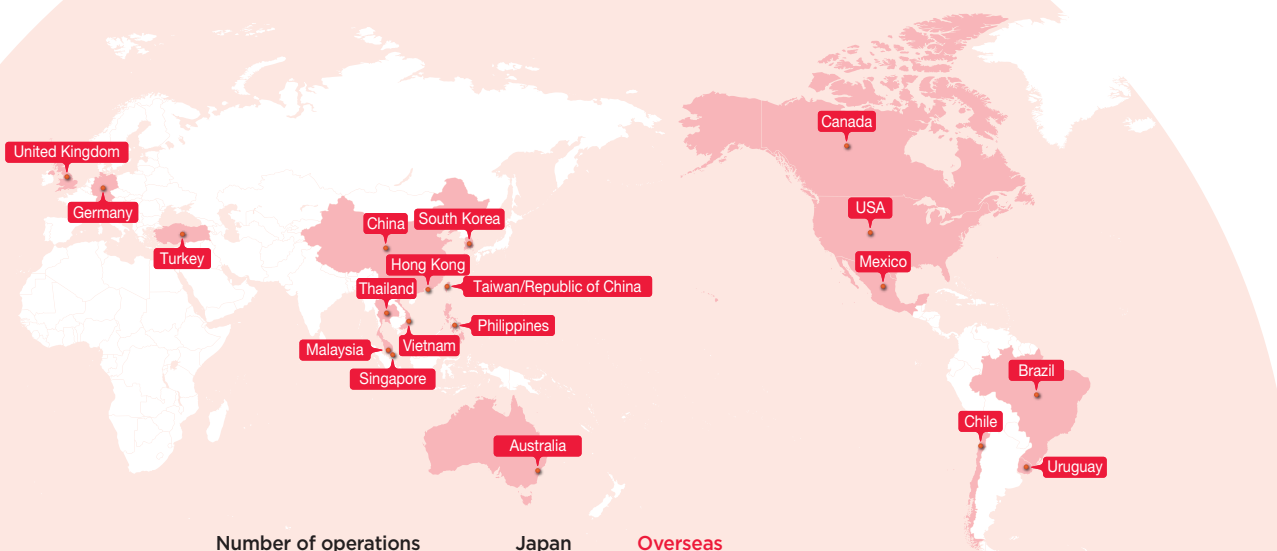
BUSINESS POLICY 4 Change Gears in Overseas Market Deployment

The Group established the Overseas Business Division in 2016 to reinforce overseas businesses. Expanding in global markets is vital to our growth. Down the track, we will focus on such areas as reinforcing processed foods businesses in Turkey, Vietnam, China and other markets. We will launch distribution business in such locations as Hong Kong, Singapore, and the United States. We will also reconstruct our beef business in Australia and reinforce beef business in Uruguay. At the same time, we will bolster procurement for the Japanese market and undertake new projects for marine and dairy products.

BUSINESS POLICY 5 Pursue Sustainability

In keeping with its compliance commitment, the Group set out five important CSR issues. These are producing food that is safe and reliable, supporting people's mental and physical well-being through food and sport, maintaining workplaces that motivate employees, sustainable food supply for the next generations, and preserving the environment. We are pushing ahead with a range of initiatives, including addressing food allergy issues, undertaking CSR procurement in collaboration with suppliers, providing sports participation opportunities, undertaking workstyle reforms that include empowering women, and using resources more effectively. This fiscal year, we established the CSR Promotion Committee to advise the Board of Directors, foster consideration of CSR policies, and confirm progress with related policies and themes. Our initiatives relate to Sustainable Development Goals (SDGs). We believe that we can contribute to the development of a sustainable society through action for our five CSR material issues.

GLOBAL NETWORK



	Number of operations	Japan	Overseas
Farms	497	323	174
Plants	92	71	21
Logistics and sales locations, etc.	330	288	42

- As of April 2018
- Including commissioned operations and equity method affiliates
- Names of countries indicate representative offices



Management Foundations and Functional Strategies

The Group has positioned High-level Management for No. 1 Quality as an underpinning, and is enhancing product, management, and human resources, as well as compliance and corporate governance. At the same time, in deploying the following three functional strategies across the Company we will strengthen collaboration between each business division.

The first of these strategies is to strengthen strategy formulation and promotion functions. In light of changes in the social climate, we will build and verify hypotheses to formulate and execute strategies from Group perspectives. At the same time, we will reinforce corporate governance to build a highly transparent management structure.

The second strategy is to strengthen structures to increase the sustainability of business activities. We will invest in human capital and optimize our personnel composition and quality assurance systems (to comply with international certification requirements). We will also strengthen network development functions for internal and external structures and deploy advanced financial strategies and capital policies.

Third, we established the Communication Strategy Division to reinforce internal and external communications. To accurately understand the Group's initiatives, we will communicate extensively to fulfil our accountability to stakeholders.

At the same time, we will share progress on Medium-Term Management Plan 2020 measures to ensure that our mission is not simply to reach goals for a single year and reach medium-term plan goals for the entire Company and business divisions.

Capital Expenditures

During the three years of the Medium-Term Management Plan 2020, we will continue to invest extensively to materialize our growth strategies, rebuild our infrastructure, and establish an optimal production setup. We plan total expenditures of ¥210 billion during that period. In the fresh meats business, spending will include upgrading production facilities and logistics, mainly for the poultry business. In the processed foods business, expenditures will include enhancing production efficiency, primarily for deli and processed foods. Especially in processed foods, we will boost profitability by increasing productivity. This will be by concurrently undertaking selection and focus on production lines and products in allocating capital expenditures.

Our investments will be massive compared with the previous medium-term management plan. In finalizing investment decisions, we will increase accuracy of decision-making on investment based on quantitative and qualitative information and conduct reviews to ensure that we can recover our investments.

Structural Reforms and Value Creation

Under the three years of the Medium-Term Management Plan 2020, we plan to undertake new structural reform and value creation expenses companywide. We believe that structural reform expenses are vital to realign personnel, notably to optimally allocate human resources, reform work practices, and provide training and secure talent. We will apply value creation expenses to gain advanced livestock technology and food production and development technologies as

marketing expenses to collect, accumulate, and analyze consumer insights, and to implement our five important CSR issues. By making these expenses companywide costs, we seek to deploy them from long-term and companywide perspectives.

Financial Strategies

The Group aims to boost corporate value by maximizing its equity spread, with ROE exceeding the weighted average cost of capital, which represents improvements in cash flow creation capabilities and investors' expected rates of return. Under Medium-Term Management Plan 2020, we will retain ROIC as a key business benchmark to enhance capital efficiency by scrutinizing investments and extensively controlling operating capital. Because of the greater capital expenditure, our business benchmarks will temporarily decline. Nonetheless, while keeping tabs on an appropriate debt/equity ratio (from 0.4 to 0.5), we will procure funds mainly through interest-bearing debt. On the shareholder returns front, we have retained our targeted consolidated payout ratio of 30%, and will strive to enhance dividend payout stability. We will flexibly acquire treasury stock by factoring in growth investments and the Group's financial position so we can enhance shareholder value per share.

Quantitative Targets Voluntary adoption of International Financial Reporting Standards (IFRS) from Fiscal Year Ending March 31, 2019

The three years of the Medium-Term Management Plan 2020 are a time to build the foundations of systems that Pave the Way to the Future. We are targeting ¥1,410 billion in net sales, ¥56.0 billion in operating income, and a 4.0% operating income ratio for the fiscal year ending March 31, 2021, the last year of the plan. We expect the return on equity to drop 1.4 percentage points year on year, to 7.4%, due to an increase in shareholders' equity and a decrease in net income, with the return on invested capital dropping 0.7 percentage points year on year, to 5.5%, owing to higher invested capital. The debt/equity ratio would be 0.41.

Given that we acknowledge that our mission for stakeholders is to achieve our medium-term management plan targets, we will reinforce our underpinnings and build a structure to create social value. We look forward to the long-term support and encouragement of shareholders and other investors for our endeavors.

ROIC = RETURN ON INVESTED CAPITAL

RETURN ON INVESTED CAPITAL (TOTAL EQUITY + INTEREST-BEARING DEBT)

Return on invested capital	=	Net sales Invested capital	×	Operating income Net sales	×	After tax
		[Invested Capital turn over]		[Operating income ratio]		[Tax rate]
3/16 results 6.5%	=	2.44 (times)	×	4.0%	×	0.67
3/17 results 7.0%	=	2.26 (times)	×	4.5%	×	0.69
[6.2%	=	2.30 (times)	×	3.9%	×	0.69

Focus on Group Structural Reforms

In pushing ahead with Group structural reforms, the NH Foods Group aims to materialize sustainable management in keeping with its corporate culture.

The NH Foods Group embarked on Group structural reforms in April 2017. Over the past year, we have reinforced initiatives relating to social issues we face as a food producer, transforming the Company to fulfill its corporate social responsibilities. Management and employees will strive to transform the organization through such efforts to drive sustainable growth and materialize sustainable management so we are the top choice of customers and other stakeholders.



Kazunori Shinohara

Vice President and Representative Director

Pushing Ahead with Group Structural Reforms Based on Change & Challenge Approach

I was put in charge of Group structural reforms in April 2017. Over the past year, I have visited business sites in Japan and abroad to see things for myself and work out how we can change for the better to remain true to how we operate in the NH Foods Group. I think that remaining true to how we do things means being prepared to relentlessly pursue new challenges. Our problem in recent years, however, has been that we have been too short-termist in focusing on businesses and have lacked the resolve to take on new challenges. To overcome that weakness by materializing structural reforms based on our Change & Challenge approach, management must take the lead in efforts to transform our employees and the organization.

Cultivating Managers Who Can Show Employees How to Tackle Challenges

The Group requires managers to be loyal, dedicated, considerate, prepared to meet new challenges, and empathetic. The fundamentals of reform are sharing such qualities with others, encouraging people to change attitudes and actions while reconsidering the approaches to selecting managers. We will

endeavor to choose and foster executives and other managers who can show employees how to tackle new challenges.

Fostering the Knowledge of Each Employee

Employees have diverse skills and goals that we need to identify by engaging with them. We can therefore clarify personal growth opportunities within the Company and cultivate a corporate culture that champions positivity.

We believe that an environment where we can fully demonstrate our abilities is the starting point for changing the Company.

In fostering human resources, it is important to both provide opportunities while enhancing the knowledge of each individual. Our people must naturally acquire the latest information and knowledge about technologies and management techniques. They must also familiarize themselves with our sites and offerings as a food producer and create external networks so they can broaden their learning. Having employees with different roles in each value chain share their views about their stances and jobs will help bring depth to tasks and expand knowledge. It is important for people to pass on basic techniques to others so we can develop new products. Therefore, I would like to create an academy where younger employees can acquire techniques from experienced workers.

The greater employee knowledge that results from that approach should lead to the discovery of new tastes and services. When I oversaw product development at manufacturing sites, processed foods did not taste sufficiently good. We addressed this issue in view of changes in the social structure, and progressed by creating simple, home-made-style items that are delicious.

Food should be convenient. It should be delicious and quick to prepare. I think that our task as a food company is to identify and resolve any inconvenience, concerns, or taste issues.

▀ Becoming an Organization that Maintains Process-Centric PDCA Cycles

The issues that organizations need to resolve are out there in the field. We naturally need to go to business sites to identify the issues and employ PDCA cycles in driving improvements.

While it is important to commit to results, that is meaningless without process validation. Undertaking process-centric PDCA cycles accelerates improvements. Having executives visit business sites and communicate makes it possible to

make the right decisions fast. It also becomes easier to convey what has been decided to the entire organization, enabling us to initiate new approaches more quickly. To make our organization more powerful, it is vital to properly undertake this basic approach and ensure that the Company overall habitually works as an organization.

▀ Materializing Sustainable Operations

We will change the Company and its relationship with society by transforming our managers, employees, and organization.

The Group focuses on five important CSR issues. We aim to materialize sustainable management that enjoys the support of customers and other stakeholders by cultivating new businesses that factor in issues and Sustainable Development Goals and by resolving social issues through core businesses. At the same time, it is important to generate appropriate profits and invest in ongoing growth to maintain business sustainability. We would like all stakeholders to assess the Group's efforts from long-term perspectives.

GROUP STRUCTURAL REFORMS



We have realized a stable business model through a proprietary system that covers our value chain, and supply high-quality products with high added value, leveraging our massively superior procurement capabilities in Japan and around the world.

VERTICAL INTEGRATION SYSTEM



We raise cattle, hogs, and chickens at Group-owned farms in Japan and overseas, producing safe and reliable fresh meats.

We ensure a swift and stable supply of fresh meats, efficiently carrying out all steps from packing and processing to shipment.

We implement thorough quality control, acquiring third-party certifications to deliver safe and delicious products.

MAJOR INITIATIVES AND RELEVANT SDGs

● Promotion of livestock industry in Japan



● Making effective use of inedible parts



● Reducing labor through automation



● Making safe and reliable food



● Reducing food loss



The NH Foods Group has a 20.5% share of domestic sales of fresh meats (according to an internal study). In order to deliver safe, reliable, high-quality fresh meats, we perform production, breeding, and processing at Group-owned farms and plants in Japan and overseas, and have built a proprietary vertical integration system that covers all steps up to consignment and distribution, while working actively to procure safe and reliable fresh meats from overseas, as the farming population in Japan shrinks. We also strive to create new food categories by using these raw materials to develop and manufacture high-quality processed products with high added value. We will continue to establish structures to secure the food of the future and contribute to fun and healthy lifestyles by deepening our vertical integration system, with a solid focus on the Bounty of Nature that is essential for human life.



We are building an efficient supply system that links packing and processing, manufacturing, and sales sites.

We propose products tailored to the changes in society, such as increasingly diverse lifestyles.

We offer a speedy and stable supply of products in demand.

- Using environmentally friendly vehicles



- Initiative to reduce delivery burden (Joint distribution and setup of relay points)



- Raising awareness of meat-eating culture

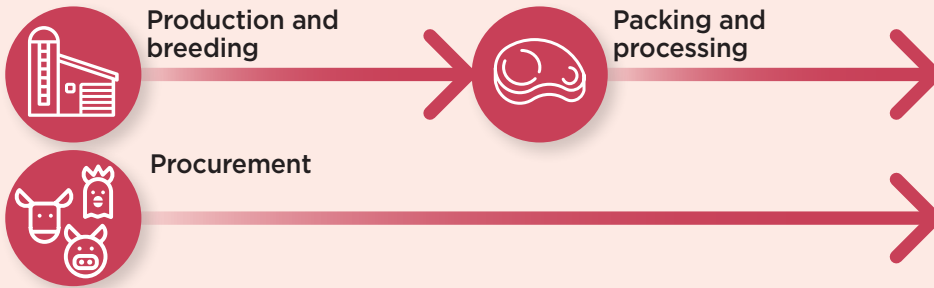


- Developing health-centric products



- Promoting food education





FARM BUSINESS

Japan's self-sufficiency in fresh meats is below 60%*.

We operate cattle, hog, and chicken farming businesses on approximately 500 farms in Japan and overseas to ensure a stable supply.

* Source: Ministry of Agriculture, Forestry and Fisheries, "Food Balance Sheet"

The NH Foods Group fully entered the farming business in 1968. In 1973, we began building a fresh-meat integration system. This enabled us to obtain a stable supply of high-quality fresh meats with assured traceability. We now produce and breed three livestock species—cattle, hogs, and chickens—at approximately 500 sites in Japan, Australia, Uruguay, Turkey, and other countries (including consignment operations), and process and package fresh meats at 17 plants in Japan, and 5 overseas.

Changes to the NH Foods Group's Markets

- Lack of successors on livestock farms
- Drop in food self-sufficiency ratio
- Increasing demand for safe and reliable fresh meats
- Support for halal

CSR PROCUREMENT INITIATIVES

On April 1, 2017, we established the NH Foods Group CSR Procurement Policy with the goal of producing food that is safe and reliable.

NH Foods Group CSR Procurement Policy

NH Foods 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 addition, 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 NH Foods 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 NH Foods Group Environmental Policy as we head toward bringing about a sustainable society.

Farm Business: **Cattle**

We supply high-quality beef worldwide from overseas production sites boasting the number three share in Australia and the number one results of beef processing in Uruguay.

ANNUAL WHYALLA BEEF SHIPMENTS

Around **140,000** head

NUMBER PROCESSED IN AUSTRALIA

Around **430,000** head

NUMBER PROCESSED IN URUGUAY

Around **190,000** head
(3/18 results)

Producing Beef Suited to Worldwide Markets

—Whyalla Feedlot (Australia)

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 cattle a diet centered on high-quality grains, raising mostly competitive branded beef. Cattle are fed in less stressful environments from between 100 and 200 days, managed by brand, with special care paid to the health of the cattle. Fattened cattle go through Group processing companies in Australia, and are then shipped mainly to Asia, Europe, and within Australia. Recently, we have focused operations on efficiency through efforts to consolidate brands, based on the market conditions in each country.



Securing Sites in Uruguay Capable of Supplying High-quality Beef Worldwide—BPU (Uruguay)

Beef exports are Uruguay's leading industry. Uruguay produces safe, reliable beef with high added value thanks to such factors as a thorough nationally-led traceability system of beef, and prohibition of use of growth hormones or antibiotics. Uruguay is also capable of providing a stable supply because it is one of the most politically and economically stable countries in South America, and suffers little impact from droughts or other climate disasters. BPU has the latest equipment and the top processing capacity of any individual plant in the country.



Toward a Sustainable Society

E Support for the environment

S Social initiatives

S Three Group plants* have obtained halal accreditation (Australia)

The requirements for halal accreditation include a production system that processes in accordance with the teachings of Islam and the use of halal raw materials. We produce beef that Muslims, who account for about a quarter of the world's population, can eat with peace of mind.

* The three companies are Oakey Beef Exports Pty. Ltd., Thomas Borthwick & Sons (Australia) Pty. Ltd., and Wingham Beef Exports Pty. Ltd.



E S Cyclical agriculture initiatives (Australia)

Whyalla Beef Pty. Ltd., which handles production, breeding, and processing of cattle, reuses the wastewater and manure produced at its facilities as fertilizer. We are advancing cyclical agriculture with low environmental impact by using it to grow the grains and pasture used as cattle feed.



E Reducing food loss (Australia)

Beef ordinarily expires after 60 days in the refrigerator. Our fresh meat processing plant at Oakey Beef Exports Pty. Ltd. helps to reduce food loss by pushing the expiration date to 100 days by establishing the world's top level of sanitary management structure.



Farm Business: Hogs

We supply high-quality pork through R&D and human resource development.

DOMESTIC SHIPMENTS

Around **620,000** head

DOMESTIC PROCESSING

Around **1,810,000** head
(3/18 results)

Surefire Initiatives to Raise Healthy Hogs

In our hog farming business, Interfarm Co., Ltd. oversees farming, while Nippon Food Packer Group manages processing.

Interfarm Co., Ltd. is the largest hog farmer in Japan, shipping around 620,000 head per year from around 70 farms nationwide (including consignment operations). The production process integrates everything from mating to fattening. We raise each hog with meticulous care, keeping hog houses clean at all times and paying close attention to temperature and humidity. Dedicated veterinary staff visit the farms regularly and track the hogs' health on a timely basis, enabling us to vaccinate hogs swiftly and appropriately if illness is detected, preventing the spread of infection. We operate an uncompromising disease-prevention program to prevent introducing illnesses into farms by thoroughly managing employees and relevant vehicles, and continually upgrading our facilities to the state of the art.



Meister System

The Nippon Food Packer Group has adopted the Meister system, a technical certification system, to ensure that solid skills in fresh meat processing and packing are passed down.

Acquiring the Meister certification requires practical skills in fresh meat processing, as well as knowledge of livestock processing and management. Meisters who successfully pass the exam guide employees as seniors, and work daily to impart veteran skills to the next generation of employees.



Toward a Sustainable Society

E Support for the environment

S Social initiatives

S Hog health exams using the latest technology

The Research and Development Center performs health exams on hogs in collaboration with Interfarm Co., Ltd. In addition to the regular visits by Interfarm's dedicated veterinarians, the Research and Development Center supports healthy livestock production through management of hogs' health by detecting the presence or absence of diseases through genetic testing.



S 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.



S Developing the next generation of human resources

In December 2017, NH Foods Ltd. and Obihiro University of Agriculture and Veterinary Medicine signed a comprehensive collaboration agreement with the goals of revitalizing the agricultural livestock industry and developing the next generation of human resources. Prior to this agreement, the NH Foods Group was providing hands-on training to instructors and students from the university at its farms and plants, and initiatives under the comprehensive collaboration agreement will include a practical program for university students, training for livestock engineers to be active internationally, and information sharing to utilize research results in society.

Farm Business: Chickens

Developing *Sakurahime*® and other chicken brands produced at farms in Japan.

DOMESTIC SHIPMENTS

Around **71** million chickens

SHIPMENTS OF SAKURAHIME

Around **26.7** million chickens
(3/18 results)

Largest Chicken Farming Business in Japan

Nippon White Farm Co., Ltd. handles our chicken farming business. It ships about 64 million chickens per year from four sites nationwide. It is one of the largest chicken farmers in Japan, producing about 10% of all chickens in the country. It has an integrated production system from breeding, to fertilizing, hatching, and fattening young birds, to processing and packing chicken meat.

We prevent pathogens from becoming established at our farms by maintaining scrupulous sanitation at all farms using the all-in/all-out method. Temperature, humidity, feed and water, and airflow are controlled automatically by computer to enable the chickens to grow without stress. Farm employees also provide attentive care, depending on the status of each chicken and daily weather conditions.

After being raised with great care for about 48 days, the chickens are quickly processed and packed in only 70 minutes. During this process, each chicken is thoroughly checked, and only chickens that pass the inspection become products, and are delivered fresh to stores and our manufacturing division.

Developing *Sakurahime*-packed Products where the Chicken is Processed

Sakurahime domestic chicken brand offerings are packed where the chicken is processed. The chickens are packed at sanitary food plants near where they are raised, and delivered sealed to customers, ensuring fresher products. The packs do not use trays, which makes them easier to dispose of in the home and leads to less waste, while reducing the work of in-store packing by our client stores.



* See our website for details.

WEB <https://www.nipponham.co.jp/sakurahime/package/>

Toward a Sustainable Society

E 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.



S Responding to increasing demand for chicken (Turkey)

We respond not only to fresh meat needs in Japan but also to rising needs for fresh meats in various other countries and regions. At major poultry producer Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi in Turkey, we supply chicken meat not only in Turkey but also in the wider Middle East.



S Reducing labor through automation

We are reducing labor on production lines by introducing state-of-the-art chicken deboning machines. This enables us to process chickens much faster than using human labor while maintaining quality and productivity.



E Support for the environment

S Social initiatives



MANUFACTURING

We strive to manufacture safe and reliable food with low environmental impact, and create new food categories.

The Group prides itself on its massive production scale in Japan and overseas. We have worked to expand our markets by creating new categories of food tailored to structural changes in society, including such hit products as *SCHAU ESSEN*®, *Chuka Meisai*®, and *Ishigama Kobo*®.

The factories and plants that undertake manufacturing for our processed food business manufacture safe, reliable, and high-quality foods, while also making their lines more efficient, advancing automation, and promoting the efficient use of water resources and energy to reduce environmental impact. They also practice thorough quality control, including acquiring such third-party certifications as FSSC22000 (a food safety management standard).

Changes to the NH Foods Group's Markets

- Labor shortages
- Reducing environmental impact
- More children with allergies
- Heightened awareness of food safety and reliability
- Support for diverse lifestyles

We build efficient manufacturing systems by investing in equipment and advancing automation to efficiently make products with higher added value.

NUMBER OF PROCESSED PRODUCT MANUFACTURING SITES IN JAPAN

34

(As of April 1, 2018)

Introduction of High-speed Production Line at Hyogo Plant

In October 2016, Nipponham Factory Ltd. completed construction of a new plant building at its Hyogo Plant, which is the main plant of its Hams and Sausages business. The new plant building is equipped with the latest high-productivity continuous line, making it capable of efficiently manufacturing safe, reliable, and high-quality products. The company also aims to make the new plant building a vibrant workspace for all, regardless of age or gender, with an “employee-friendly” design concept that includes reducing operator workloads by introducing automated dolly loading machines.



Strengthening Flagship Brands

Nipponham Processed Foods Ltd., which is a key manufacturer of processed foods, introduced a high-productivity line at its Kanto Plant (Joso City, Ibaraki Prefecture) to increase the value of its mainline product, *Ishigama Kobo*® chilled pizza, in an initiative to reduce manufacturing costs and reinforce its product lineup through efficient intensive production.



It is also aiming to optimize its production system through more capital investment taking advantage of production sites nearby its largest consumption areas: the Tokyo metropolitan area, Kinki, and Chubu.

Around 11,000 Visitors on Plant Tours (Fiscal 2017)

As part of the “Open Quality” initiative to ensure transparent food production, we offer regular plant tours, educating visitors on our quality assurance system and communicating our commitment to the *monozukuri* ethos of craftsmanship.

* See our website for details.

WEB <https://www.nipponham.co.jp/fun/factory/> (Japanese only)

Toward a Sustainable Society

E Support for the environment

S Social initiatives

E Modal shift

In addition to shipping freight by ferry, the Processed Foods Business Division is shifting from trucks to rail to transport freight between distant locations, such as when shipping from the Nipponham Delicatessen Ltd. Hokkaido Plant to Kyushu, or from the Isahaya Plant to Hokkaido, and it is continuing to shift transport from trucks to rail as appropriate.



E Wastewater treatment

Nipponham Southwest Ltd. is working to increase its wastewater treatment capacity by installing micro-nano bubble generators. Hydrogen sulfide concentrations were reduced from a yearly average of 5.3 ppm before adoption to 2.4 ppm after, thus reducing odors.

The company had previously been contracting the treatment of blood in butchery wastewater, but is now able to purify it using its wastewater treatment facilities. (45 tons/month)

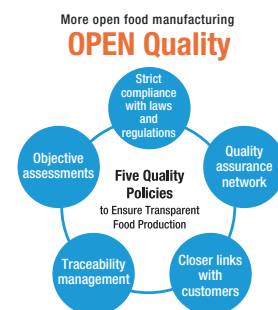


S Quality assurance system

We are raising the level of our quality assurance by performing traceability management on each process in our vertical integration system.

* See our website for details.

WEB <https://www.nipponham.co.jp/eng/group/quality/index.html>





Consignment and
distribution



CONSIGNMENT AND DISTRIBUTION OPERATIONS

We are increasing our presence in the low-temperature distribution industry, working to solve challenges through innovations in logistics that create network synergy in our Group with Japan's largest warehouses.

Our distribution operations consist of Nippon Logistics Center, Inc. and Nippon Chilled Logistics, Inc., which handle products from our fresh meats operations, and Nippon Daily Net Co., Ltd. and Nippon Route Service Co., Ltd., which handle products from our processing operations. Products are sent from production sites to centers, then from each center to sales sites or to volume retailers and other customers. Meanwhile, the recent chronic shortage of drivers and other labor has required us to solve a variety of issues in the logistics divisions, and more efficient operations have become essential. We are further strengthening our business foundation and improving the efficiency of the Group as well as that of the industry and our business partners by sharing holding assets and utilizing mutual strengths.

Changes to the NH Foods Group's Markets

- Labor shortages
- Reducing environmental impact
- Energy efficiency

NUMBER OF DOMESTIC STORAGE AND DISTRIBUTION FACILITIES

24 sites
(As of April 1, 2018)

We maintain high logistics quality through efficient operation, as we endeavor to solve a variety of challenges such as driver shortages.

Building Refrigeration Warehouses and Delivery Network to Respond to a Growing Share of the Fresh Meat Market

Nippon Logistics Center, Inc. handles the storage of foreign and domestic cargo in refrigeration and freezing warehouses for our fresh meat operations. It operates two sites: one facility in Tokyo and another in the Kansai region. Of these, the Tokyo site (located in Kawasaki), which is on the opposite shore from Haneda Airport, is the largest in Japan; and the two sites combined handle an annual total of 1 million tons. Nippon Chilled Logistics, Inc. dispatches 500 trucks per day, delivering directly to sales offices and volume retailers in every corner of the country. These two companies' networks are a major advantage for expanding our share of the fresh meat sales market.



Supporting the Diverse Needs of Customers with Our Proprietary Logistics Management System

Nippon Daily Net Co., Ltd. handles storage, shipment, and delivery of hams and sausages and processed foods. It delivers products to around 2,200 distribution centers for volume retailers and convenience stores nationwide from 14 logistics centers. It also provides attentive support in its ancillary warehouse operations, including picking, itemizing, and changing temperature zones. We offer safe and secure logistics services that maintain high quality both inside and outside the Group, by means of thorough employee education and our in-house developed LINQS warehouse management system. Additionally, Nippon Route Service Co., Ltd. which handles deliveries, has built 24/7/365 operational readiness, and operates a nationwide network of more than 250 company vehicles to meet our customers' needs, including simultaneous distribution of foods with multiple temperature needs.



Toward a Sustainable Society

E Support for the environment

S Social initiatives

E S Joint deliveries with other companies

Nippon Daily Net Co., Ltd. is advancing joint delivery, storage, and warehousing operations with other companies, under the concept of competing on product development and sales, and collaborating on logistics. The expected benefits include improving logistics costs within the industry, as well as reducing environmental impact and dealing with the shortage of drivers.



E Helping customers work more efficiently with proprietary thawing technology

In 2014, Nippon Logistics Center, Inc. introduced proprietary high-frequency thawing machines. These machines can thaw frozen meat in as little as 40 minutes, minimizing loss of quality while helping reduce our customers' workload by shortening thawing times.



S Reducing burden on drivers

Nippon Chilled Logistics, Inc. has reviewed the setup of relay points of logistics and delivery schedules to resolve such driver issues as labor shortages and long working hours. It is also holding workshops to increase employees' safety awareness.





Marketing and Sales



Volume Retailers and Restaurants

MARKETING AND SALES, VOLUME RETAILERS AND RESTAURANTS

We offer comprehensive proposals tailored to heightened health consciousness and changes in society.

Expanding product sales entails presenting proposals that boost the sales and profits of supermarkets, butcher shops, and other retailers. The Group develops products that incorporate customer feedback, proposes menus and designs for product displays, and provides information about new products to customers. In 2017, NH Foods Ltd. announced the “Consumer-oriented Voluntary Declaration,” following a communication cycle of “listening, knowing, and using” to increase customer satisfaction and improve products and services. We will maximize the synergy of our group, utilizing the strengths of each department to be the manufacturer of choice for our customers.

Changes to the NH Foods Group’s Markets

- Energy and resource conservation
- Support for diverse lifestyles
- Labor shortages

NUMBER OF TOTAL INQUIRIES TO
CUSTOMER SUPPORT DESKS OF
NH FOODS GROUP (FISCAL 2017)

Around **143,000**



We support healthy lives by continually offering inspiration that exceeds our customers' expectations through new food discoveries and proposals.

Creating Value through Dialog with Consumers

- Until now, our Fresh Meats business has mainly followed a B2B model, but in order to raise our level as a B2C service, we will study and analyze consumption trends to raise awareness of our branded fresh meats, improve our raising methods, ratings, and certifications, and develop attractive products and brands. We will also increase the association of NH Foods with meat via active promotion, and offer products with added value.
- This fiscal year, our Processed Food business created a Marketing Promotion Department, establishing a system to lead all stages from planning to sales promotion of our flagship products, which until now had been conducted by separate divisions. This has made it possible to develop our brands with a medium to long-term perspective and promote market-in operations.

We will also further strengthen structures that can increase product value by linking information from sales divisions (feedback from consumers, customers, and worksites) with the Consumer Delegate Committee and consumer surveys.



Maximizing Group Synergy by Promoting Group Sales

We newly created the Group Sales Planning Department to maximize group synergy in sales beyond the boundaries of business divisions. Until now, each business division and Group company has expanded sales through their individual strengths in our broad business domains, but lately it has become essential to leverage the assets of the Group as a whole when approaching areas and channels. We will work actively to propose and promote comprehensive sales strategies to further advance Group sales.

Toward a Sustainable Society

E Support for the environment

S Social initiatives

S Food education that teaches the importance of food

We promote hands-on food education, including seminars, workshops, and cooking classes. Through these activities, we teach people to eat correctly, enjoy eating, and value food.



S Initiatives to utilize customer feedback in product development

The Consumer Delegate Committee was created in 1969 as an initiative to gather customer feedback. We have utilized proposals from the Consumer Delegate Committee in a variety of products, such as the *Entier* twin pack, which reduces food loss and improves ease of use.



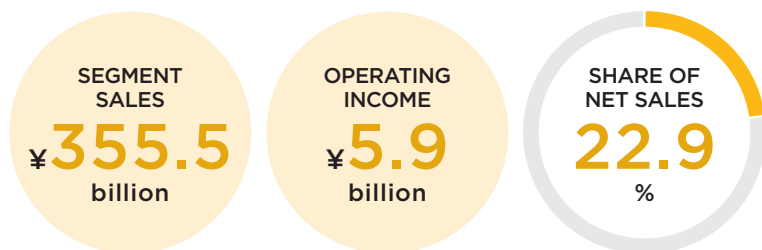
S Communicating Japanese culinary culture internationally

We exhibited at the Anuga 2017 international food trade fair. Our goals included the penetration of the "NH Foods" brand and increasing overseas sales. We provided information about Japanese culinary culture, including a showcase of Japanese *wagyu* beef and proposals for processed chicken products, and our booth was bustling with visitors. (This was our third time exhibiting at the international food trade fair.)



Sales Overview

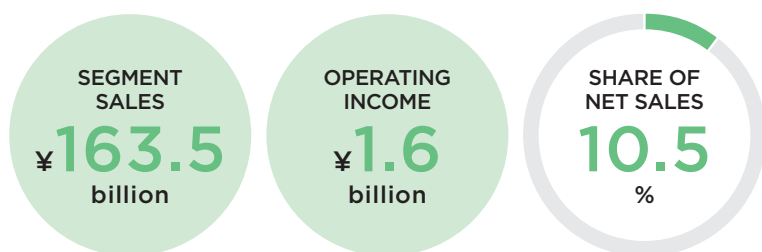
Processed Foods Business Division



Fresh Meats Business Division



Affiliated Business Division



Overseas Business Division



MAIN PRODUCTS

Hams and Sausages Business



Deli and Processed Foods Business



Imported Fresh Meats Business



Domestic Fresh Meats Business



Marine Products Business



Dairy Products Business



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

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 22 domestic plants has obtained Hazard Analysis and Critical Control Point (HACCP) system and ISO certifications and maintains strict sanitary controls.



Logistics

Utilizing our 18 logistics centers nationwide, we have created a logistics network that covers all of Japan.



Sales

At our 52 sales bases throughout Japan, we allocate specialists according to segment for supermarkets, convenience stores, restaurants, and other customers.



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



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.



Production and Breeding

We breed cattle, hogs, and chickens at 27 of our own farms.



Packing and Processing

We process and package fresh meats at five overseas plants.



Production

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



Export and Sales

Selling products that meet local tastes at our 32 overseas sales offices.

Processed Foods Business Division

We will strengthen our product development capabilities, reform our cost structure to cast off low profitability, and build foundations for growth.



Nobuhisa Ikawa

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

Reflecting on the Previous Medium-Term Management Plan

During the three-year New Medium-Term Management Plan Part 5, the Processed Foods Business Division focused on expanding sales volume and reinforcing cost-competitiveness to rebuild its competitive edge. Nonetheless, various factors drove costs up, and conditions remained adverse.

In the year under review, we enjoyed solid sales of *SCHAU ESSEN*® and *Hojun*® *Arabiki Wiener*. On the downside, growth languished in demand for roast hams and bacon. Sales of consumer products were thus, basically unchanged. For commercial-use products, sales of overseas offerings decreased, offsetting the impact of deployments of mainstay items for large restaurant chains. Ham and sausage sales therefore declined slightly.

Owing to the intense price competition, demand recovered from the second half of the year for the core *Chuka Meisai*® series, but sales of consumer deli and processed foods were down from a year earlier owing to sluggish demand growth for *Ishigama Kobo*® series pizzas. Sales of commercial-use products were up from the previous term on rollouts of new products at convenience stores and large restaurant chains. Overall sales of deli and processed foods thus rose for the year.

Operating income for the year were down. This was because cost reductions from structural improvements in sales units were insufficient to offset labor cost hikes stemming from personnel shortages and high logistics expenses. As a result of these factors, segment sales rose to ¥355.5 billion, while operating income was down to ¥5.9 billion.

Toward Sustainable Growth (Risks and Opportunities)

Japanese society is changing rapidly amid higher personnel costs stemming from labor shortages, increased raw materials prices, and diversifying consumer needs. Other factors include a rising interest in health and food safety

and reliability and responses to imported merchandise amid free trade trends. The NH Foods Group aims to turn these changes into growth opportunities by developing hit products and allocating capital expenditures to streamline production, thereby expanding sales with profit.

Medium-Term Management Plan 2020 Initiatives

Under Medium-Term Management Plan 2020, we will focus on casting off low profitability by reinforcing our ability to develop and cultivate hit products, and reforming our cost structure. To accelerate decision-making, we flattened the organization in the year under review and created a marketing department that handles everything from new product planning to sales. We allocated capital investments to cost structure reforms and integrated our ham and sausage and deli and processed foods production units to share human resources and technologies and cut costs by consolidating purchasing of raw materials and supplies.

● Newly Emphasize Profitability

To date, the Processed Foods Business Division has focused largely on quantity and market share. It looks to make profitability central to decision-making. By

SYSTEMATICALLY REDUCING COSTS THROUGH OVERALL OPTIMIZATION OF MANUFACTURING, SALES, LOGISTICS AND MANAGEMENT UNITS



strengthening manufacturing and sales teamwork and thereby enhancing our control of supply and demand, we will improve plant line capacity utilization rates and level out production. Other measures will include consolidating major product categories at key factories and reviewing unprofitable categories, lines and merchandise.

● Reinforcing Product Development Based on Our Commitment to High-Level Management for No. 1 Quality

The Processed Foods Business Division has generated strong growth by developing *SCHAU ESSEN®* and other hit products while creating semi-processed foods merchandise, chilled pizza, and other categories. We will regain our product development capabilities based on our commitment to high-level management for No. 1 quality that will lead sustainable growth. We will push ahead with organizational and mindset reforms by accelerating decision-making, reinforcing information collection and our ability to identify needs, leverage market-oriented ideas to create new categories and products, and create a framework for cultivating development mindsets.

● Cost Structure Reforms

To date, much of the impact of improvements has resulted from the perspectives of our manufacturing and sales operations. To attain more effective results, it will be essential to employ purchasing methods that are common for both manufacturing and sales and review our product mix. We will enhance productivity in the manufacturing sector through capital expenditures, primarily in key plants for deli and processed foods business offerings, and plan to install high-productivity lines to build a centralized production structure.

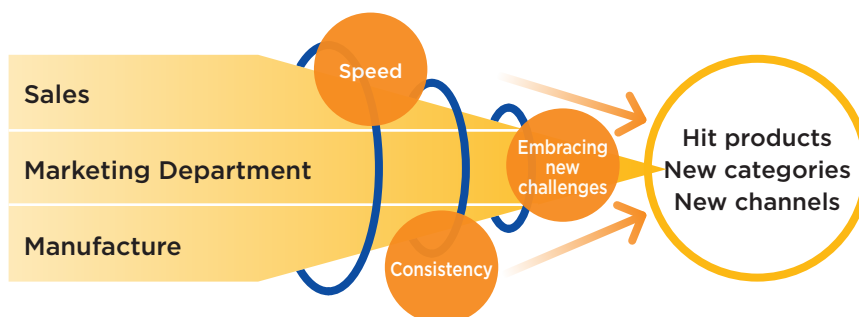
● Achieving Sustainable Growth through Extensive Investments

For three years under Medium-Term

Management Plan 2020, we plan to undertake around ¥68.0 billion in capital expenditures, including about ¥50.0 billion to drive growth. For the deli and processed foods business, we will spend ¥21.5 billion on business expansion and streamlining investment. For ham and sausage operations, we will spend around ¥10.0 billion on enhancing productivity by rebuilding outdated plants. In the logistics business, we plan to spend ¥10.8 billion on developing new sites to improve profitability.

We have positioned Medium-Term Management Plan 2020 as a phase for investing in business infrastructure. Under the successor plan beginning in March 2022, we target an operating margin of 5%.

CREATING HIT PRODUCTS THROUGH FRONTLINE MARKETING



Fresh Meats Business Division

To capture 25% of the domestic fresh meat market, we are focusing on establishing a business structure that customers and consumers support by building a value chain that continuously and stably supplies fresh meat.



Katsumi Inoue

Vice President and Representative Director and General Manager of Fresh Meat Business Division

Reflecting on the Previous Medium-Term Management Plan

During the three years of the previous Medium-Term Plan (New Medium-Term Management Plan Part 5), the fresh meats business posted record earnings by enhancing upstream through downstream profitability, especially for the domestic poultry business, against a backdrop of solid demand for fresh meats. As well as reinforcing production procurement capabilities with strengthened products such as branded fresh meats, our more specific achievements include expanding profitable sales volumes. We have done this by more regularly making our products standard items at bulk sales stores and reinforcing sales measures per channel. Reducing production costs and rationalizing the distribution structure were also achieved. As a result of these efforts, fresh meat sales volumes during the plan's three years rose 8% for the Fresh Meats

Business Division and 9% for the four Nippon Food companies. In the year ended March 31, 2018, net sales and operating income increased to ¥778.4 billion and ¥46.2 billion, respectively.

Toward Sustainable Growth (Risks and Opportunities)

By 2042, when we celebrate our centennial, the Company expects the Japanese population to have shrunk by 20% from today, with the working population decreasing 30% and the domestic fresh meat market declining by 15%. To plan for sustainable business growth, we need to turn changes in the business environment into opportunities. Such transformations include a rising labor shortage in Japan, soaring feedstuff and other raw materials costs owing to climate change, and higher imported fresh meat prices because of climbing global demand for these meats.

Positive changes are also afoot for the Group. These include a rising consumer need for quality, especially in terms of safety and reliability, as well as increasing fresh meat consumption among elderly individuals. There is growth in the restaurant and ready-made meal markets, reflecting labor shortages and work practice reforms.

We are also experiencing food globalization due to increased foreign visitors and advancements in the Internet of Things and artificial intelligence.

To attain sustainable growth in a diminishing domestic fresh meat market, we need to further expand our market share in Japan.

● Expanding Market Share

The fresh meats business endeavors to provide products and services that surpass customers' expectations through collaboration between production, consignment and sales units upstream through downstream under our vertical integration system. By enhancing our ability to accurately predict product demand, quantities, and timing, and by benefiting our customers, we will further expand market share.

● Reinforcing Our Business Structure for Consistently Stable Supplies

We also need to procure more reliably to expand our share of the domestic fresh meat market.

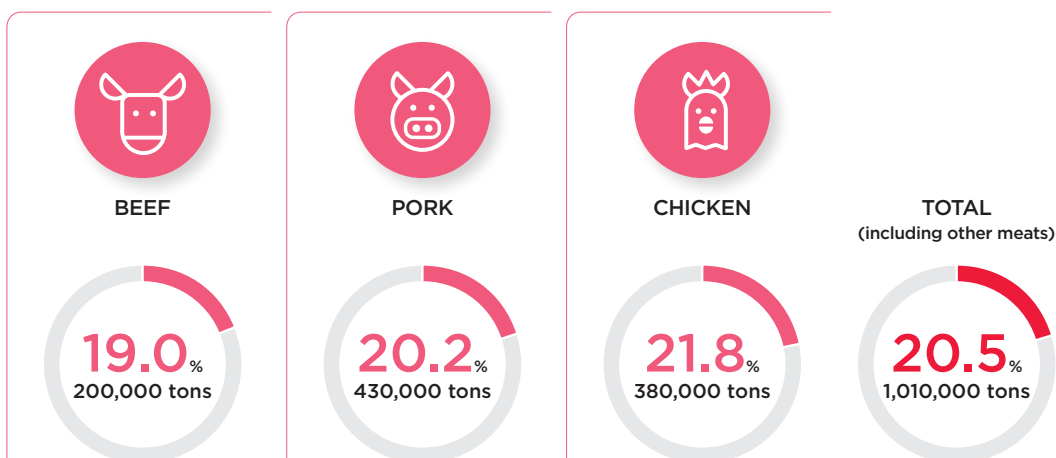
At this juncture, the Japanese fresh meat market depends heavily on imported supplies. It is crucial for us to secure and reinforce our procurement capabilities for imports. We will generate benefits and incentives for overseas packers to sell to

RELATIONSHIP BETWEEN FRESH MEAT MARKET SCALE AND SHARES (as of March 31, 2018)

SHARE OF FRESH MEATS SALES

No. 1
domestic share

Domestic market share by sales volume in our Group's fresh meats (domestic and imported) (based on NH Foods data)



us, notably by strengthening strategic partnerships with overseas packers, lowering costs through stable, long-term purchasing, and by developing proprietary products so we can build a purchasing edge over other countries.

Because of a growing interest in health and safety, customers prize domestic offerings, for which demand should remain solid. Nonetheless, we expect the number of livestock farmers to decline in Japan. For domestic offerings, we will establish production and supply structures that balance future demand and supply. We plan to reinforce our upstream businesses, targeting shipment volume of 720,000 hogs and 72.7 million chickens by the fiscal year ending March 31, 2021.

At the same time, we will reinforce the entire value chain through collaboration with suppliers to ensure safer and more reliable food production while promoting CSR procurement that fulfills the Group's corporate social responsibilities.

Medium-Term Management Plan 2020 Initiatives

● Reinforcing Integration

The Group will undertake measures to reinforce the value chain for its entire integration system.

We will mechanize in production operations to save on labor and streamline logistics by separating distribution and sales. We will improve relay points and deploy joint deliveries with other companies and other measures. We will make sales units more efficient and improve sales offices and harness information technologies. We will consistently increase supplies of fresh meat by reinforcing initiatives to provide products and services that improve convenience for customers in view of a shrinking working population.

● Creating Customer-Centric Value

Even in the fresh meats business, engaging with consumers is essential for us to nurture attractive products and brands. Partly by collaborating with the new Communication Strategy Division, we will research attractive products for consumers through needs studies and analysis, improving feeding, standards, and other techniques. We will drive sales of fresh meat brands such as of *Sakurahime* chicken, to enhance our reputation for quality meats through effective promotions.

We will tackle changes in the social environment, technological advances in the fresh meat business, and other changes,

cultivating our responses by looking ahead. A good example of this is promoting healthy menus and ingredients for the elderly while educating people about the health benefits of fresh meats. We will also collaborate with certified Halal plants to take advantage of demand among inbound tourists.

We will reinforce our export structure for Japanese offerings to take advantage of the increasing international interest in Japanese food. We will secure packers with export licenses and expand sales channels in export countries in collaboration with the Overseas Business Division.

● Achieving Sustainable Growth through Extensive Investments

To pave the operating environment for growth, during the three years of the Medium-Term Management Plan 2020, we plan to undertake capital investments totaling around ¥78 billion, including approximately ¥39 billion in growth investments in production operations. We will rigorously make investments to achieve productivity improvement, labor-saving and customer problem resolution so as to ensure sustainable growth. These investments include new farm construction and processing line streamlining, new sales site construction and relocation, and new processed product and extract plant construction and streamlining.

Affiliated Business Division

Become a manufacturer that can supply high-value-added products in Japan and abroad by enhancing procurement and production



Kanji Bando

Managing Executive Officer and General Manager of Affiliated Business Division

Reflecting on the Previous Medium-Term Management Plan

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

During the three years of the previous Medium-Term Plan (New Medium-Term Management Plan Part 5), we increased both net sales and operating income compared with the previous management plan. That said, the operating margin remained around 2%, largely owing to fluctuations in raw ingredients and some operational issues. We must therefore urgently reinforce our management structure

through structural reforms. In the dairy products business, we have taken advantage of surging demand by opening a cheese plant in Kanagawa Prefecture. We are also building a yogurt plant in Takasaki City, Gunma Prefecture. In the final year of New Medium-Term Management Plan Part 5, ended March 31, 2018, sales increased to ¥163.5 billion, while operating income declined to ¥1.6 billion.

Toward Sustainable Growth (Risks and Opportunities)

The global consumption of marine products has continued to grow. The current annual fish catch and production volume is around 200 million tons. Fish farming production volume has rocketed owing to progress in farming technology. In recent years, farmed fish have accounted for more than half of the global catch and production volume. At the same time, fishery catches by fishing boats have leveled out. Owing partly due to increased fish catches by foreign fleets operating in seas adjacent to Japan's exclusive economic zone, fish catches in Japan have declined. At the same time, the Japanese are eating less fish. Annual

expenditure per household on marine products has decreased 10% since 2009. On the other hand, global demand for fish is growing, and raw materials costs are expected to climb. For Group marine products business to grow sustainably, we must urgently convert into a manufacturer offering high-added-value products in Japan and overseas by enhancing our procurement and production capabilities.

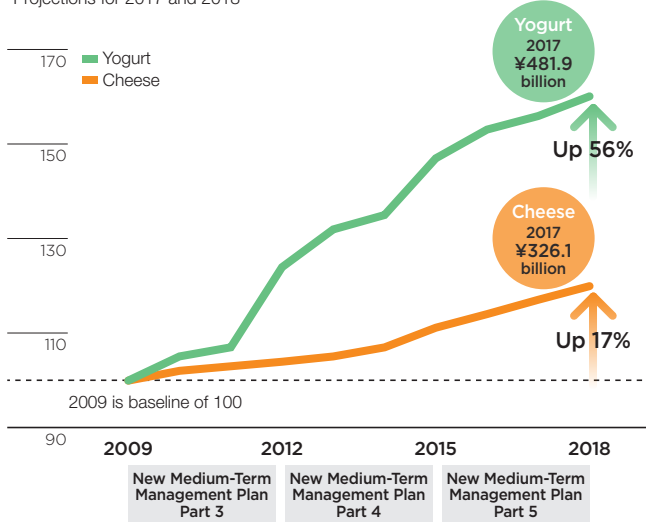
Complementing the steady growth of the cheese market since 2009, the yogurt market has also expanded significantly due to the rising health consciousness of consumers. We will bolster our procurement routes and production capabilities for stable supply and business expansion, as we expect continuous growth in the domestic market and a dairy ingredient price surge due to consumption increases in Southeast Asia, China, and other markets.

Medium-Term Management Plan 2020 Initiatives

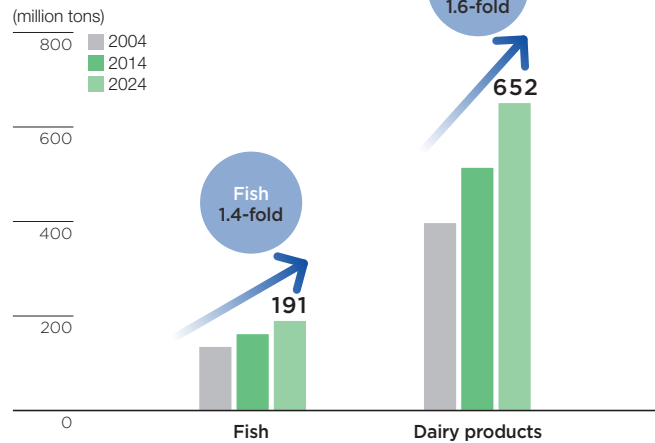
Under Medium-Term Management Plan 2020, we will promote our conversion into a manufacturer in this area by improving our profitability and strengthening procurement and production in

DAIRY PRODUCT MARKET SIZE GROWTH

*Projections for 2017 and 2018



PREDICTIONS FOR GLOBAL RISE IN CONSUMPTION



Source: OECD-FAO Agricultural Outlook 2015-2024

the marine and dairy businesses. At the same time, we will promote saving and reducing personnel at our own plants by applying artificial intelligence (AI), Internet of Things (IoT), robotics and other technologies. This is an urgent task considering the tighter labor supply in Japan. In addition, to provide safe and reliable foods, we will promote acquisition of FSSC22000 certification for a food safety management framework and other international certifications at all plants.

● Strengthening Marine Business Profitability

We will reinforce the profitability of our marine business by establishing raw materials procurement channels to Japan and by reinforcing sales in overseas markets. We will set up those channels by taking advantage of the expansion of global cultivation, procuring Black Sea cultured salmon from Turkey and by engaging in shrimp farming through a joint venture in Thailand. We will undertake initiatives to establish our own worldwide raw materials procurement routes. As part of those efforts, we will open an office in Russia, where we will reinforce

existing channels, and establish a marine product processing company in Vietnam.

To drive medium- to long-term growth, we handle more environmentally sound cultured fish and natural fish caught from sustainable fishing grounds.

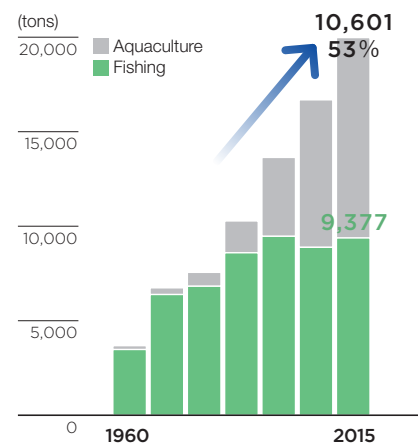
● Reinforcing Dairy Product Business Profitability

In the dairy product business, we will assess new procurement partner countries in line with the government's Economic Partnership Agreements. The goal is to reinforce raw materials procurement for cheese. While improving our cheese production setup and creating unmanned lines, for yogurt production we plan to make the Takasaki Plant fully operational from April 2019. This should basically double production capacity in eastern Japan, enabling us to concentrate production of such major brands as *Vanilla Yogurt* and pursue more effective marketing in that region. Trends in the yogurt market are volatile, and we aim to create new categories by developing unique products through engagement with consumers.

● Achieving Sustainable Growth through Extensive Investments

Under Medium-Term Management Plan 2020, we plan to undertake around ¥26 billion in capital investments that include approximately ¥13.3 billion in growth investments. For the marine products business, we will invest in restructuring production facilities at existing plants, improving procurement platforms in Japan and overseas, and expanding sales in overseas markets. For the dairy product business, we will invest in operations at the new Takasaki Plant and improve our cheese production structure.

WORLD FISHING PRODUCTION VOLUME



Source: "White Paper on Fisheries 2017", Fisheries Agency

Overseas Business Division

We will build a value chain and totally optimize global beef business to grow overseas sales and stabilize profits.



Hiroji Okoso

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

Reflecting on the Previous Medium-Term Management Plan

The Overseas Business Division optimizes Group operations, acting as a supply source for Japan. At the same time, the division has focused on realizing management autonomy to foster the sustainable development and growth of Group companies operating in 19 countries and regions, leveraging appropriate governance management frameworks and strategic CSR efforts. To strengthen its business underpinnings, the division implemented steps that included divesting an unprofitable hog farming business in the United States. It also concluded partnerships with such companies as Breeders & Packers Uruguay S.A. for the beef business, and with Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi in Turkey and Lay Hong Berhad in Malaysia for the poultry business.

In the fiscal year ended March 31, 2018, the division's net sales rose to ¥253.8 billion. The division incurred an operating loss of ¥4.7 billion, however, reflecting changes in the Australian beef business climate, as well as market and currency factors.

Toward Sustainable Growth (Risks and Opportunities)

Today the world's population is growing largely in emerging nations, so global fresh meat consumption should increase. Another growth opportunity is that Japanese foods are increasingly popular overseas. At the same time, we need to factor in risks. These include price hikes from expanding global fresh meat demand, major fresh meat companies' expansions into Asia and the Middle East, and the price increase of grains and other raw material due to the impact of climate change. We believe that for the Group to grow sustainably it needs to build an integrated value chain for manufacturing and sales, develop human resources, and reinforce governance in each country and region in which it operates. It is not sufficient to merely use these locations as supply bases for Japan.

Medium-Term Management Plan 2020 Initiatives

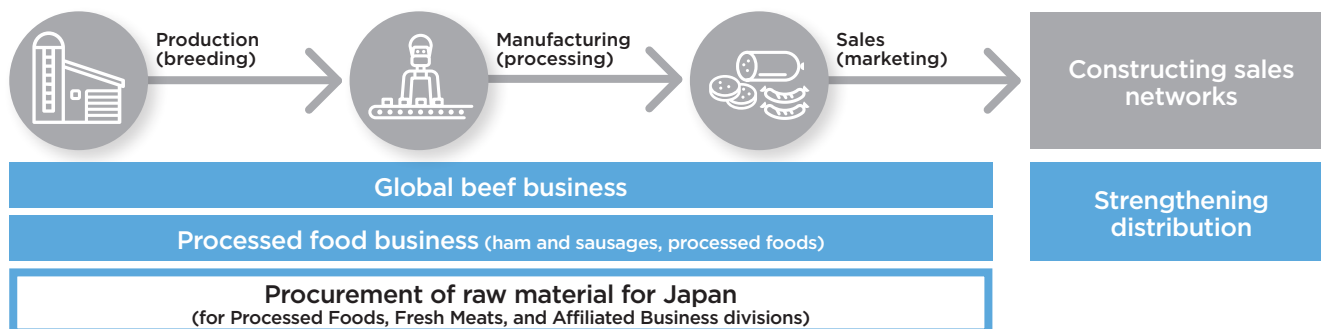
Under Medium-Term Management Plan 2020, with the theme of "expand sales and profits by building the value chain", we are accordingly pushing to totally optimize the global beef business, construct a value chain for overseas processing operations, develop human resources, reinforce governance, and improve corporate value through strategic CSR. The Group's business model in Japan succeeded by developing and producing high-value-added products against the backdrop of the well-regarded NH Foods brand name, supported by solid networks to distribute products around Japan. We are applying this successful system in our overseas processing operations. At the same time, we will undertake mergers and acquisitions as needed to reinforce the value chain and generate Group synergies.

● Optimizing the Global Beef Business

Global beef consumption is expected to grow roughly 20% over the next 10 years, driven mainly by emerging nation demand. For markets where demand is expanding, the Overseas Business Division is exploring an optimal structure that encompasses such elements as product categories and sales areas to drive growth over the

BUILDING A VALUE CHAIN

- Strategies for each channel: Exporting to Japan, domestic sales, and third country export sales
- Boosting research and development structure: A differentiated product strategy
- Reinforcing marketing (proposal capabilities)



medium and long terms.

In Australia, we are reviewing governance (operational and management systems) while reinforcing our production framework by optimizing production lines and pushing ahead with branding, cultivating new channels, and expanding areas for exports. While clarifying production and manufacturing companies' roles to reinforce our production framework, we are sharing information on cattle purchases as part of total optimization efforts. For branding, we are developing high-value-added products in collaboration between manufacturing and sales, such as for high-end export offerings and branded products for Australia.

In Uruguay, we are obtaining certifications to guarantee product safety while focusing on sales expansion by reinforcing integration and improving brand recognition to realize management for No. 1 quality. To reinforce integration, we are continuing to reinforce close relationships with farmers while cultivating businesses with new farmers to expand cattle purchase numbers. In addition, we will develop our own brands and enhance their recognition to expand the number of countries to which we export.

● Building a Processed Food Business Value Chain

In Hong Kong, for enhancing our distribution function, we invested about ¥1.0 billion (for a roughly 5% stake) in Tsit Wing International Holdings. This established our sales foundations for Hong Kong and southern China and opened a new distribution network for us. We will sell the processed foods from Group manufacturing bases in Southeast Asia and China and exported beef and other offerings from Australia and Uruguay.

In Indonesia, we established a processed foods manufacturing joint venture with an investment of about ¥1.1 billion (for a 51% stake) with PT Diamond Cold Storage to build an integrated platform for manufacturing and sales in that country.

● Sales Expansion

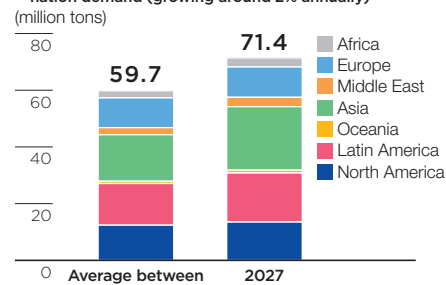
We need to accelerate understanding of culinary cultures and commercialization to expand sales in overseas markets. We will accordingly reinforce research and development and marketing to promote development and sales expansion for high-value-added products that match market environments in each country/area.

In our exporting business to Japan, we will expand volume by cultivating new country and business suppliers. Augmenting the division's existing collaboration with the Fresh Meats and Processed Foods business divisions, we will deepen collaboration in raw materials procurement, processing, and sales of the marine and dairy product businesses of the Affiliated Business Division. In the marine product business, in addition to raw materials procurements for tuna in Indonesia and South America, manufacturing of marine processed foods in Thailand, and salmon procurement in Europe and the Middle East, we will expand our marine products line in Chile. For the dairy business, we will expand raw materials sourcing in Europe and the Middle East.

BEEF CONSUMPTION PROJECTION

Looking to markets with demand potential.

- Consumption of beef worldwide should increase about 20% over the next 10 years, driven largely by emerging nation demand (growing around 2% annually)



Source: "World Food Supply and Demand Projection to 2027 (in Japanese)", Ministry of Agriculture, Forestry and Fisheries of Japan

Corporate Governance

The NH Foods 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 NH Foods 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

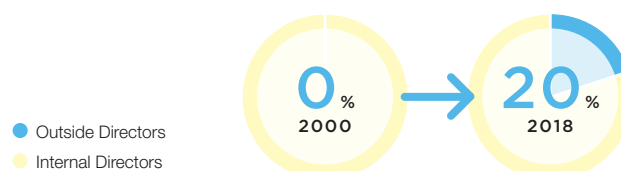
continuously strive to enhance such corporate governance.

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.

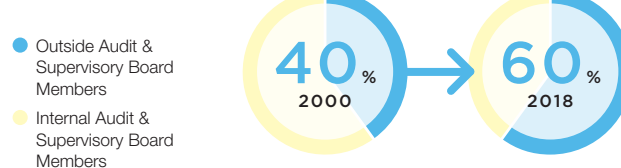
EFFORTS TO STRENGTHEN CORPORATE GOVERNANCE

- April 2003 Established Investment & Finance Committee
- April 2003 Established Compensation Committee
- April 2004 Established Corporate Governance Committee
- May 2006 Established Corporate Value Evaluation Committee (Currently, Corporate Value Enhancement 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
- April 2018 Established CSR Promotion Committee

PROPORTION OF OUTSIDE DIRECTORS



PROPORTION OF OUTSIDE 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 between three and 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. Of the 10 members of the current Board of Directors, two are

outside directors. The Board consists of nine men and one woman. 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 between three and five, of whom more than three are outside Audit & Supervisory Board Members. Of the five members of

the current Audit & Supervisory Board, three are outside Audit & Supervisory Board Members. The Board consists of five men.

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 chairperson of the Compensation Committee, a member of the Executive Appointments Committee, and a member of the Compliance Committee.	Attended 23 of 23 Board of Directors' meetings (Attendance Rate: 100%)
	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 chairperson of the Executive Appointments Committee, a member of the Compensation Committee, and a member of the Corporate Value Enhancement Committee.	Attended 21 of 23 Board of Directors' meetings (Attendance Rate: 91.3%)
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 23 of 23 Board of Directors' meetings (Attendance Rate: 100%) Attended 22 of 22 Audit & Supervisory Board meetings (Attendance Rate: 100%)
	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 23 of 23 Board of Directors' meetings (Attendance Rate: 100%) Attended 22 of 22 Audit & Supervisory Board meetings (Attendance Rate: 100%)
	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 21 of 23 Board of Directors' meetings (Attendance Rate: 91.3%) Attended 20 of 22 Audit & Supervisory Board meetings (Attendance Rate: 90.9%)

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

We have distributed the "Questionnaire on the Effectiveness of the Board of Directors," which is reviewed by the Board of Independent Officers, to all the directors and Audit & Supervisory Board Members, a body independent from executive management of the Company. 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 (14 individuals)

Initiatives for Fiscal 2017

Issues discovered by fiscal 2016 evaluation of Board of Directors

- ① Provide information on agenda sooner
- ② Have deeper discussions on medium- to long-term management policies and strategies
- ③ Suitability of executive appointment and compensation system, and successor planning for representative director

Initiatives to resolve issues

- ① Provide advance documents sooner and provide better advance briefings to outside directors and Audit & Supervisory Board Members
- ② Have deeper discussion of medium- to long-term management policies and strategies through discussion of Medium-Term Management Plan 2020
- ③ Continually deliberate on successor planning through discussion of ideal qualities in a corporate manager

As a result, our evaluation of the effectiveness for fiscal 2017 assessed that we had made improvements to issues of ① and ②. With regard to issue ③, we defined the following five conditions as ideal qualities in a corporate manager to continually improve corporate value: sincerity, dedication, consideration, challenge, and empathy. Accordingly, we are aware of the need to further improve the effectiveness of these definitions in fiscal 2018.

Initiatives for Fiscal 2018

In fiscal 2018, we will carry out the following initiatives to strengthen systems supporting the Board of Directors which received a particularly low assessment, and further increase its effectiveness.

- (A) In order to enhance discussions by the Board of Directors of the Company, we will continually offer opportunities to understand the roles and responsibilities required of directors and Audit & Supervisory Board Members when they are newly appointed and after that, and provide training and

information to be able to fully and actively make statements at the Board of Directors meetings.

- (B) In order to systematically develop future management resources with the five conditions described above, we will carry out a company-wide cross-functional program to select, educate, and transfer personnel after clearly defining the assessment and development indicators.

* The results of the evaluation are published in the "NH Foods 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	Times convened in FY2017
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.	6 (100% attendance)
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.	7 (100% attendance)
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.	2 (90% attendance)
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.	2 (94.4% attendance)
Board of Independent Officers	Exchanges information and shares knowledge from an independent and objective perspective.	2 (100% attendance)
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.	4 (90% attendance)
CSR Promotion Committee	To discuss policies and themes relating to CSR for the Group as a whole and confirm the status of measures relating to CSR.	(Established the fiscal year ending March 31, 2019)

COMPOSITION OF OPTIONAL COMMITTEES (As of April 1, 2018)

● 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	CSR Promotion Committee
President and Representative Director	Yoshihide Hata		●	●		●	Observer	●
Vice President and Representative Director	Kazunori Shinohara	●	●	●		●	Observer	●
Vice President and Representative Director	Katsumi Inoue			●				●
Representative Director	Koji Kawamura			●				●
Director	Hiroji Okoso							●
Director	Tetsuhiro Kito							●
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 Yoshihide Hata and Vice President and Representative Director Kazunori Shinohara 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 chairperson, 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. No retirement gratuity is paid.

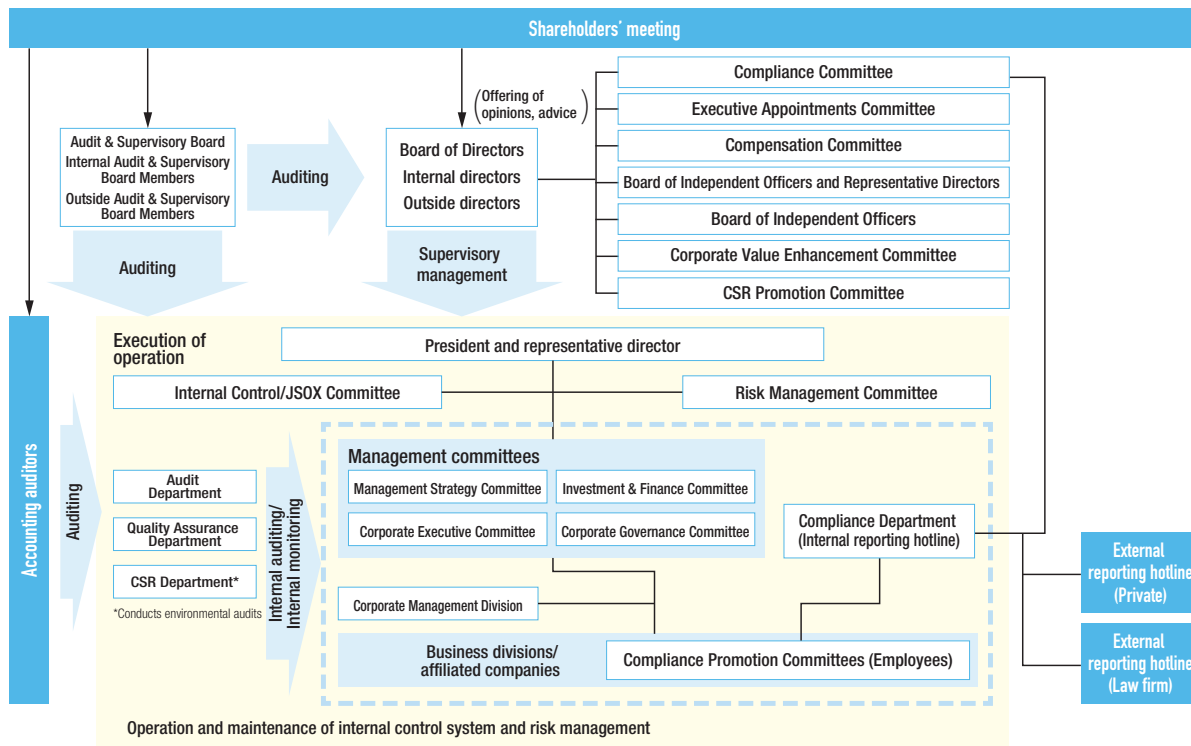
The compensation of each outside director is limited to basic compensation, as determined by his or her position. No retirement gratuity or stock acquisition-based compensation is paid.

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)	358	242	57	59	8
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	48	48	–	–	2
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 20 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 29 CPAs, 18 CPA-certified individuals and 28 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 NH Foods 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 NH Foods 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 2018
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 NH Foods Group. In fiscal 2017, we worked to eliminate harassment and improve communication between employees under the theme “We all are partners of each other; let’s create and coordinate workplaces we can be proud of.” In fiscal 2018, we will continue this theme, and hold ongoing discussions to promote independent compliance activities by each company in the Group.

Establishment of clear guidelines for compliance

- NH Foods Group’s action standards
- Manuals for Group company action standards



Execution of publicity campaigns

- Compliance training
- Compliance meetings
- Office study groups



Compliance training

Monitoring

- Internal and external consultation desks
- Manage information on material facts from the Group and prevent recurrence, in accordance with the Company’s rules for information processing and management
- Confirm workplace conditions through compliance site visits

RISK MANAGEMENT

The Compliance Department has comprehensively managed the risks within the NH Foods Group. Through close cooperation with the relevant departments, the Compliance Department—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 Directors

Q1. How do you rate NH Foods' corporate governance?

Internal and outside directors alike state their views without hesitation at the Board of Directors. NH Foods operates as a company with a board of auditors, and Audit & Supervisory Board Members similarly say what they think. So, I find board deliberations fulfilling.

We put useful opinions into practice. We deliberate particularly important matters intensely, which I think contributes to implementation.

I am not exactly sure whether executive and auditing areas systematically and comprehensively analyze and verify the causes of issues. Still, where doubts arise about explanations in the Board of Directors, both directors and Audit & Supervisory Board Members seek reconfirmations and, when necessary, may request rigorous reassessments.

Q2. What are NH Foods' strengths and issues in terms of sustainable growth?

Regarding strengths and issues of the operation and business model, I think that the Fresh Meats Business Division maintains a powerful business model, as it can relatively easily pass on costs to prices. This is not so easy for the Processed Foods Business and Affiliated Business divisions, so I sense that they need to employ a little more ingenuity in that regard.

In terms of CSR strengths and issues, notably in terms of the corporate culture and human resource developments, I get the impression that the Company's CSR program stagnated somewhat perhaps because it didn't allocate enough funds to that area. Things should change a lot this fiscal year because management has positioned CSR as a strategic initiative that takes the Company forward.

To promote qualities expected of management, we have rebuilt our structure in light of corporate officer criticisms. To prevent issues from recurring, and learn from failures, the



Newly Appointed

Yasuko Kono
Outside Director

Q1. How do you seek to leverage your experience in meeting stakeholder expectations?

I have spent most of my life as a housewife, getting a lot of experience in everything from housework to childcare and eldercare. Food has always been an important area of my life, and fresh meat, hams, and sausages have been important and convenient sources of quality protein for meals. So, when bovine spongiform encephalopathy (BSE) surfaced as an issue worldwide, consumers and society at large became very demanding not only about taste and price but also about the systems and legislation that could ensure food safety and quality.

Since then, reports about such issues as pesticide residues or radioactive contamination have provided more reasons to consider the value and risks of food.

In more than a decade of learning about food production, processing, distribution, retailing, consumption, and disposal through the activities of co-ops, we consumers now know better about how food gets to our tables. It seems to have

Board of Directors engaged in extensive discussions about the aforementioned qualities, clarifying them for the Group. Our directors, naturally, and all Group executives are expected to endeavor to satisfy our requirements.

Q3.

What initiatives would you like to push forward with to ensure NH Foods' ongoing growth?

We have persistently told executives that they should always do us proud in everything they do. The same requirement applies to me. We have been asked to consider the integration of core business and CSR and explore the future of the Group as a supplier of proteins.

Until now, I have chaired the Executive Appointments Committee. This year, I am also chairing the Compensation Committee. Both of these positions are very important in terms of governance, and I will endeavor to fulfill my duties by putting the interests of consumers and shareholders first.

Iwao Taka
Outside Director



become important to collaborate with stakeholders including producers, manufacturers, and government bodies to move in a better direction. From my consumer-centric perspectives on food, I wish to confirm in good faith that society will accept and like NH Foods' products for many more years to come.

Q2.

What is your corporate governance focus for this to happen?

We are seeing dramatic changes in society and the business sector, notably in terms of the population aging and in terms of securing labor and in progress with information and communication technologies and artificial intelligence. In pursuing sustainable growth and improving value, I want to focus on whether management can provide the leadership so we can fulfill our commitments to society.

I would like NH Foods as an enterprise to be consistently trustworthy in fulfilling its pledges to society. For that, I will watch what NH Foods is implementing to create a culture that marks an epoch and create the times by meeting the

needs of the times, and remain at the forefront in our exploration of food's contribution to a happy and healthy life.

Q3.

What do you believe are NH Foods' roles and responsibilities through its business and CSR activities?

UN Sustainable Development Goals (SDG) place importance on society, and countries around the world have adopted the United Nations' agenda for 2030, which comprises 17 SDGs and 169 targets. Consumers must also individually help to create fair markets and social sustainability. When they engage in consumption that respects the environment and human rights, and companies provide ecologically sound and ethical products, the interests of supply and demand will coincide. While it is hard to measure the value that CSR activities contribute to society, acting in light of the SDGs should clarify the value of CSR activities for society and consumers and relate to the viability of enterprises themselves.

Board Members and Executive Officers (As of June 26, 2018)

Directors



Yoshihide Hata

President and Representative Director
(President and CEO)



Kazunori Shinohara

Vice President and Representative Director
(Executive Vice President)
In charge of group restructuring



Katsumi Inoue

Vice President and Representative Director
(Executive Vice President)
General Manager of Fresh Meats
Business Division



Koji Kawamura

Representative Director and
Senior Managing Executive Officer
General Manager of Communication Strategy Division;
In charge of Research & Development Center



Hiroji Okoso

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



Tetsuhiro Kito

Director and Managing Executive Officer
In charge of group sales management and
Group Sales Planning Department



Hajime Takamatsu

Director and Managing Executive Officer
General Manager of
Corporate Management Division;
General Manager of Tokyo Branch Office



Nobuhisa Ikawa

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

Outside Directors



Iwao Taka
Outside Director



Yasuko Kono
Outside Director

Audit & Supervisory Board Members/ Outside Audit & Supervisory Board Members



Koichi Nishihara
Audit & Supervisory Board Member



Shunichi Ogata
Audit & Supervisory Board Member



Akira Otsuka
Outside Audit & Supervisory Board Member



Akihiko Shiba
Outside Audit & Supervisory Board Member



Atsushi Iwasaki
Outside Audit & Supervisory Board Member

Managing Executive Officers

Sadanori Miyagai Kanji Bando Koichi Oyama

Executive Officers

Sadakazu Ogawa	Nobuo Oda	Hiroyuki Tsukuda
Fumio Maeda	Tadaaki Ito	Kenya Maruyama
Masahito Kataoka	Kuniharu Hirai	Shuichi Toda
Hideki Fujii	Takao Seki	Toshiyuki Hagino
Keiji Maeda	Nobuyuki Tazawa	Kohei Akiyama

See our website for bios, positions, responsibilities, and important concurrent positions in our Notice of the 73rd Ordinary General Meeting of Shareholders

WEB <https://www.nipponham.co.jp/eng/ir/events/generalmeeting/>

Human Resource Initiatives

The Group aims to be a place where employees can feel truly happy and fulfilled through such initiatives as work-style reform, compliance activities, human-resource development, and creating healthy minds and bodies.

PROMOTING WORK-STYLE REFORM

We are creating a workplace that empowers diverse human resources, including increasing the ratio of women in leadership positions to 12% by 2020.

In fiscal 2017, NH Foods Ltd. began a telework trial and expanded eligibility for flextime to support diverse work styles, including balancing work with child or nursing care. In fiscal 2018, it began a trial child/nursing care flextime program for full-time employees who are not eligible for flextime.



COMPLIANCE MEETINGS

We provide opportunities for each employee to conduct voluntary compliance activities, with the goal of creating workplaces our employees can be proud of.

In fiscal 2017, around 18,700 people participated in compliance meetings. Participants learned about the compliance attitude, deepened their understanding while exchanging views, and thought about their own ideal workplaces, while considering how to incorporate such an attitude and the way it relates compliance matters into their daily activities.

FISCAL 2017
COMPLIANCE MEETING
PARTICIPANTS

Around **18,700**

CREATING HEALTHY MINDS AND BODIES

We work to promote health, with the NH Foods Group Health and Safety Declaration as our basic policy, and seeing the health of each individual employee as one of our management foundations.

Our activities in fiscal 2017 included a health and food education seminar with the aim of imparting correct knowledge of food, and “smokerlyzer checks” to promote cessation of smoking. At health and exercise seminars held in July and October, former players of the Hokkaido Nippon-Ham Fighters and Cerezo OSAKA, and a dance academy instructor, delivered a presentation on health and gave coaching on stretching.



Health presentation by dance academy instructor

HUMAN RESOURCE DEVELOPMENT THROUGH MANAGEMENT BY OBJECTIVES (MBO)

The Group places “ideal human resources sought by NH Foods Group” at the root of its human-resource management. We promote strategic development and utilization of human resources by operating a PDCA cycle of hiring, education and development, evaluation and treatment, and transfer and assignment.

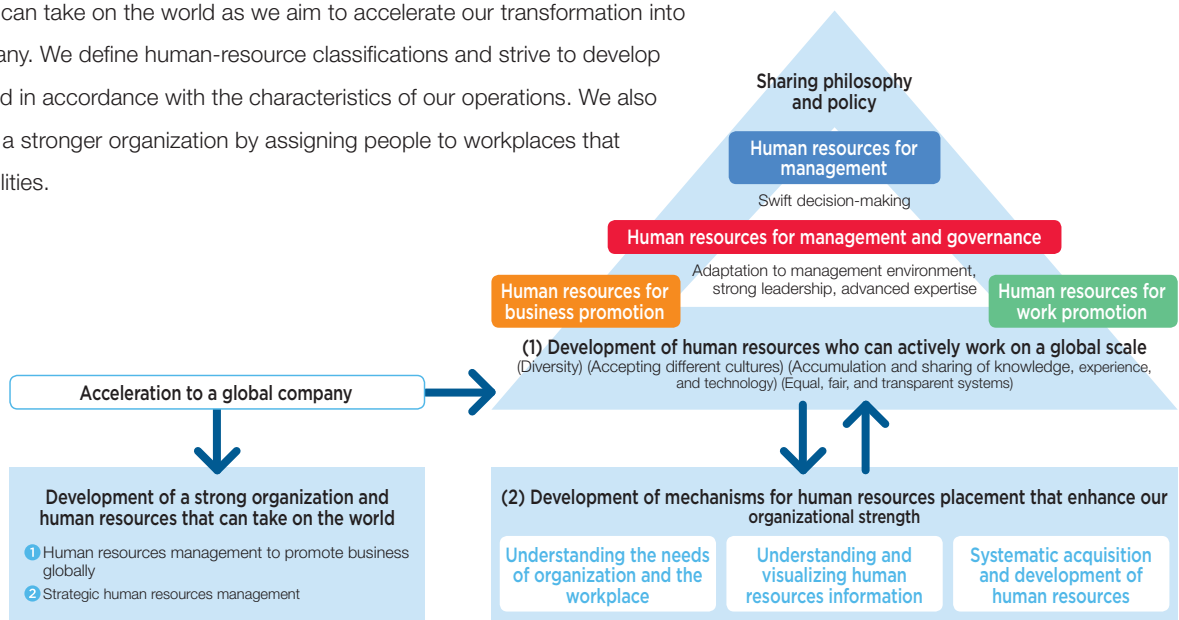
In fiscal 2017, NH Foods Ltd. provided Management by Objectives (MBO) training to 357 managers with the aim of operating this PDCA cycle effectively. In fiscal 2018, we expanded the scope of this training to include full-time employees. The goal of MBO is to improve the performance of the organization by uniting the objectives of the organization with the objectives of the individual, and giving each individual a sense of fulfillment and growth by achieving their personal objectives.

IDEAL HUMAN RESOURCES SOUGHT BY NH FOODS GROUP

Absolute Reliability	<p>Human resources who can communicate bilaterally, inside and outside the company</p> <p>Understand our social mission, including quality (of products/people) and compliance, and can build relationships of trust with all people</p>
Novel Creativity	<p>Human resources who are not satisfied with the status quo but who can create something new in terms of products and services</p> <p>Create new value, and increase brand value by leading in the vanguard of the times</p>
Endless Challenges	<p>Human resources who can constantly strive to reach higher goals</p> <p>Proactively achieve ambitious goals for the continuous growth of the NH Foods Group</p>

GLOBAL HUMAN RESOURCES DEVELOPMENT

The Group promotes the development of a strong organization and human resources that can take on the world as we aim to accelerate our transformation into a global company. We define human-resource classifications and strive to develop abilities required in accordance with the characteristics of our operations. We also work to create a stronger organization by assigning people to workplaces that match their abilities.



Research and Development

As a pioneer in the food industry, the NH Foods Group has been conducting research on food allergies, which is now recognized as a major issue. We have also focused on developing health food ingredients using various materials such as underused organs of livestock, in order to appreciate the bounty of nature.

● TESTING KITS FOR FOOD ALLERGENS

NH Foods Ltd. has been conducting research on food allergies since 1996. In 2002, we launched *FASTKIT® ELISA*, testing kits for food allergens, utilizing the results of research commissioned by the Ministry of Health and Welfare (now the Ministry of Health, Labour and Welfare) for implementing a new food allergy labeling system. As testing food allergens became mandatory to comply with the labeling system, many food manufacturers and laboratories owned by the government started using our testing kits. We currently offer the *FASTKIT® ELISA Ver. III*, which is applicable to a wide range of samples such as raw materials and processed foods, and the easy-to-use *FASTKIT SLIM®*, which is optimized for day-to-day use at manufacturing sites.



FASTKIT® ELISA Ver. III for food allergen testing

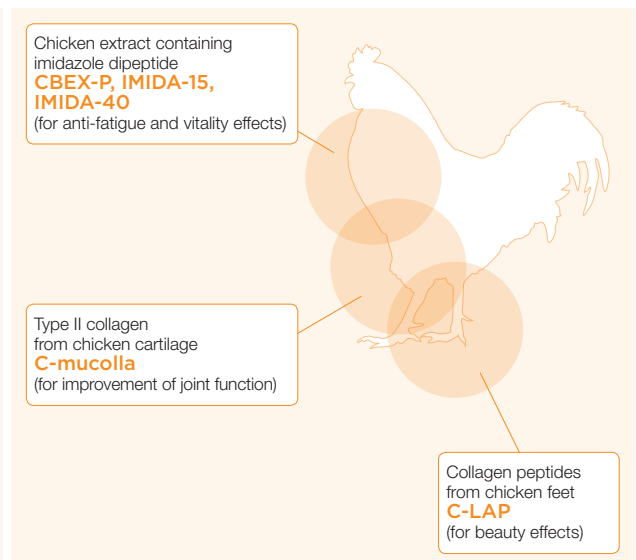
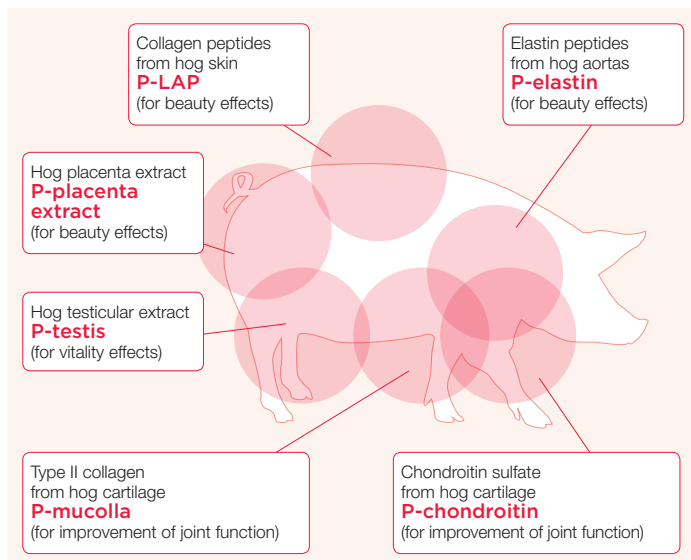
● APPRECIATION OF THE BOUNTY OF NATURE

The Research and Development Center of NH Foods Ltd. conducts research and development of foods and ingredients that are beneficial for consumers' health. Chondroitin sulfate and placenta, extracted from underused organs of livestock, are major examples of the products from the R&D center.

The placenta plays a crucial role in nurturing new life within the body. The organ provides a growing baby with the nutrients necessary for healthy postnatal development.

Chondroitin sulfate is found in various tissues throughout the body, such as cartilage, ligaments, and intervertebral discs. As the compound retains water and makes tissues more elastic, it makes cartilage act as a cushion between the joints.

We market chondroitin sulfate from hog cartilage and hog placenta extract as ingredients for beauty and health foods to fulfill our Group Brand Pledges, one of which is appreciation of the bounty of nature.



Food Allergy Initiatives

In 1997, the Group launched sales of sausages for people with food allergies, the first such processed meat product. In the 20 years since then, we have developed more delicious products for people with and without food allergies, as well as developing allergen testing kits and publishing information to raise awareness.

WEB <https://www.nipponham.co.jp/csr/education/allergy/>

● PRODUCT MANUFACTURE AND SALES

Minna no Shokutaku®, a product series which does not use any of seven specified raw materials—milk, eggs, wheat, buckwheat, peanuts, shrimp, or crab—was created from the desire to enable people with food allergies to enjoy the same meals as their families. At an exclusive allergen-free product factories of Nipponham Northeast Ltd. that bans on the premises any of the seven specified ingredients, every manufacturing lot is tested for allergens. We offer a total of 28 products under this brand, including ham, bacon, hamburgers, and rice-flour bread, and also offer them via online sales at Nipponham Delivery Net.



● PUBLISHING INFORMATION

We strive to put out correct information about food allergies and raise awareness to help people who suffer from them. Since 2003, NH Foods Ltd. has operated the food allergy information site Food Allergy Net, which provides basic information about food allergies and publishes allergen-free food recipes. Additionally, the Nipponham Foundation works to increase society's understanding of allergies through food allergen-free cooking contests, and seminars for nutritionists and registered dieticians.



WEB <https://www.food-allergy.jp/>

Food Education Initiatives

The Group teaches children—who are responsible for our future—the importance and joy of food, and to feel gratitude for the blessings of life, through more than 500 activities per year including in-class lessons, job experience, and factory tours.

WEB <https://www.nipponham.co.jp/csr/education/>

● IN-CLASS LESSONS AT ELEMENTARY, JUNIOR HIGH, AND HIGH SCHOOLS

The Group gives in-class lessons that support healthy minds and bodies of children by teaching them to eat right, enjoy eating, and value food. Our wiener sausage-making workshop, which we began in fiscal 2005, allows children to experience how wiener sausages are made using their five senses. As of fiscal 2017, 25,236 students of elementary, junior high, and high school level have participated in this workshop.



Wiener sausage-making workshop

● OCCUPATIONAL EXPERIENCE AT OUT OF KIDZANIA

Since 2015, the Group has offered a Delivering “Joy of Eating” Occupational Workshop in Hokkaido as a program at Out of KidZania where children can experience work in real society. This program targets elementary school students in grades 4 to 6. Participants become “Kid Employees” of NH Foods. They can experience working at a dairy farm or sausage factory in Hokkaido, as well as promoting NH Foods Group products at KidZania, and they present what they have learned at NH Foods Headquarters.

Sports Initiatives

The Group supports healthy minds and bodies by promoting regional areas and providing opportunities to enjoy sports through its participation 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.

WEB <https://www.nipponham.co.jp/eng/csr/social/sports/>

HOKKAIDO NIPPON-HAM FIGHTERS

The corporate philosophy of the Hokkaido Nippon-Ham Fighters is "Sports Community," meaning a society where sports are incorporated in daily life. The team and front office work together to provide fan services that put fans first, in order to operate as a community-oriented team. In the 2017 season, the team recorded a total attendance of 2,080,000 (second in the Pacific League), exceeding the previous season. The team is gaining attention as the only professional baseball team in Hokkaido.

One of the community efforts supporting this is our initiative to designate "support ambassadors" for the 179 municipalities in Hokkaido, which we started in 2013. This is a major 10-year project, where every year, players from the Hokkaido Nippon-Ham Fighters act as support ambassadors to 18 municipalities in Hokkaido, promoting municipal development while interacting with people of the local community; over the course of the project, we will have collaborated with every municipality in Hokkaido.

We have also created the Fighters' Fund from a portion of the proceeds from the ticket and merchandise sales of the Hokkaido Nippon-Ham Fighters, as well as revenue from charity auctions,



with the goal of supporting the health of the youth who lead Hokkaido in the future and their families. The fund supports activities in the fields of Sports, Nature, and Living.

The Hokkaido Nippon-Ham Fighters aims to achieve a Sports Community to promote CSR activities based on solving social issues, creating opportunities for exercise, and fusing food, sports, and health.



Announcement of new players

WEB <http://www.fighters.co.jp/> (Japanese and Chinese only)

J.LEAGUE CEREZO OSAKA

Cerezo OSAKA won the J.League YBC Levain Cup for the 2017 season, capturing the first title in the club's history. Then on January 1, 2018, the team went to the finals of the 97th Emperor's Cup, winning a hard-fought match that went into extra time, capturing its second crown and marking a historic year for the club.

Regarding athlete development, Cerezo OSAKA Academy has built an environment enabling stable development. Cerezo OSAKA Academy includes U-18 and Nadeshiko League Div. 1 team Cerezo Osaka Sakai Ladies, and was the first in the J.League to split off operations of all development organizations,

including youth, from the main team. Accomplishments of academy graduates include contributing to victories by Cerezo OSAKA's main teams and in international matches, representing a major success for Cerezo OSAKA, which aims to be a developmental club.



97th Emperor's Cup award ceremony ©CEREZO OSAKA

WEB <http://eng.cerezo.jp/>

NUTRITIONAL SUPPORT FOR ATHLETES

Registered dietitians from the Research and Development Center provide nutritional support to players on the Hokkaido Nippon-Ham Fighters and Cerezo OSAKA teams. In 2017, they also started giving nutritional support to the athletes of the Japanese professional basketball B League team Kagawa Five

Arrows. RDC provided nutritional support to 316 athletes in 2017.



Environmental Initiatives

The Group raises life in irreplaceable nature, and delivers the blessings of life. In order to advance our businesses in harmony with nature, we work to reduce our environmental impact, and have formulated targets for mitigating climate change, conserving resources, and promoting recycling.

WEB <https://www.nipponham.co.jp/csr/environment/>

ENVIRONMENTAL TARGETS SETTINGS AND PROGRESS

In our Medium-Term Management Plan, the Group has set three-year targets for reducing environmental impact from our business activities. Under the New Medium-Term Management Plan Part 5, a three-year plan that ran from April 2015 to March 2018, we worked towards switching fuels at our factories and

improving manufacturing efficiency, but we fell short of our targets. Under the Medium-Term Management Plan 2020, which began in April 2018, we are continuing and strengthening our efforts relating to CO₂ emissions, water consumption, recycling and other issues.

RESULTS OF NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

Indicators		Baseline	Targets	Final Values
		Average between fiscal 2005 and fiscal 2010	Average between fiscal 2015 and fiscal 2017	Average between fiscal 2015 and fiscal 2017
Mitigation of climate change	CO ₂ emissions* ¹	816.2kg-CO ₂ /t	665.2kg-CO ₂ /t 18.5% reduction* ³	686.2kg-CO ₂ /t 15.9% reduction
Resource saving	Energy efficiency* ¹	13.6GJ/t	11.4GJ/t 16.0% reduction* ³	11.7GJ/t 13.7% reduction
	Water consumption* ¹	17.9m ³ /t	17.2m ³ /t 4.0% reduction* ³	18.0m ³ /t 0.6% increase
	Waste* ¹⁺²	245.8kg/t	231.1kg/t 6.0% reduction* ³	240.3kg/t 2.3% reduction
Resource Recycling	Waste recycling rate	95.8%	More than 98.0%	94.6%

*1 Per unit of production *2 Excluding farms *3 Reduction from baseline

TARGETS IN MEDIUM-TERM MANAGEMENT PLAN 2020

	Baseline	Targets
	Average between fiscal 2012 and fiscal 2016	Average between fiscal 2018 and fiscal 2020
CO ₂ emissions* ¹	701.1kg-CO ₂ /t	645.1kg-CO ₂ /t 8.0% reduction* ³
Energy efficiency* ¹	12.0GJ/t	11.0GJ/t 8.0% reduction* ³
Water consumption* ¹	17.7m ³ /t	17.2m ³ /t 3.0% reduction* ³
Waste* ¹⁺²	207.5kg/t	195.1kg/t 6.0% reduction* ³
Waste recycling rate* ²	90.8%	94.0%

Waste is calculated per unit of production excluding feces and urine from farms, but starting with Medium-Term Management Plan 2020, the same unit is used for recycling rates.

REDUCING CO₂ EMISSIONS THROUGH BIOMASS UTILIZATION

The Group is reducing CO₂ emissions by utilizing biomass produced from such sources as excreta generated from raising livestock and waste from manufacturing processes.

Nippon White Farm Co., Ltd., which produces and processes chickens, combusts dried chicken excreta in its boilers, which are used as a heat source for heating chicken coops and for warm water to clean them.

Additionally, Oakey Beef Exports Pty. Ltd., which processes cattle in Australia, installed a biogas plant in 2015 to use methane gas generated from factory wastewater as a source of energy. This has eliminated around 36 million yen per year in natural gas purchases, and is leading to reducing CO₂ emissions by around 8,000 tons per year.



Biogas plant of Oakey Beef Exports Pty. Ltd.

REDUCING WATER CONSUMPTION

BPU, which operates the Group's beef business in Uruguay, has been a member of the CTAGUA* water resource research project run in collaboration with the government, industry, and academia since May 2017. The project's goals are to resolve water-related issues and promote science and technology in Uruguay, and BPU's contribution as a beef packer includes research into improving wastewater purification technologies, promoting the reuse of wastewater, and using water as a disinfectant.

* Centro Tecnológico del Agua: Water Research Center

Financial Section

Management's Discussion and Analysis

Forward-looking statements

This integrated 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 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 integrated report, the "Group" refers to NH Foods Ltd. and its subsidiaries unless otherwise indicated.

OVERVIEW OF BUSINESS RESULTS

The Japanese economy continued to recover slowly in the year ended March 31, 2018, with corporate earnings improving across an array of sectors as a result of government policies. On the down-side, the economic climate remained unpredictable owing to foreign currency fluctuations stemming from uncertainty about global economic prospects, geopolitical risks, and government policies.

The operating climate in the food industry remained adverse. Negative factors included higher costs for some raw materials, increased personnel and logistics expenses owing to labor shortages, and intensified sales competition.

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."

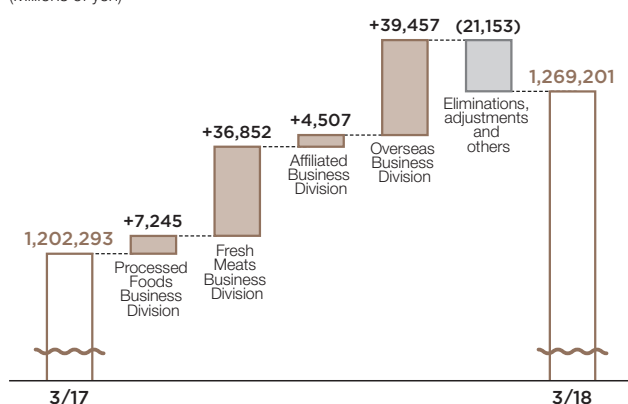
Specific measures included reinforcing the domestic farm business, developing and promoting new products, enhancing productivity to strengthen cost competitiveness and improve

profitability, developing human resources, and reinforcing risk management. The Group leveraged the Hokkaido Nippon-Ham Fighters baseball team in extensive in-store promotions and aired television commercials presenting corporate messages to highlight awareness of what it does. Overseas, the Group endeavored to reinforce its beef business by acquiring Breeders & Packers Uruguay S.A., a leading meat processor. It also strove to strengthen its overseas poultry business by investing in Panus Poultry Group Co., Ltd., a Thai poultry producer and processor. Another step was to bolster the Group's management structure in keeping with the "NH Foods Group Fundamental Policy on Corporate Governance."

Consolidated net sales for the year accordingly rose 5.6%, to ¥1,269,201 million. Although operating income dropped 8.5%, to ¥49,218 million, income from continuing operations before income taxes and equity in earnings of associated companies increased 2.7%, to ¥50,455 million due in part to recording gain from the transfer through the posting system of ¥2,273 million. Net income attributable to NH Foods Ltd. was up 6.1%, to ¥37,147 million.

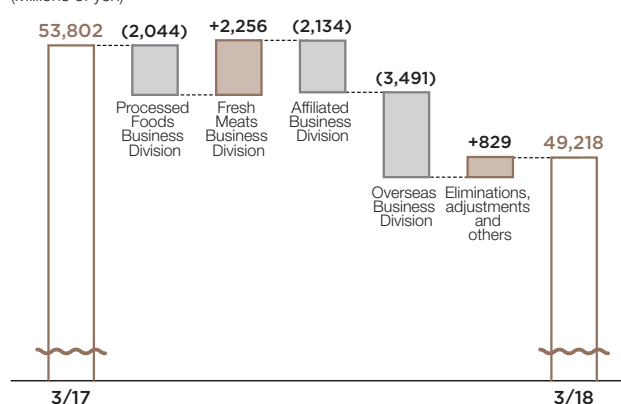
FACTORS IMPACTING NET SALES

(Millions of yen)



FACTORS IMPACTING OPERATING INCOME

(Millions of yen)



BUSINESS RESULTS BY SEGMENT

● Processed Foods Business Division

In hams and sausages, sales of consumer products were unchanged. Television commercials and other promotional vehicles contributed to favorable demand for *SCHAU ESSEN*, and the Group stepped up in-store promotions of *Hojun coarse-ground wieners*. Lackluster sales of the *Irodori Kitchen* series offset progress through such efforts. Sales of commercial products were down despite major restaurant chains deploying mainstay items, as sales of overseas offerings decreased. Although the Group stepped up promotions during the gift-giving season, primarily through television commercials for the flagship *Utsukushi-no-Kuni* brand, overall demand was down in the gift market. Sales in the hams and sausages segment thus declined slightly.

In processed foods, sales of consumer products were down. The Group added more items and improved existing offerings in the *Four Cheese Hamburg* and *Tenshinkaku* lines. At the same time, sales of core *Chuka Meisai* and *Ishigama Kobo* products languished amid intensified competition. Convenience store chains and large restaurant chains deployed new commercial products, boosting sales of these offerings. Segment sales were thus up from a year earlier.

While the Group benefited from cost-cutting progress through structural reforms of sales businesses, earnings decreased owing to higher transportation costs and from increased personnel expenses because of labor shortages in manufacturing.

As a result of such factors, segment sales increased 2.1%, to ¥355,498 million, operating income, however, dropped 25.8%, to ¥5,867 million.

● Fresh Meats Business Division

In fresh meats, diverse promotional initiatives included strengthening promotions in mass merchandising stores for *Sakurahime* and *Mugikomachi* and promoting these brands through television commercials, radio programs, and through a *Sakurahime & Mugikomachi*-themed Hokkaido Nippon-Ham Fighters night game. The Group

reinforced branded fresh meat sales in restaurant and convenience store channels and strengthened sales promotions based on needs and store operations. It drew on its stable production system in selling domestic chicken. Demand for chicken has grown amid a rising health consciousness among consumers. The need for imported pork rose amid higher domestic pork prices. The Group strove to stabilize procurement and sales in view of the market outlook. Segment sales thus increased from 12 months earlier.

Sales businesses undertook extensive sales and promotions through such diverse channels as mass merchandising stores, restaurants, and convenience stores, boosting sales volumes. The Group struggled, however, in selling imported beef in a market that remained weak and in cultivating demand for domestic pork, whose prices rose in summer 2017, driving gross profit down. In the domestic farm business, both pork and chicken prices were relatively high. The Group endeavored to expand production volume and lower costs. It thereby boosted domestic farm profits and earnings for the fresh meats segment.

As a result of these factors, segment sales advanced 5.0%, to ¥778,417 million, and operating income increased 5.1%, to ¥46,154 million.

● Affiliated Business Division

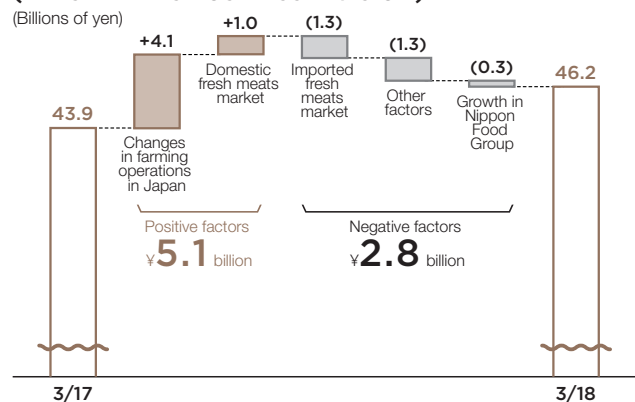
In marine products, major retail channel sales of such core offerings as tuna and shrimp remained robust. Prices rose in line with higher raw materials costs. Sales were strong to restaurant channels on which the Group stepped up its focus, particularly sushi purveyors. Segment sales accordingly rose from the previous fiscal year.

In the dairy products business, sales of yogurt and lactic acid probiotic beverages remained strong owing to favorable demand for smoothie series products at mass retailers and drugstores. Demand was solid for cheese, reflecting commercial demand from key bakeries, restaurants and food producers, as well as its popularity with consumers. Segment sales therefore increased.

FACTORS IMPACTING OPERATING INCOME (PROCESSED FOODS BUSINESS DIVISION)



FACTORS IMPACTING OPERATING INCOME (FRESH MEATS BUSINESS DIVISION)



Earnings of marine and dairy products were down, as hikes in raw materials prices, transportation costs, and other expenses lowered gross profit.

Owing to these factors, segment sales advanced 2.8%, to ¥163,548 million, while operating income declined 57.0%, to ¥1,612 million.

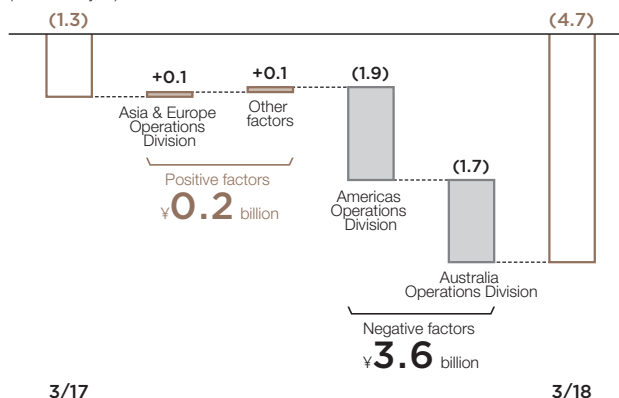
● Overseas Business Division

Sales of this division increased on progress in Asian and European operations. There, the Group enjoyed solid export revenues in Thailand and Singapore and favorable domestic sales of its poultry farming operations in Turkey. Revenues in the Americas grew on sales base expansion. Sales also rose in Australia. Also during the year, a meat processing company in Uruguay became a consolidated subsidiary. Segment sales thus increased for the term.

On the earnings front, Asian and European businesses performed better on steady progress at poultry farming operations in Turkey, which offset the impacts of high fresh meat prices in the United Kingdom and high raw materials costs in Thailand. Earnings were down in the Americas, reflecting intensified sales competition in the United States, lower gross profit owing to higher fresh meat prices, and increased marine product procurement costs in Chile. In

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

(Billions of yen)



Australia, cattle collection improvements lowered procurement costs, but falling beef prices dragged earnings down.

As a result of these factors, sales of the Overseas Business Division surged 18.4%, to ¥253,841 million. There was an operating loss of ¥4,742 million, compared with ¥1,251 million in operating loss a year earlier.

OUTLOOK FOR THE YEAR ENDING MARCH 31, 2019

Notwithstanding anticipated benefits from the Japanese government's stimulus measures, the economic picture for the year ending March 31, 2019 remains unclear in view of prospects for the global economy, as well as uncertainty regarding government policies, foreign currency fluctuations, and higher labor and logistics costs owing to domestic personnel shortages. The Group will thus move forward with Medium-Term Management Plan 2020, launched in April 2018, with the aim of "Building systems that pave the way to the future." In order to increase corporate value and become a company that contributes to the realization of sustainable societies, the five business policies of this initiative are to "Strengthen profitability by improving the efficiency of existing businesses," "Create value through dialog with consumers," "Enhance and develop technological capabilities for conceptualizing and realizing the future of food," "Change gears in overseas market deployment" and "Pursue sustainability."

In the Processed Foods Business Division, we expect the operating climate to remain adverse despite signs of a gradual consumption recovery. Negative factors would include intensifying price competition, higher raw materials and fuel costs, and increased personnel and logistics expenses owing to personnel shortages. The Group will avoid preconceptions, enhancing product development by marketing from consumer perspectives and transforming its cost structure to optimize the overall value chain. Product development improvements will encompass accelerating decision-making, engaging more with customers, and striving to gather information and assess needs. The Group

will centralize sales of highly profitable core brand offerings and sell through undeveloped channels. In transforming cost structures from an overall value chain optimization perspective, the Group will invest in labor-saving equipment, aggregate major offerings in key plants, and share information on production line operating levels with manufacturing and sales divisions to boost utilization rates and productivity.

In the Fresh Meats Business Division, the Group expects the operating climate to remain challenging amid global supply and demand volatility, notably in terms of fresh meat consumption growth in emerging countries and changing in feed prices owing to climate change. The Group will reinforce its business structure to maintain stable and uninterrupted supplies of the high-quality fresh meat products that consumers and other customers demand. The Group will therefore reinforce its unique integration system, covering everything from its own farms to logistics and sales companies, enhance market studies and analysis and focus on effective promotions to develop and cultivate the branded fresh meats customers seek. The Group will also deepen relationships with overseas fresh meat companies and build strategic partnerships for future free trade systems, creating conditions for continuous and stable purchasing. The Group will also overhaul its logistics networks and restructure sales offices with the aim of expanding its domestic sales share.

In the Affiliated Business Division, the marine products business will implement structural reforms and expand operations while improving profitability. The dairy products business will improve its

product and proposal capabilities and expand market share. The Group will drive efficiencies by strategically allocating capital expenditure at factories and by establishing a structure to increase production over the medium and long terms. With raw material prices expected to climb amid dramatic supply and demand swings, the Group will reinforce procurement in Japan and abroad. It will do so by undertaking customer-centric marketing to develop high-value-added products, centered on internally manufactured offerings to enhance profitability. The Group will strengthen sales collaboration while implementing multiproduct channel strategies and cultivating new markets.

The Overseas Business Division will strengthen the value chain, expanding sales in countries where it operates. Group companies in these markets will collaborate to boost sales to third countries and stabilize revenues. 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. They will deliver an array of merchandise and services that match local preferences. We will bolster manufacturing and sales sites over the medium and long terms while continuing to focus on reinforcing governance.

With the harsh operating climate posing numerous challenges, the Group will make a concerted effort to optimize synergies through Group collaboration, aiming at "Building systems that pave the way to the future" under the "Medium-Term Management Plan 2020."

For the year ending March 31, 2019, management projects net sales of ¥1,310.0 billion. With regard to income, operating income, profit before tax, and profit attributable to owners of parent, they are estimated to amount to ¥50.0 billion, ¥46.0 billion, and ¥32.0 billion, respectively.

Note: NH Foods Ltd. will voluntarily apply International Financial Reporting Standards (IFRS) to financial statements as of the first quarter of the fiscal year ending March 31, 2019. It has accordingly prepared its consolidated results forecasts for the fiscal year ending March 31, 2019, in accordance with IFRS. As comparable results for the previous fiscal year are being calculated, rates of change from the previous fiscal year are not stated.

ANALYSIS OF FINANCIAL POSITION

ASSETS

At year-end, total assets stood at ¥755,076 million, a rise of 4.8% from a year earlier. Although trade notes and accounts receivable increased 17.8% from the end of the previous fiscal year, to ¥151,420 million, cash and cash equivalents decreased 27.0%, to ¥60,335 million. Inventories decreased 3.6%, to ¥127,905 million. Current assets thus dropped 4.1%, to ¥363,693 million. Property, plant and equipment—at cost, less accumulated depreciation increased 8.5%, to ¥307,558 million, reflecting higher capital expenditures.

LIABILITIES

Other current liabilities increased 62.8%, to ¥35,149 million, and trade notes and accounts payable rose 11.6%, to ¥113,654 million. Long-term debt, less current maturities was down 18.5%, to ¥62,451 million. This decline mainly reflected the conversion of euro yen convertible bonds with stock acquisition rights due

September 2018. Liabilities of ¥308,937 million were thus down 1.0% from a year earlier.

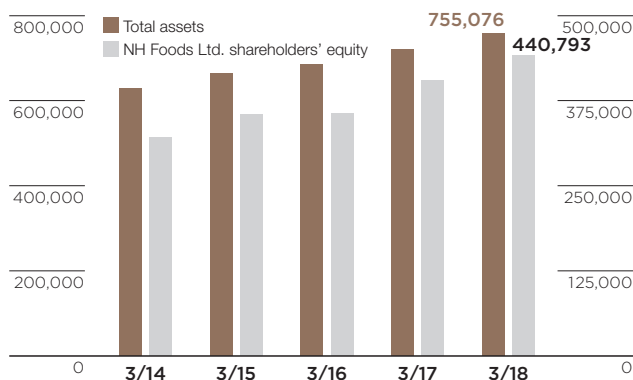
TOTAL NH FOODS LTD. SHAREHOLDERS' EQUITY

Total NH Foods Ltd. shareholders' equity increased 9.1% from the close of the previous year, to ¥440,793 million. Among the prime factors were ¥37,147 million in net income attributable to NH Foods Ltd. and the issuance of new shares from conversions of euro yen convertible bonds with stock acquisition rights due September 2018, adding ¥4,485 million to common stock and ¥4,317 million to capital surplus. Also, interest-bearing debt dropped ¥27,336 million, to ¥110,948 million.

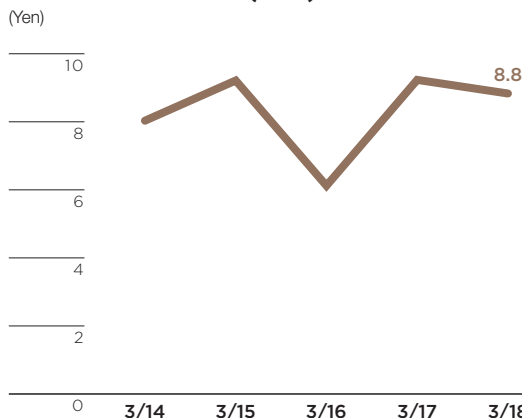
As a result of these factors, the total NH Foods Ltd. shareholders' equity ratio rose 2.3 percentage points, to 58.4%.

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.

TOTAL ASSETS/NH FOODS LTD. SHAREHOLDERS' EQUITY
(Millions of yen)



RETURN ON EQUITY (ROE)



CASH FLOWS

● Cash Flows from Operating Activities

Net cash provided by operating activities was ¥54,626 million. Key factors were ¥37,419 million in net income and ¥21,719 million in depreciation and amortization, and a ¥9,883 million increase in trade notes and accounts payable, offset by a ¥22,168 million increase in trade notes and accounts receivable.

● Cash Flows from Investing Activities

Net cash used in investing activities was ¥49,006 million. This reflected a ¥3,636 million decrease in time deposits, ¥3,607 million in proceeds from sales of capital assets, ¥33,220 million in the capital expenditures, a ¥13,404 million net decrease in cash and cash equivalents resulting from purchase of businesses, and ¥8,929 million in investments in associated companies.

● Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥27,508 million. This reflected ¥18,556 million in repayments of debt and ¥10,980 million in cash dividends.

As a result, cash and cash equivalents at end of the year decreased ¥22,304 million, to ¥60,335 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 ¥41.5 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 ¥13.8 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 ¥15.6 billion. This spending included approximately ¥8.1 billion by Nippon White Farm Co., Ltd., Interfarm Co., Ltd., and other subsidiaries to upgrade and refurbish breeding facilities; approximately ¥3.3 billion by Kanto Nippon Food, Inc., Naka Nippon Food, Inc., and other subsidiaries to improve operational and logistics facilities; and approximately ¥4.0 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 ¥6.4 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 ¥4.8 billion in capital investments, including upgrading production and breeding facilities at Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi.

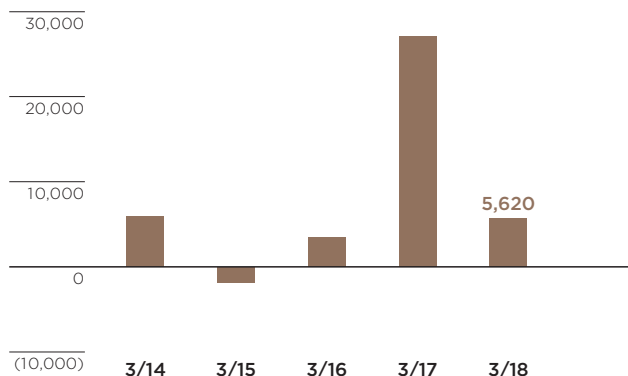
SHAREHOLDER RETURNS POLICY

The Group maintains a policy of paying dividends that are commensurate with business results while increasing internal reserves to strengthen its corporate fundamentals to drive its long-term development. It also seeks to harness retained earnings to fund investments to maintain competitiveness and generate sustainable growth and maintain and reinforce its financial position.

Management will accordingly pursue stable and continuous dividend growth, targeting a consolidated payout ratio of 30% to distribute profits in line with consolidated results. 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.

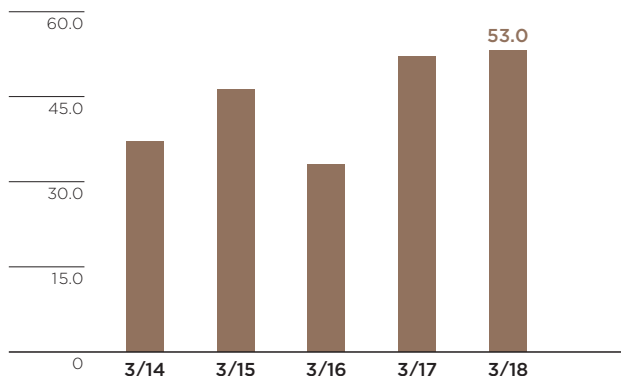
FREE CASH FLOW

(Millions of yen)



DIVIDEND PER SHARE

(Yen)



The Company paid a year-end dividend of ¥53.00 per share of common stock (for a consolidated payout ratio of 30.4%) for the year ended March 31, 2018.

Based on a projection of ¥32 billion in net income attributable to owners of parent for the year ending March 31, 2019, the

Company targets a year-end dividend of ¥90.00 per share of common stock on a consolidated payout ratio of 30%.

Note: As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock. Dividends for the fiscal year under review represent the actual amounts of dividends paid prior to the relevant share consolidation.

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, 2018.

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 reliability 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 reliability. 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—¥110.9 billion as of March 31, 2018—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, 2018, 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				
	2018	2017	2016	2015	2014
Net Sales	¥1,269,201	¥1,202,293	¥1,229,324	¥1,199,956	¥1,110,766
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	50,455	49,112	35,309	43,797	35,673
Net Income Attributable to NH Foods Ltd.	37,147	35,004	21,779	31,048	24,524
Total Assets	755,076	720,276	682,855	661,567	627,220
Total NH Foods Ltd. Shareholders' Equity	440,793	404,126	356,353	353,664	320,984
Interest-Bearing Debt	110,948	138,284	154,583	136,758	144,901
Net Cash Provided by Operating Activities	54,626	65,254	52,535	29,681	32,952
Net Cash Used in Investing Activities	(49,006)	(38,271)	(49,139)	(31,517)	(27,021)
Free Cash Flow	5,620	26,983	3,396	(1,836)	5,931
Net Cash Provided by (Used in) Financing Activities	(27,508)	(11,439)	8,182	(17,187)	(9,373)
Capital Expenditures	41,466	43,765	36,799	35,694	29,152
Depreciation and Amortization	21,234	19,765	19,445	18,951	18,649

Per Share Amounts:		Yen				
Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 348.46	¥ 343.59	¥ 245.56	¥ 297.70	¥ 248.02	
Discontinued operations		(0.12)	(31.72)	7.16	(3.79)	
Total	¥ 348.46	¥ 343.47	¥ 213.84	¥ 304.86	¥ 244.23	
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 342.07	¥ 322.66	¥ 230.61	¥ 279.50	¥ 225.27	
Discontinued operations		(0.12)	(29.72)	6.72	(3.44)	
Total	¥ 342.07	¥ 322.54	¥ 200.89	¥ 286.22	¥ 221.83	
Total NH Foods Ltd. Shareholders' Equity	¥ 4,100.70	¥ 3,832.95	¥ 3,498.72	¥ 3,472.37	¥ 3,151.94	
Cash Dividends	¥ 53.00	¥ 52.00	¥ 33.00	¥ 46.00	¥ 37.00	

Financial Indicators:		Percent				
Return on Equity (ROE)	8.8%	9.2%	6.1%	9.2%	8.0%	
Return on Invested Capital (ROIC)	6.2%	7.0%	6.5%	6.4%	4.9%	
NH Foods Ltd. Shareholders' Equity Ratio	58.4%	56.1%	52.2%	53.5%	51.2%	

		Times				
Debt/Equity Ratio	0.25	0.34	0.43	0.39	0.45	
Interest Coverage Ratio	44.70	57.40	35.10	24.20	21.30	

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.
- As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock. Total NH Foods Ltd. shareholders' equity per share, Basic earnings per share attributable to NH Foods Ltd. shareholders and Diluted earnings per share attributable to NH Foods Ltd. shareholders were computed on the assumption that the share consolidation was carried out at the beginning of the year ended March 31, 2014. Cash dividends represent the actual payment prior to the relevant share consolidation.
- 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
ROIC = (Operating income after tax / (Total equity + Interest-bearing debt)) × 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, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Assets:			
Current Assets:			
Cash and cash equivalents (Note 1)	¥ 60,335	¥ 82,639	\$ 569,198
Time deposits	14,518	18,616	136,962
Trade notes and accounts receivable (Note 1)	151,420	128,579	1,428,491
Allowance for doubtful accounts	(386)	(373)	(3,642)
Inventories (Notes 1, 2 and 7)	127,905	132,697	1,206,651
Deferred income taxes (Notes 1 and 8)		6,650	
Other current assets (Note 16)	9,901	10,590	93,406
Total current assets	363,693	379,398	3,431,066
Property, Plant and Equipment - At Cost, Less Accumulated Depreciation (Notes 1, 4, 6, 7, 13 and 15)	307,558	283,364	2,901,491
Intangible Assets, Less Accumulated Amortization (Notes 1, 5, 6 and 15)	10,457	4,715	98,651
Investments and Other Assets:			
Investments in associated companies (Notes 1 and 3)	14,427	5,100	136,104
Other investment securities (Notes 1, 3 and 15)	32,535	28,828	306,934
Other assets (Note 9)	12,897	11,244	121,670
Total investments and other assets	59,859	45,172	564,708
Deferred Income Taxes - Non-current (Notes 1 and 8)	13,509	7,627	127,443
Total Assets	¥755,076	¥720,276	\$7,123,359

See notes to consolidated financial statements.

Liabilities and Equity:	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 40,446	¥ 48,804	\$ 381,566
Current maturities of long-term debt (Notes 7, 13 and 15)	8,051	12,822	75,953
Trade notes and accounts payable	113,654	101,857	1,072,208
Accrued income taxes (Notes 1 and 8)	8,699	8,920	82,066
Deferred income taxes (Notes 1 and 8)		1,402	
Accrued expenses (Note 9)	23,315	22,357	219,953
Other current liabilities (Note 16)	35,149	21,591	331,595
Total current liabilities	229,314	217,753	2,163,341
Liability under Retirement and Severance Programs (Notes 1 and 9)	13,655	13,268	128,821
Long-term Debt, Less Current Maturities (Notes 7, 13 and 15)	62,451	76,658	589,160
Deferred Income Taxes - Non-current (Notes 1 and 8)	1,613	2,561	15,217
Other Long-term Liabilities	1,904	1,680	17,962
Total Liabilities	308,937	311,920	2,914,501
Commitments and Contingent Liabilities (Notes 1, 9, 13 and 20)			
NH Foods Ltd. Shareholders' Equity:			
Common stock, no par value – authorized, 570,000,000 shares; issued: 2018 – 214,991,609 shares 2017 – 210,895,298 shares (Notes 7 and 11)	36,291	31,806	342,368
Capital surplus (Notes 7, 10 and 11)	63,190	58,873	596,132
Retained earnings:			
Appropriated for legal reserve (Note 11)	8,383	8,275	79,085
Unappropriated (Notes 11 and 21)	329,282	303,208	3,106,434
Accumulated other comprehensive income (Note 12)	3,663	2,005	34,556
Treasury stock, at cost: 2018 – 7,444 shares 2017 – 25,901 shares (Note 11)	(16)	(41)	(151)
Total NH Foods Ltd. shareholders' equity	440,793	404,126	4,158,424
Noncontrolling Interests	5,346	4,230	50,434
Total Equity	446,139	408,356	4,208,858
Total Liabilities and Equity	¥755,076	¥720,276	\$7,123,359

Consolidated Statements of Income

NH Foods Ltd. and Subsidiaries
For the Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	2018
Net Sales (Notes 1 and 16)	¥1,269,201	¥1,202,293	¥1,229,324	\$11,973,594
Cost of Goods Sold (Notes 2 and 16)	1,033,355	968,995	1,005,646	9,748,632
Selling, General and Administrative Expenses (Note 1)	186,628	179,496	174,471	1,760,642
Other Operating Costs and Expenses (Income) – Net (Notes 4, 5 and 6)	(66)	5,320	11,849	(623)
Gain from the Transfer through the Posting System (Note 1)	2,273			21,443
Interest Expense (Note 16)	1,172	1,140	1,384	11,057
Other Income (Expenses) – Net (Note 16)	70	1,770	(665)	660
Income from Continuing Operations before Income Taxes and Equity in Earnings of Associated Companies	50,455	49,112	35,309	475,989
Income Taxes (Notes 1 and 8):				
Current	16,517	15,787	12,905	155,821
Deferred	(2,412)	(1,257)	212	(22,755)
Total income taxes	14,105	14,530	13,117	133,066
Income from Continuing Operations before Equity in Earnings of Associated Companies	36,350	34,582	22,192	342,923
Equity in Earnings (Losses) of Associated Companies – Net of Applicable Income Taxes (Note 1)	1,069	485	(207)	10,086
Net Income from Continuing Operations	37,419	35,067	21,985	353,009
Loss from Discontinued Operations – Net of Applicable Income Taxes (Notes 16 and 19)		(12)	(3,230)	
Net Income	37,419	35,055	18,755	353,009
Net (Income) Loss Attributable to Noncontrolling Interests	(272)	(51)	3,024	(2,566)
Net Income Attributable to NH Foods Ltd.	¥ 37,147	¥ 35,004	¥ 21,779	\$ 350,443

Per Share Amounts (Note 1):	Yen			U.S. Dollars
Basic earnings per share attributable to NH Foods Ltd. shareholders				
Continuing operations	¥ 348.46	¥ 343.59	¥ 245.56	\$ 3.29
Discontinued operations		(0.12)	(31.72)	
Total	¥ 348.46	¥ 343.47	¥ 213.84	\$ 3.29
Diluted earnings per share attributable to NH Foods Ltd. shareholders				
Continuing operations	¥ 342.07	¥ 322.66	¥ 230.61	\$ 3.23
Discontinued operations		(0.12)	(29.72)	
Total	¥ 342.07	¥ 322.54	¥ 200.89	\$ 3.23

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

NH Foods Ltd. and Subsidiaries
For the Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	2018
Net Income	¥37,419	¥35,055	¥18,755	\$353,009
Other Comprehensive Income (Loss) – Net of Applicable Income Taxes (Note 12):				
Net unrealized gains (losses) on securities available-for-sale (Notes 1 and 3)	1,251	3,063	(677)	11,801
Pension liability adjustments (Note 9)	875	1,727	(4,082)	8,255
Foreign currency translation adjustments	(600)	(1,886)	(5,535)	(5,660)
Total other comprehensive income (loss)	1,526	2,904	(10,294)	14,396
Comprehensive Income	38,945	37,959	8,461	367,405
Net Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(140)	565	3,677	(1,321)
Net Comprehensive Income Attributable to NH Foods Ltd.	¥38,805	¥38,524	¥12,138	\$366,084

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

NH Foods Ltd. and Subsidiaries
For the Years Ended March 31, 2018, 2017 and 2016

	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
Balance, April 1, 2015	¥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 (Note 17)								6,094	6,094
Others		(70)					(70)	(129)	(199)
Balance, March 31, 2016	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)
Balance, March 31, 2017	31,806	58,873	8,275	303,208	2,005	(41)	404,126	4,230	408,356
Net income				37,147			37,147	272	37,419
Other comprehensive income (Note 12)					1,658		1,658	(132)	1,526
Cash dividends (Note 11)				(10,965)			(10,965)	(15)	(10,980)
Transfer to retained earnings appropriated for legal reserve (Note 11)			108	(108)					
Acquisition of treasury stock (Note 11)						(10)	(10)		(10)
Disposition of treasury stock (Note 11)		(33)				35	2		2
Conversion of convertible bonds (Note 7)	4,470	4,447					8,917		8,917
Issuance of new shares due to the exercise of stock options	15	(15)					0		0
Change in ownership interest of parent due to transactions with non-controlling		(82)					(82)	531	449
Capital increase of subsidiaries								357	357
Others								103	103
Balance, March 31, 2018	¥36,291	¥63,190	¥8,383	¥329,282	¥3,663	¥(16)	¥440,793	¥5,346	¥446,139

	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
Balance, March 31, 2017	\$300,056	\$555,407	\$78,066	\$2,860,452	\$18,915	\$(388)	\$3,812,508	\$39,906	\$3,852,414
Net income				350,443			350,443	2,566	353,009
Other comprehensive income (Note 12)					15,641		15,641	(1,245)	14,396
Cash dividends (Note 11)				(103,442)			(103,442)	(142)	(103,584)
Transfer to retained earnings appropriated for legal reserve (Note 11)			1,019	(1,019)					
Acquisition of treasury stock (Note 11)						(94)	(94)		(94)
Disposition of treasury stock (Note 11)		(311)				331	20		20
Conversion of convertible bonds (Note 7)	42,170	41,952					84,122		84,122
Issuance of new shares due to the exercise of stock options	142	(142)					0		0
Change in ownership interest of parent due to transactions with non-controlling		(774)					(774)	5,009	4,235
Capital increase of subsidiaries								3,368	3,368
Others								972	972
Balance, March 31, 2018	\$342,368	\$596,132	\$79,085	\$3,106,434	\$34,556	\$(151)	\$4,158,424	\$50,434	\$4,208,858

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NH Foods Ltd. and Subsidiaries
For the Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	2018
Operating Activities:				
Net income	¥ 37,419	¥ 35,055	¥ 18,755	\$ 353,009
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	21,719	20,287	19,926	204,896
Impairment losses	1,631	2,285	11,081	15,387
Income taxes deferred	(2,412)	(1,257)	272	(22,755)
Foreign exchange translation adjustments	(3,285)	715	(3,193)	(30,991)
Increase in trade notes and accounts receivable	(22,168)	(796)	(113)	(209,132)
Decrease in inventories	5,743	1,305	5,894	54,179
Decrease (increase) in other current assets	416	742	(34)	3,925
Increase (decrease) in trade notes and accounts payable	9,883	7,705	(304)	93,236
Increase (decrease) in accrued income taxes	(203)	1,808	(598)	(1,915)
Increase (decrease) in accrued expenses and other current liabilities	7,396	(1,039)	232	69,774
Others – net	(1,513)	(1,556)	617	(14,273)
Net cash provided by operating activities	54,626	65,254	52,535	515,340
Investing Activities:				
Capital expenditures	(33,220)	(40,183)	(37,604)	(313,396)
Proceeds from sales of capital assets	3,607	1,211	1,839	34,028
Decrease (increase) in time deposits	3,636	(7,735)	(202)	34,302
Purchases of other investment securities	(2,482)	(624)	(2,798)	(23,415)
Proceeds from sales and maturities of other investment securities	1,808	2,481	475	17,057
Investments in associated companies	(8,929)	(195)	(1,891)	(84,236)
Net decrease in cash and cash equivalents resulting from purchase of business	(13,404)		(8,563)	(126,453)
Net increase in cash and cash equivalents resulting from sale of business	608	5,372		5,736
Others – net	(630)	1,402	(395)	(5,944)
Net cash used in investing activities	(49,006)	(38,271)	(49,139)	(462,321)
Financing Activities:				
Cash dividends	(10,980)	(6,744)	(9,411)	(103,584)
Increase (decrease) in short-term bank loans	(4,701)	4,063	18,506	(44,349)
Proceeds from debt	5,762	6,282	30,408	54,358
Repayments of debt	(18,556)	(15,277)	(32,614)	(175,057)
Contributions from noncontrolling interests	1,063	424	1,502	10,028
Acquisition of treasury stock	(10)	(9)	(10)	(94)
Others – net	(86)	(178)	(199)	(811)
Net cash provided by (used in) financing activities	(27,508)	(11,439)	8,182	(259,509)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(416)	(226)	(1,661)	(3,925)
Net Increase (Decrease) in Cash and Cash Equivalents	(22,304)	15,318	9,917	(210,415)
Cash and Cash Equivalents at Beginning of the Year	82,639	67,321	57,404	779,613
Cash and Cash Equivalents at End of the Year	¥ 60,335	¥ 82,639	¥ 67,321	\$ 569,198
Additional Cash Flow Information:				
Interest paid	¥ 1,222	¥ 1,136	¥ 1,496	\$ 11,528
Income taxes paid	16,534	14,305	13,165	155,981
Capital lease obligations incurred	2,367	3,864	4,686	22,330
Conversion of convertible bonds	8,917	15,771		84,123

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NH Foods Ltd. and Subsidiaries
For the Years Ended March 31, 2018, 2017 and 2016

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, 2018 are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 = \$1, the approximate rate of exchange on March 31, 2018. 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. Inter-company 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 and net realizable value. 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, 2018 and 2017.

(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
	2018	2017	2016	2018
Net Income (Numerator):				
Net income attributable to NH Foods Ltd.	¥37,147	¥35,004	¥21,779	\$350,443
Dilutive effect of convertible bonds	37	57	59	349
Diluted net income attributable to NH Foods Ltd. shareholders	¥37,184	¥35,061	¥21,838	\$350,792
Shares (Denominator):				
Thousands of Shares				
	2018	2017	2016	
Average shares outstanding for basic earnings per share	106,602	101,912	101,851	
Dilutive effect of stock options	52	80	86	
Dilutive effect of convertible bonds	2,048	6,712	6,769	
Average shares outstanding for diluted earnings per share	108,702	108,704	108,706	

(Note)

As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock. Basic earnings per share attributable to NH Foods Ltd. shareholders and Diluted earnings per share attributable to NH Foods Ltd. shareholders were computed on the assumption that the share consolidation was carried out at the beginning of the year ended March 31, 2016.

(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) Transfer through the Posting System – On December 10, 2017, Hokkaido Nippon Ham Fighters Baseball Club Co., Ltd., a subsidiary of the Company, recorded a fee of ¥2,273 million, for the transfer of Shohei Ohtani to Los Angeles Angels of Anaheim of the Major League Baseball under the “United States-Japan Player Contract Agreement.”

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

(18) Advertising – Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to ¥10,515 million (\$99,198 thousand), ¥10,233 million and ¥11,104 million for the years ended March 31, 2018, 2017 and 2016, respectively.

(19) Research and Development – Research and development costs are expensed as incurred. Research and development costs amounted to ¥2,898 million (\$27,340 thousand), ¥2,643 million and ¥2,689 million for the years ended March 31, 2018, 2017 and 2016, respectively.

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

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

(22) Recent Accounting Pronouncements:

Simplifying the Measurement of Inventory – The Group adopted Accounting Standard Update (“ASU”) 2015-11, “Simplifying the Measurement of Inventory,” which amends ASC Topic 330, “Inventory,” for the years ended March 31, 2018. This update requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. The adoption of this update had no significant impact on the consolidated financial statements.

Revenue from Contracts with Customers – In May 2014, Financial Accounting Standard Board (“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.

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 – The Group adopted ASU 2015-17, which amends the guidance in ASC Topic 740, “Income Taxes,” for the year ended March 31, 2018. This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. The adoption of this update had no significant impact on the consolidated financial statements. The Group adopted this update toward the future from the year ended March 31, 2018. The adjustments have not been made to the past consolidated financial statements retrospectively.

Recognition and Measurement of Financial Assets and Financial Liabilities – In January 2016, FASB issued ASU 2016-01 which amends ASC Subtopic, 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

– The Group adopted 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. The adoption of this update had no significant impact on the consolidated financial statements.

2. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished goods and merchandise	¥ 82,099	¥ 81,525	\$ 774,519
Raw materials and work-in-process	42,048	46,444	396,679
Supplies	3,758	4,728	35,453
Total	¥127,905	¥132,697	\$1,206,651

The Group recognized losses of ¥748 million (\$7,057 thousand), ¥756 million and ¥863 million from writing inventories down to net realizable value, which were included in cost of goods sold in the consolidated statements of income for the years ended March 31, 2018, 2017 and 2016, 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, 2018 and 2017:

	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars			
	2018				2017				2018			
	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	¥4,194	¥5,409	¥0	¥9,603	¥4,493	¥5,443	¥0	¥9,936	\$39,566	\$51,028	\$0	\$90,594
Others	8,740	8,548	(11)	17,277	6,595	6,984	(15)	13,564	82,453	80,643	(104)	162,992
Stock acquisition rights		1,280		1,280		1,000		1,000		12,075		12,075
Mutual funds	250			250	250	0		250	2,358			2,358
Total	¥13,184	¥15,237	¥(11)	¥28,410	¥11,338	¥13,427	¥(15)	¥24,750	\$124,377	\$143,746	\$(104)	\$268,019

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, 2018 and 2017 were as follows. There were no investments in a continuous unrealized loss position for 12 months or more at March 31, 2018 and 2017:

	Millions of Yen				Thousands of U.S. Dollars	
	2018		2017		2018	
	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	¥ 3	¥ 0	¥ 4	¥ 0	\$ 28	\$ 0
Others	2,340	(11)	485	(15)	22,075	(104)
Total	¥2,343	¥(11)	¥489	¥(15)	\$22,103	\$(104)

The proceeds from sales of available-for-sale securities were ¥1,788 million (\$16,868 thousand), ¥397 million and ¥280 million for the years ended March 31, 2018, 2017 and 2016, respectively. These sales resulted in gross realized gains and losses as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Realized gains	¥1,248	¥163	¥149	\$11,774
Realized losses		0	0	

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

Non-marketable equity securities, for which there is no practicable method to estimate fair values, were carried at their cost of ¥4,125 million (\$38,915 thousand) and ¥4,078 million at March 31, 2018 and 2017, respectively.

During the year ended March 31, 2018, due to the acquisition of 30% of the shares of Panus Poultry Group Company Limited, the difference of ¥7,035 million (\$66,368 thousand), which mainly resulted from goodwill under the equity method, between the carrying amount and the amount of underlying equity in net assets as of March 31, 2018. Regarding the other associated companies, the differences between the amount at which an investment is carried and the amount of underlying equity in net assets at March 31, 2018 and 2017 were not monetarily significant.

The carrying values and fair values of marketable securities in investments in associated companies at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Carrying values of marketable securities	¥2,245	¥1,955	\$21,179
Fair values of marketable securities	3,511	3,057	33,123

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Land	¥ 86,956	¥ 87,033	\$ 820,340
Buildings	300,175	290,831	2,831,839
Machinery and equipment	246,813	239,127	2,328,425
Construction in progress	9,070	2,629	85,566
Total	643,014	619,620	6,066,170
Less accumulated depreciation	(335,456)	(336,256)	(3,164,679)
Property, plant and equipment - net	¥ 307,558	¥ 283,364	\$ 2,901,491

Depreciation expense of property, plant and equipment was ¥19,828 million (\$187,057 thousand), ¥18,275 million and ¥17,144 million for the years ended March 31, 2018, 2017 and 2016, respectively. The Group recorded a net profit of ¥1,747 million (\$16,481 thousand), a net loss of ¥137 million and a net loss of ¥765 million on dispositions of property, plant and equipment, for the years ended March 31, 2018, 2017 and 2016, respectively. The profit and losses for the years ended March 31, 2018, 2017 and 2016 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, 2018 and 2017 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2018		2017		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	¥25,805	¥22,838	¥25,283	¥22,254	\$243,443	\$215,453
Software in progress	745		275		7,028	
Other	2,506	585	974	627	23,642	5,519
Total	¥29,056	¥23,423	¥26,532	¥22,881	\$274,113	\$220,972

Intangible assets not subject to amortization at March 31, 2018 and 2017 were immaterial.

Amortization expense was ¥1,406 million (\$13,264 thousand), ¥1,226 million and ¥1,392 million for the years ended March 31, 2018, 2017 and 2016, respectively.

The weighted-average amortization periods of intangible assets acquired during the years ended March 31, 2018 and 2017 were approximately 15 years and 7 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
2019	¥1,441	\$13,594
2020	1,240	11,698
2021	1,033	9,745
2022	623	5,877
2023	382	3,604

6. IMPAIRMENT OF LONG-LIVED ASSETS

The Group recognized impairment losses of ¥1,631 million (\$15,387 thousand) and ¥2,285 for the year ended March 31, 2018 and 2017, respectively. 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 intangible assets of Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi (“Ege-Tav”)

The gross amount and accumulated impairment losses of goodwill at March 31, 2018 were ¥9,927 million (\$93,651 thousand) and ¥5,573 million (\$52,575 thousand), respectively. Changes in the carrying amounts of goodwill for the year ended March 31, 2018 consisted of an increase of ¥3,976 million (\$37,509 thousand) due to the acquisition of Breeders & Packers Uruguay S.A. (“BPU”), which is described in Note 17, and a decrease of ¥173 million (\$1,632 thousand) due to foreign exchange translation adjustments, resulting in an overall net increase of ¥3,803 million (\$35,877 thousand).

The gross amount and accumulated impairment losses of goodwill at March 31, 2017 were ¥6,719 million and ¥6,168 million. 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.

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

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 were resulted from the revision of its business plan due to the deterioration of external environment such as avian influenza and the heightening of geopolitical risks in Turkey. The impairment losses related to the Processed Foods Business Division were resulted mainly from a decline in market value 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, 2018 and 2017 ranged from 0.3% to 6.6% and 1.0% to 11.0%, respectively.

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

As of March 31, 2018 and 2017, the amounts of total and unexercised committed credit lines were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Total committed credit lines	¥75,000	¥75,000	\$707,547
Unexercised committed credit lines	75,000	75,000	707,547

Unexercised committed credit lines were available for immediate borrowings.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Long-term debt with collateral:			
Mainly banks and insurance companies, maturing through 2019, interest rate at 1.5% in 2018 interest rate at 1.5% in 2017	¥ 131	¥ 262	\$ 1,236
Long-term debt without collateral:			
Mainly banks and insurance companies, maturing through 2025, interest rates ranging from 0.5% to 1.7% in 2018 and 0.5% to 1.0% in 2017	34,303	33,691	323,612
2.01% bonds due December 2017		9,996	
0.551% bonds due September 2019	9,989	9,982	94,236
0.934% bonds due September 2022	9,977	9,971	94,123
Euro yen zero coupon convertible bonds due September 2018 Conversion price, ¥2,205.6 per share	5,212	14,098	49,170
Capital lease obligations, interest rates ranging from 0.0% to 4.9% in 2018 maturing through 2035, and from 0.0% to 3.0% in 2017 maturing through 2035	10,890	11,480	102,736
Total	70,502	89,480	665,113
Less current maturities	(8,051)	(12,822)	(75,953)
Long-term debt, less current maturities	¥62,451	¥ 76,658	\$589,160

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, 2018, ¥8,940 million (face amount) of the convertible bonds was converted into 2,026,656 shares of common stock at a conversion price of ¥4,411.2 per share. For the year ended March 31, 2017, ¥15,840 million (face amount) of the convertible bonds was converted into 3,574,007 shares of common stock at a conversion price of ¥4,432.0 per share. The conversion price of these stock acquisition rights is ¥4,411.2 (\$41.62) and ¥4,432.0, and the increasing number of common stock upon exercise of the stock acquisition rights and issuance of new shares is 1,183,351 and 3,194,946 for the years ended March 31, 2018 and 2017, respectively.

As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock, and thereby the number of options and the exercise price were adjusted retrospectively.

As of March 31, 2018 and 2017, the bonds mentioned above were separately accounted for the equity and liabilities as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Component of equity:			
Carrying amount	¥ 59	¥ 159	\$ 557
Component of liability:			
Principle amount	5,220	14,160	49,245
Less unamortized discounts	(8)	(62)	(75)
Net carrying amount	¥5,212	¥14,098	\$49,170

At March 31, 2018, the aggregate annual maturities of long-term debt were as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 8,051	\$ 75,953
2020	12,346	116,472
2021	1,930	18,208
2022	1,418	13,377
2023	19,440	183,396
Thereafter	27,317	257,707
Total	¥70,502	\$665,113

At March 31, 2018, property, plant and equipment with a net book value of ¥810 million (\$7,642 thousand) was pledged as collateral for long-term debt of ¥131 million (\$1,236 thousand), and inventories of ¥760 million (\$7,170 thousand) were pledged as collateral for short-term bank loans of ¥300 million (\$2,830 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, 2018 and 2017 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, 2018 and 2017, and 33.0% for the year ended March 31, 2016. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

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

	2018	2017	2016
Normal Japanese statutory tax rates	31.0%	31.0%	33.0%
Increase (decrease) in taxes resulting from:			
Difference in foreign subsidiaries tax rates	(0.1)	(0.2)	(0.7)
Change in the valuation allowance	1.1	0.1	(2.5)
Impact from restructuring of certain subsidiaries	(3.0)	(0.4)	
Permanently non-deductible expenses	0.8	1.3	1.8
Tax credit	(2.5)	(2.3)	(2.6)
Tax rate change			2.3
Impairment losses of goodwill			7.2
Other – net	0.7	0.1	(1.3)
Effective income tax rates	28.0%	29.6%	37.2%

The approximate effects of temporary differences, net operating loss and tax credit carryforwards that gave rise to deferred tax balances at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Inventories	¥ 51	¥ 119	\$ 481
Certain accrued prefectural income taxes	765	841	7,217
Accrued bonuses	3,241	3,166	30,575
Liability under retirement and severance programs	6,065	6,268	57,217
Fixed assets	3,967	3,869	37,425
Other temporary differences	3,838	3,498	36,208
Net operating loss and tax credit carryforwards	4,267	4,214	40,255
Total	22,194	21,975	209,378
Less valuation allowance	(4,807)	(4,372)	(45,349)
Total deferred tax assets	17,387	17,603	164,029
Deferred tax liabilities:			
Securities	(3,960)	(3,404)	(37,359)
Inventories	(857)	(1,310)	(8,085)
Investments in subsidiaries	(181)	(2,194)	(1,708)
Fixed assets	(168)	(335)	(1,585)
Other temporary differences	(325)	(46)	(3,066)
Total deferred tax liabilities	(5,491)	(7,289)	(51,803)
Net deferred tax assets	¥11,896	¥10,314	\$112,226

The net changes in the total valuation allowance for the years ended March 31, 2018 and 2017 were an increase of ¥435 million (\$4,104 thousand) and an increase of ¥453 million, respectively.

At March 31, 2018, the net operating loss carryforwards of the Group for corporate income tax and local income tax purposes amounted to ¥11,625 million (\$109,670 thousand) and ¥9,151 million (\$86,330 thousand), respectively. The net operating loss carryforwards for corporate income tax and local income tax purposes subject to expiration in the period from 2019 to 2023 were ¥1,951 million (\$18,406 thousand) and ¥1,336 million (\$12,604 thousand), respectively. The remaining balances for corporate income tax and local income tax purposes, ¥9,674 million (\$91,264 thousand) and ¥7,815 million (\$73,726 thousand), respectively, will expire in years beyond 2023 or have an indefinite carryforward period. At March 31, 2018, the Group also had tax credit carryforwards of ¥333 million (\$3,142 thousand), of which ¥241 million (\$2,274 thousand) will expire within five years while the remaining ¥92 million (\$868 thousand) will expire beyond 2023 or have an indefinite carryforward period.

The portion of the undistributed earnings of foreign subsidiaries which is deemed to be permanently invested amounted to ¥32,312 million (\$304,830 thousand) at March 31, 2018.

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, 2018, 2017 and 2016 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, 2017. 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 ¥1,833 million (\$17,292 thousand), ¥1,701 million and ¥1,800 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Net periodic benefit cost under the Group's retirement and severance programs for the years ended March 31, 2018, 2017 and 2016 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Service cost	¥3,047	¥3,081	¥2,734	\$28,745
Interest cost	104	44	329	981
Expected return on plan assets	(786)	(757)	(808)	(7,415)
Amortization of prior service credit	(161)	(193)	(160)	(1,519)
Recognized actuarial loss	471	613	372	4,443
Settlement loss	88	252	79	830
Net periodic benefit cost	¥2,763	¥3,040	¥2,546	\$26,065

The following table sets forth various information about the Group's plans as of March 31, 2018 and 2017:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Changes in the projected benefit obligations:			
Projected benefit obligations at the beginning of the year	¥56,081	¥57,372	\$529,066
Service cost	3,047	3,081	28,745
Interest cost	104	44	981
Actuarial loss (gain)	296	(744)	2,792
Benefits paid:			
Settlement paid	(1,535)	(2,090)	(14,481)
Others	(1,339)	(1,328)	(12,632)
Transfer to defined contribution pension plan		(254)	
Projected benefit obligations at the end of the year	56,654	56,081	534,471
Changes in fair value of plan assets:			
Fair value of plan assets at the beginning of the year	47,271	45,381	445,953
Actual gain on plan assets	1,952	1,836	18,415
Employer contribution	1,037	1,762	9,783
Benefits paid:			
Settlement paid	(156)	(133)	(1,472)
Others	(1,339)	(1,328)	(12,632)
Transfer to defined contribution pension plan		(247)	
Fair value of plan assets at the end of the year	48,765	47,271	460,047
Funded status at the end of the year	¥ (7,889)	¥ (8,810)	\$ (74,424)

Amounts recognized by the Group in the consolidated balance sheets at March 31, 2018 and 2017 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prepaid benefit cost	¥ 5,700	¥ 4,473	\$ 53,774
Accrued expenses	(556)	(604)	(5,245)
Accrued benefit liability	(13,033)	(12,679)	(122,953)
Total	¥ (7,889)	¥ (8,810)	\$ (74,424)

Amounts recognized by the Group in accumulated other comprehensive loss at March 31, 2018 and 2017 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial loss	¥9,193	¥10,622	\$86,726
Prior service credit	(675)	(836)	(6,368)
Total	¥8,518	¥ 9,786	\$80,358

The Group's accumulated benefit obligations for defined benefit plans at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Accumulated benefit obligations	¥56,654	¥56,081	\$534,471

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
	2018	2017	2018
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	¥20,922	¥28,063	\$197,377
Fair value of plan assets	7,333	14,780	69,179
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	20,922	28,063	197,377
Fair value of plan assets	7,333	14,780	69,179

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, 2018, 2017 and 2016 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Current year actuarial (gain) loss	¥(870)	¥(1,830)	¥6,294	\$(8,208)
Recognition of actuarial loss	(559)	(865)	(451)	(5,273)
Amortization of prior service credit	161	193	160	1,519

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	¥(161)	\$ (1,519)
Actuarial loss	411	3,877

Assumptions

Weighted-average assumptions used to determine the Group's benefit obligations at March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate	0.1%	0.2%

Weighted-average assumptions used to determine the Group's net periodic benefit cost for the years ended March 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Discount rate	0.2%	0.1%	0.6%
Expected long-term rate of return on plan assets	2.5%	2.5%	2.7%

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, 2018, 2017 and 2016.

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 41% is invested in equity securities, approximately 13% is invested in debt securities, approximately 21% is invested in life insurance company general accounts, and approximately 25% 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, 27% for life insurance company general accounts and 35% for others for the year ended March 31, 2018, and the target allocation for the year ending March 31, 2019 is 15% for equity securities, 23% for debt securities, 26% for life

insurance company general accounts and 36% for others. Plan assets of the employee retirement benefit trust were included in plan assets, which amounted to ¥16,746 million (\$157,981 thousand) and ¥15,910 million for the years ended March 31, 2018 and 2017, respectively.

The fair values of the Group's pension plans' asset allocations at March 31, 2018 and 2017 by asset class were as follows:

Asset class:	Millions of Yen									
	2018					2017				
	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Equity securities:										
Domestic stocks	¥15,973				¥15,973	¥15,157				¥15,157
Foreign stocks	4,166				4,166	3,005				3,005
Debt securities:										
Japanese government bonds and domestic public debt instruments	2,043				2,043	2,097				2,097
Domestic corporate bonds	1,290				1,290	1,595				1,595
Foreign government bonds and foreign public debt instruments	2,867				2,867	2,407				2,407
Foreign corporate bonds	159				159	115				115
Life insurance company general accounts		¥10,030			10,030		¥9,091			9,091
Others:										
Mutual funds		43		¥8,145	8,188		39		¥8,337	8,376
Others	4,049				4,049	5,418	10			5,428
Total	¥30,547	¥10,073		¥8,145	¥48,765	¥29,794	¥9,140		¥8,337	¥47,271

Asset class:	Thousands of U.S. Dollars					
	2018					
	Level 1	Level 2	Level 3	Net asset value	Total	
Equity securities:						
Domestic stocks	\$150,689				\$150,689	
Foreign stocks	39,302				39,302	
Debt securities:						
Japanese government bonds and domestic public debt instruments	19,274				19,274	
Domestic corporate bonds	12,170				12,170	
Foreign government bonds and foreign public debt instruments	27,047				27,047	
Foreign corporate bonds	1,500				1,500	
Life insurance company general accounts		\$94,623			94,623	
Others:						
Mutual funds		406		\$76,839	77,245	
Others	38,197				38,197	
Total	\$288,179	\$95,029		\$76,839	\$460,047	

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 ¥912 million (\$8,604 thousand) to the defined benefit pension plans in the year ending March 31, 2019.

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
2019	¥ 2,599	\$ 24,519
2020	2,706	25,528
2021	2,615	24,670
2022	2,812	26,528
2023	3,263	30,783
2024 – 2028	16,632	156,906

Additionally, the Group provided for directors' retirement allowances of ¥622 million (\$5,868 thousand) and ¥589 million at March 31, 2018 and 2017, 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, 2018 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, 2017	74,000	¥2			\$0	
Exercised	(32,000)	2			0	
Outstanding at March 31, 2018	42,000	2	6.3	¥183	0	\$1,726
Exercisable at March 31, 2018	14,000	¥2	3.2	¥ 61	\$0	\$ 575

The total intrinsic values of options exercised during the years ended March 31, 2018, 2017 and 2016 were ¥206 million (\$1,943 thousand), ¥54 million and ¥17 million, respectively.

Cash received from options exercised for the years ended March 31, 2018, 2017 and 2016 was immaterial.

As of April 1, 2018, NH Foods Ltd. carried out a share consolidation at a ratio of one share for each two shares of common stock, and thereby the number of options and the exercise price were adjusted retrospectively.

The exercise price of options after the share consolidation is ¥1 per share.

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, 2018 was ¥126,297 million (\$1,191,481 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, 2018, 2017 and 2016 was as follows:

	Millions of Yen			Thousands of U.S. dollars		
	2018			2018		
	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, 2017	¥13,404	¥(4,754)	¥ 8,650	\$126,453	\$(44,849)	\$ 81,604
Other comprehensive income before reclassification	3,028	(939)	2,089	28,566	(8,858)	19,708
Amounts reclassified from accumulated other comprehensive income	(1,214)	376	(838)	(11,454)	3,547	(7,907)
Other comprehensive income	1,814	(563)	1,251	17,112	(5,311)	11,801
Other comprehensive income attributable to noncontrolling interests	(1)	0	(1)	(9)	0	(9)
Balance, March 31, 2018	15,217	(5,317)	9,900	143,556	(50,160)	93,396
Pension liability adjustments:						
Balance, April 1, 2017	(9,784)	6,128	(3,656)	(92,302)	57,811	(34,491)
Other comprehensive income before reclassification	870	(270)	600	8,208	(2,547)	5,661
Amounts reclassified from accumulated other comprehensive loss	398	(123)	275	3,754	(1,160)	2,594
Other comprehensive income	1,268	(393)	875	11,962	(3,707)	8,255
Other comprehensive income attributable to noncontrolling interests	0	0	0	0	0	0
Balance, March 31, 2018	(8,516)	5,735	(2,781)	(80,340)	54,104	(26,236)
Foreign currency translation adjustments:						
Balance, April 1, 2017	(2,989)		(2,989)	(28,198)		(28,198)
Other comprehensive loss before reclassification	(2,537)		(2,537)	(23,934)		(23,934)
Amounts reclassified from accumulated other comprehensive loss	1,937		1,937	18,274		18,274
Other comprehensive loss	(600)		(600)	(5,660)		(5,660)
Other comprehensive loss attributable to noncontrolling interests	133		133	1,254		1,254
Balance, March 31, 2018	(3,456)		(3,456)	(32,604)		(32,604)
Total, Accumulated other comprehensive income:						
Balance, April 1, 2017	631	1,374	2,005	5,953	12,962	18,915
Other comprehensive income before reclassification	1,361	(1,209)	152	12,840	(11,405)	1,435
Amounts reclassified from accumulated other comprehensive loss	1,121	253	1,374	10,574	2,387	12,961
Other comprehensive income	2,482	(956)	1,526	23,414	(9,018)	14,396
Other comprehensive loss attributable to noncontrolling interests	132	0	132	1,245	0	1,245
Balance, March 31, 2018	¥ 3,245	¥ 418	¥ 3,663	\$ 30,612	\$ 3,944	\$ 34,556

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		
	2017		
	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
Other comprehensive income before reclassification	4,171	(1,293)	2,878
Amounts reclassified from accumulated other comprehensive loss	268	(83)	185
Other comprehensive income	4,439	(1,376)	3,063
Other comprehensive income attributable to noncontrolling interests	(1)	0	(1)
Balance, March 31, 2017	13,404	(4,754)	8,650
Pension liability adjustments:			
Balance, April 1, 2016	(12,279)	6,902	(5,377)
Other comprehensive income before reclassification	1,830	(567)	1,263
Amounts reclassified from accumulated other comprehensive loss	672	(208)	464
Other comprehensive income	2,502	(775)	1,727
Other comprehensive income attributable to noncontrolling interests	(7)	1	(6)
Balance, March 31, 2017	(9,784)	6,128	(3,656)
Foreign currency translation adjustments:			
Balance, April 1, 2016	(1,726)		(1,726)
Other comprehensive loss before reclassification	(1,709)		(1,709)
Amounts reclassified from accumulated other comprehensive income	(177)		(177)
Other comprehensive loss	(1,886)		(1,886)
Other comprehensive loss attributable to noncontrolling interests	623		623
Balance, March 31, 2017	(2,989)		(2,989)
Total, Accumulated other comprehensive income (loss):			
Balance, April 1, 2016	(5,039)	3,524	(1,515)
Other comprehensive income before reclassification	4,292	(1,860)	2,432
Amounts reclassified from accumulated other comprehensive loss	763	(291)	472
Other comprehensive income	5,055	(2,151)	2,904
Other comprehensive loss attributable to noncontrolling interests	615	1	616
Balance, March 31, 2017	¥ 631	¥ 1,374	¥ 2,005

	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)

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, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Buildings	¥ 4,558	¥ 4,558	\$ 43,000
Machinery and equipment	15,580	15,072	146,981
Subtotal	20,138	19,630	189,981
Less accumulated depreciation	(9,421)	(8,320)	(88,877)
Total	¥10,717	¥11,310	\$101,104

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 were included in the consolidated balance sheet at March 31, 2018:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 2,732	\$ 25,773
2020	2,378	22,434
2021	1,775	16,745
2022	1,253	11,821
2023	790	7,453
Thereafter	2,530	23,868
Total minimum lease payments	11,458	108,094
Less amount representing interest	(568)	(5,358)
Present value of net minimum lease payments	10,890	102,736
Less current capital lease obligations	(2,644)	(24,943)
Long-term capital lease obligations	¥ 8,246	\$ 77,793

The Group also leases office space, employee housing and office equipment under operating leases. Rent expense under these leases amounted to ¥9,919 million (\$93,575 thousand), ¥9,735 million and ¥9,695 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2018 are as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 2,302	\$ 21,717
2020	2,241	21,142
2021	2,132	20,113
2022	969	9,142
2023	599	5,651
Thereafter	2,458	23,189
Total minimum lease payments	¥10,701	\$100,954

14. FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES

Foreign currency transaction net loss of ¥1,003 million (\$9,462 thousand), net loss of ¥2,199 million and net loss of ¥468 million were included in the determination of net income for the years ended March 31, 2018, 2017 and 2016, 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, 2018 and 2017 were as follows:

Millions of Yen										
Assets:	2018					2017				
	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Domestic stocks:										
Retail industry	¥ 9,603				¥ 9,603	¥ 9,936				¥ 9,936
Others	17,277				17,277	13,564				13,564
Stock acquisition rights	1,280				1,280	1,000				1,000
Derivative instruments (Note 16)		¥112			112		¥871			871
Mutual funds				¥250	250				¥250	250
Total assets	¥28,160	¥112		¥250	¥28,522	¥24,500	¥871		¥250	¥25,621

Millions of Yen										
Liabilities:	2018					2017				
	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Derivative instruments (Note 16)		¥1,846			¥1,846		¥720			¥720
Total liabilities		¥1,846			¥1,846		¥720			¥720

Thousands of U.S. Dollars					
Assets:	2018				
	Level 1	Level 2	Level 3	Net asset value	Total
Domestic stocks:					
Retail industry	\$ 90,594				\$ 90,594
Others	162,992				162,992
Stock acquisition rights	12,075				12,075
Derivative instruments (Note 16)		\$1,057			1,057
Mutual funds				\$2,358	2,358
Total assets	\$265,661	\$1,057		\$2,358	\$269,076

Thousands of U.S. Dollars					
Liabilities:	2018				
	Level 1	Level 2	Level 3	Net asset value	Total
Derivative instruments (Note 16)		\$17,415			\$17,415
Total liabilities		\$17,415			\$17,415

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 foreign currency forward exchange contracts and interest rate swap contracts. Foreign currency forward exchange contracts and interest rate 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, 2018 and 2017, of which, ¥11 million (\$104 thousand) and ¥139 million of long-lived assets have already been sold to a third party for the years ended March 31, 2018 and 2017, respectively:

Millions of Yen					
2018					
	Level 1	Level 2	Level 3	Net asset value	Total
Non-marketable equity securities			¥ 4		¥ 4
Non-marketable Mutual funds				¥250	250
Long-lived assets			2,445		2,445

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

Thousands of U.S. Dollars					
2018					
	Level 1	Level 2	Level 3	Net asset value	Total
Non-marketable equity securities			\$ 38		\$ 38
Non-marketable Mutual funds				\$2,358	2,358
Long-lived assets			23,066		23,066

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:

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.

Non-marketable Mutual funds

In accordance with ASC Topic 321, "Investments-Equity Securities," the Group recognized impairment losses on non-marketable mutual funds 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 mutual funds were measured at fair value using the net asset value provided by financial institutions.

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.

The carrying amounts and fair values of financial instruments at March 31, 2018 and 2017 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2018		2017		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale securities and stock acquisition rights (Note 3)	¥ 28,410	¥ 28,410	¥ 24,750	¥ 24,750	\$ 268,019	\$ 268,019
Derivative instruments:						
Assets	112	112	871	871	1,057	1,057
Liabilities	(1,846)	(1,846)	(720)	(720)	(17,415)	(17,415)
Long-term debt	(59,612)	(60,829)	(78,000)	(79,645)	(562,378)	(573,858)

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 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, "Derivatives and Hedging," 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, 2018 and 2017, 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
	2018	2017	2018
	Interest rate swap contracts	¥ 3,000	¥ 3,000
Foreign currency forward exchange contracts	76,661	76,477	723,217

The Group also has a policy that derivatives are not used for other than hedging activities. As of March 31, 2018, 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, 2018 and 2017 were as follows:

	Millions of Yen			
	2018			
	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	¥ 23
			Other long-term liabilities	75
Foreign currency forward exchange contracts	Other current assets	¥112	Other current liabilities	1,748
Total (Note 15)		¥112		¥1,846

	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	¥114
Foreign currency forward exchange contracts	Other current assets	¥871	Other current liabilities	606
Total (Note 15)		¥871		¥720

	Thousands of U.S. Dollars			
	2018			
	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	\$ 217
			Other long-term liabilities	708
Foreign currency forward exchange contracts	Other current assets	\$1,057	Other current liabilities	16,490
Total (Note 15)		\$1,057		\$17,415

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, 2018, 2017 and 2016 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
		2018		2018
Interest rate swap contracts	Interest expense	¥ (7)		\$ (66)
Foreign currency forward exchange contracts	Net sales	413		3,896
	Cost of goods sold	1,960		18,491
Total		¥2,366		\$22,321

	Millions of Yen	
	Location	Amount of Gain or (Loss) Recognized in Income on Derivatives
		2017
Interest rate swap contracts	Interest expense	¥ 17
Foreign currency forward exchange contracts	Net sales	706
	Cost of goods sold	2,304
Cross-currency swap contracts	Interest expense	(2)
	Other income (expenses) – net	(907)
Commodity futures contracts (Note 19)	Loss from discontinued operations – net of applicable income taxes	195
Total		¥2,313

	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 and currency swap 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 19)	Income from discontinued operations – net of applicable income taxes	(91)
Total		¥(1,142)

17. BUSINESS COMBINATION

On June 1, 2017, the Group acquired 100% of the outstanding voting shares of BPU, a meat processing company in the Oriental Republic of Uruguay, for the purpose of expanding the beef production business which is currently being operated mainly in Australia, and BPU became a subsidiary of the Group.

The fair value of the consideration paid for the acquired BPU shares was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Fair value of consideration paid (cash)	¥14,343	\$135,310
Total	¥14,343	\$135,310

In addition, the purchase price was adjusted to ¥14,343 million (\$129,183 thousand) from the initial ¥14,549 million (\$131,038 thousand) pursuant to the price adjustment clause. The United States dollar amounts are converted at the rate as of the remittance date.

Further, the expenses incurred in relation to the share acquisition were ¥494 million (\$4,660 thousand), which were included in "Selling, general and administrative expenses" in the consolidated statements of income.

The fair value allocated to the assets acquired and liabilities assumed of BPU (after adjustment of provisional amounts) at the acquisition date was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Cash and cash equivalents	¥ 939	\$ 8,858
Trade notes and accounts receivable	1,296	12,226
Inventories	2,205	20,802
Property, plant and equipment	7,398	69,792
Intangible assets	1,578	14,887
Other assets	799	7,538
Trade notes and accounts payable	(2,402)	(22,660)
Other liabilities	(1,446)	(13,642)
Total net assets acquired	10,367	97,801
Goodwill	3,976	37,509
Total	¥14,343	\$135,310

18. 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.

The operating segments of the Group consist of the following four business groups:

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 Group measures the fair value of the acquired assets and assumed liabilities in accordance with ASC 805, "Business Combinations."

The fair value measurement was completed during the year ended March 31, 2018, and intangible assets increased by ¥1,557 million (\$14,689 thousand), deferred tax liability increased by ¥389 million (\$3,670 thousand), and goodwill decreased by ¥1,168 million (\$11,019 thousand) from the initial provisional amounts, respectively.

Of the Intangible assets above, ¥1,557 million (\$14,689 thousand) were subject to amortization, which include an intangible asset of ¥882 million (\$8,321 thousand) with a 12-year useful life pertaining to the relationship with a supplier and an intangible asset of ¥675 million (\$6,368 thousand) with a 4-year useful life pertaining to export quotas.

The goodwill was generated mainly due to synergies and excess earning capabilities expected in future business development, and was included in the Overseas Business Division in Note 18. Such goodwill is not deductible for tax purposes.

The following table presents certain information regarding the Group's operating segments at March 31, 2018, 2017 and 2016 and for the years then ended:

Operating segment information

	Millions of Yen						
	2018						
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:							
External customers	¥342,040	¥664,909	¥159,674	¥125,234	¥1,291,857	¥ (22,656)	¥1,269,201
Intersegment	13,458	113,508	3,874	128,607	259,447	(259,447)	
Total	355,498	778,417	163,548	253,841	1,551,304	(282,103)	1,269,201
Operating expenses	349,631	732,263	161,936	258,583	1,502,413	(282,430)	1,219,983
Segment profit (loss)	5,867	46,154	1,612	(4,742)	48,891	327	49,218
Assets	189,745	336,455	80,500	123,187	729,887	25,189	755,076
Depreciation and amortization	6,292	7,911	2,075	2,530	18,808	2,426	21,234
Capital expenditures	13,789	15,575	6,439	4,823	40,626	840	41,466

	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

Thousands of U.S. Dollars

	2018				Total	Eliminations, adjustments and others	Consolidated
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division			
Net sales:							
External customers	\$3,226,792	\$6,272,726	\$1,506,358	\$1,181,453	\$12,187,329	\$ (213,735)	\$11,973,594
Intersegment	126,962	1,070,830	36,547	1,213,274	2,447,613	(2,447,613)	
Total	3,353,754	7,343,556	1,542,905	2,394,727	14,634,942	(2,661,348)	11,973,594
Operating expenses	3,298,406	6,908,142	1,527,698	2,439,462	14,173,708	(2,664,434)	11,509,274
Segment profit (loss)	55,348	435,414	15,207	(44,735)	461,234	3,086	464,320
Assets	1,790,047	3,174,104	759,434	1,162,142	6,885,727	237,632	7,123,359
Depreciation and amortization	59,358	74,632	19,575	23,868	177,433	22,888	200,321
Capital expenditures	130,085	146,934	60,745	45,500	383,264	7,925	391,189

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.

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, 2018, 2017 and 2016:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Segment profit (loss) total	¥48,891	¥54,304	¥48,673	\$461,234
Other operating costs and expenses (income) – net	(66)	5,320	11,849	(623)
Gain from the transfer through the posting system	2,273			21,443
Interest expenses	1,172	1,140	1,384	11,057
Other income (expenses) - net	70	1,770	(665)	660
Eliminations, adjustments and others	327	(502)	534	3,086
Income from continuing operations before income taxes and equity in earnings (losses) of associated companies	¥50,455	¥49,112	¥35,309	\$475,989

Net sales to external customers by products for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Hams and sausages	¥ 140,363	¥ 141,362	¥ 141,459	\$ 1,324,179
Processed foods	240,141	228,904	221,308	2,265,481
Fresh meats	721,387	673,871	705,495	6,805,538
Marine products	95,154	91,637	94,704	897,679
Dairy products	35,851	33,380	31,396	338,217
Others	36,305	33,139	34,962	342,500
Total	¥1,269,201	¥1,202,293	¥1,229,324	\$11,973,594

Certain information by geographic areas at March 31, 2018, 2017 and 2016 and for the years then ended was as follows:

(1) Net sales to external customers

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Japan	¥1,144,184	¥1,110,864	¥1,113,226	\$10,794,188
Other countries	125,017	91,429	116,098	1,179,406
Total	¥1,269,201	¥1,202,293	¥1,229,324	\$11,973,594

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
	2018	2017	2016	2018
Japan	¥292,030	¥274,935	¥253,594	\$2,755,000
Other countries	28,471	18,361	18,313	268,594
Total	¥320,501	¥293,296	¥271,907	\$3,023,594

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, 2018, 2017 and 2016.

19. 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 statements of income have been reclassified to conform to the current year's presentation to separately report the results of the discontinued operation. The discontinued operation was previously under control of the Overseas Business Division of the Group's operating segments.

The components of loss from the discontinued operation for the years ended March 31, 2017 and 2016 were summarized as follows:

	Millions of Yen	
	2017	2016
Net sales	¥3,401	¥11,404
Cost of goods sold	3,267	13,858
Selling, general and administrative expenses	284	413
Other operating costs and expenses (income) – net	35	302
Interest expense	1	2
Other income (expenses) – net	174	1
Loss from discontinued operations before income taxes	(12)	(3,170)
Income taxes	0	(60)
Loss from discontinued operations – net of applicable income taxes (Note 16)	¥ (12)	¥ (3,230)

The depreciation and capital expenditures from the discontinued operation for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen	
	2017	2016
Depreciation	¥264	¥909
Capital expenditures	23	207

20. COMMITMENTS AND CONTINGENT LIABILITIES

The Group guarantees certain debt of associated companies and certain suppliers. At March 31, 2018, the maximum potential amount of future payments which the Group could be required to make under these guarantees was ¥302 million (\$2,849 thousand). The guarantees with suppliers are secured by certain properties and real estates.

At March 31, 2018, the Group had contractual commitments for the acquisition or construction of property, plant and equipment aggregating ¥12,381 million (\$116,802 thousand). These commitments primarily related to construction and acquisition of new plants by the Group, principally due within one year.

At March 31, 2018, the Group had non-cancelable lease agreements for the logistics facilities which will commence during the year ending March 31, 2020. Future lease payments under these agreements amount to ¥4,326 million (\$40,811 thousand) over 15 years.

Lease payments for the next five years ending March 31 are as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2019		
2020	¥144	\$1,358
2021	288	2,717
2022	288	2,717
2023	288	2,717

21. EVENTS SUBSEQUENT TO MARCH 31, 2018

The Group evaluated subsequent events that have occurred after March 31, 2018 through the date that the Yukashouken-houkokusho (Annual Securities Report filed under the Financial Instruments and Exchange Act of Japan) was issued (June 27, 2018).

Cash Dividend

On May 10, 2018, the Board of Directors resolved to pay cash dividends to shareholders of record at March 31, 2018 of ¥53 (\$0.50) per share for a total of ¥11,394 million (\$107,491 thousand).

INDEPENDENT AUDITORS' REPORT

Deloitte.

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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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2018

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

Yoshihide Hata, President and Representative Director, and Hajime Takamatsu, Director and Managing Executive Officer and General Manager of Corporate Management Division, 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, 2018, 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 twenty 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

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5. Other matters warranting special mention

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Yoshihide Hata
President and Representative Director
Hajime Takamatsu
Director and Managing Executive Officer and General Manager of Corporate Management Division
NH Foods Ltd.

INDEPENDENT AUDITOR'S REPORT

NOTE TO READERS:

Following is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act of Japan. Readers should be aware that this report is presented merely as supplemental information.

Readers should be particularly aware of the differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the standards of the Public Company Accounting Oversight Board (United States) ("ICFR under PCAOB");

- In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under PCAOB, the auditors express an opinion on the Company's ICFR directly.
- In an audit of ICFR under FIEA, there is detailed guidance on the scope of an audit of ICFR, such as quantitative guidance on business location selection and/or account selection. In an audit of ICFR under PCAOB, there is no such detailed guidance. Accordingly, for the assessment of entity-level internal controls, the companies which represent the top 95% of consolidated net sales and other financial indicators are selected. For the assessment of internal control over business processes, the companies which cover approximately two-thirds of the previous year's consolidated net sales and cost of goods sold (excluding inter-company transactions) are selected. Additional business processes, if any, which could have a significant impact on financial reporting, are also included in the scope.
- In an audit of ICFR under FIEA, the scope includes ICFR of equity-method investees. In an audit of ICFR under PCAOB, the scope does not include ICFR of equity-method investees.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 27, 2018

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 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2018 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, 2017 to March 31, 2018, 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, 2018, 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, 2018.

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, 2018 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, 2018)

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)
- 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 of Probiotic Beverages and Sales of Dairy Products and Lactic Acid Probiotic Beverages

- Nippon Luna, Inc. (Japan)
- Hoko Co., Ltd. (ROLF Division) (Japan)

Production and Sales of Extract 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)

Professional Sports

- Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. (Japan)
- Cerezo Osaka Co., Ltd. (associated company) (Japan)
- Hokkaido Ballpark Corporation (Japan)

IT, Services, and Other Businesses

- Nipponham System Solutions Ltd. (Japan)
- Nipponham Business Associe 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, 2018)

CORPORATE DATA

Corporate name	NH Foods Ltd.
Established	May 30, 1949
Capital	¥36,291 million
President	Yoshihide Hata
Employees (As of March 31, 2018)	30,655 (consolidated) 2,384 (non-consolidated) (including the average number of temporary employees)
Main businesses	<ul style="list-style-type: none"> • Manufacture and sale of processed meats (hams and sausages, etc.) and cooked foods (retort-packed food, pre-prepared foods, etc.) • Breeding of livestock, and processing and sale of fresh meats • Production and sale of marine and dairy products
Head office	BREEZE TOWER, 4-9, Umeda 2-chome, Kita-ku, Osaka 530-0001, Japan
Telephone	+81-6-7525-3026

SHARE DATA (As of March 31, 2018)

Authorized shares	570,000,000
Issued and outstanding	214,991,609
Shareholders	19,430

Note: See our website for bios, positions, responsibilities, and important concurrent positions in our Securities Report for the Year Ended March 31, 2018 (Japanese only).

● **Major Shareholders** (Leading 10 by Shareholding)

Name of Shareholders	Thousands of Shares
The Master Trust Bank of Japan, Ltd. (Trust account)	25,458
Japan Trustee Services Bank, Ltd. (Trust account)	15,205
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
STATE STREET BANK WEST CLIENT-TREATY 505234	4,632
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	3,323

● Shareholders by Category

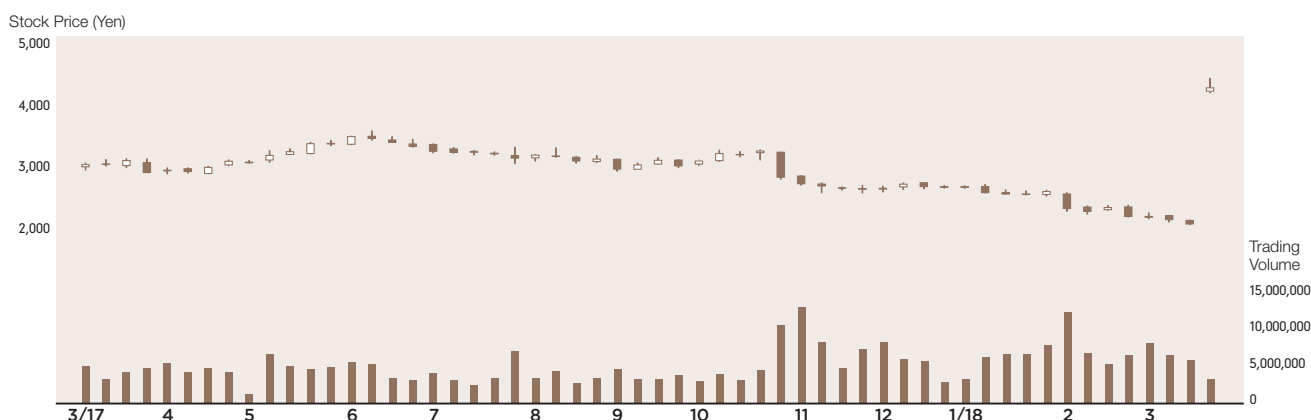
	Thousands of Shares	Shareholders
Financial institutions	117,299	(101)
Foreign investors	53,617	(515)
Individual/Other	29,910	(18,380)
Treasury stock	7	(1)
Other companies	7,796	(394)
Securities firms	6,359	(39)

● Shareholders by Holding

	Thousands of Shares	Shareholders
Less than 1,000	285	(2,090)
1,000 – Less than 10,000	23,853	(16,708)
10,000 – Less than 100,000	13,395	(473)
100,000 – Less than 1 million	36,132	(118)
1 million – Less than 5 million	68,778	(34)
5 million or more	72,546	(7)

Notes: 1. In addition to the list above, NH Foods Ltd. holds 7 thousand shares of common stock.
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its name to MUFG Bank, Ltd. on April 1, 2018.

STOCK PRICE TREND





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