Nippon Meat Packers, Inc.

Growth

We have taken the challenge of implementing 2 strategies

Innovation

Annual Report 2007

Year Ended March 31, 2007

Nippon Ham Group

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Strategic growth and innovation through improved efficiency

1. Business expansion through strong sales and marketing efforts

2. Establishment of an optimum logistics structure

3. Development of global strategies and expansion of overseas sales

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4. Strengthening of human resources development and lifting of vitality

5. Improvement in asset efficiency and maximization of cash flows

6. Implementation of IT-driven speedy management

Profile

The Nippon Ham Group has completed the first year of its three-year *New Medium-Term Management Plan Part II*, which began in the previous fiscal year. In the fiscal year ended March 2007, we took measures toward making compliance management even more rigorous and also implemented corporate reforms based on six strategies. As a result, the Nippon Ham Group achieved increases in both net sales and earnings. However the real reforms have not yet begun. In order to further ensure that our corporate value increases satisfactorily, the Nippon Ham Group will steadily implement six strategies focused on two themes: strategic growth and innovation through improved efficiency.

The "Nippon Ham 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.

Nippon Ham Group

Contents

Forward-looking Statements

This annual report contains "forward-looking statements," including statements concerning the company's outlook for fiscal 2007 and beyond; business plans and strategies and their anticipated results; and similar statements concerning anticipated future events and expectations that are not historical facts. The forward-looking statements in this report are subject to numerous external risks and uncertainties, including the effects of economic conditions, market trends and currency rates, which could cause actual results to differ materially from those expressed in or implied by the statements herein.

Financial Highlights

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Net Sales	¥977,296	¥963,664	¥934,678	$8,282,170
Net Income	11,386	952	11,839	96,496
Total Assets	612,933	591,426	611,250	5,194,344
Total Shareholders' Equity	298,428	291,580	268,621	2,529,052

	Yen			U.S. Dollars
Per Share Amounts:				
Basic earnings per share:				
Income before extraordinary item and cumulative effect of accounting change	¥49.89	¥ 0.01	¥51.86	$0.42
Extraordinary gain on negative goodwill		2.43		
Cumulative effect of accounting change		1.73		
Net income	¥49.89	¥ 4.17	¥51.86	$0.42
Diluted earnings per share:				
Income before extraordinary item and cumulative effect of accounting change	¥49.83	¥ 0.01	¥51.85	$0.42
Extraordinary gain on negative goodwill		2.43		
Cumulative effect of accounting change		1.73		
Net income	¥49.83	¥ 4.17	¥51.85	$0.42
Cash Dividends	¥16.00	¥16.00	¥16.00	$0.14

Notes 1. The above figures are based on the consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

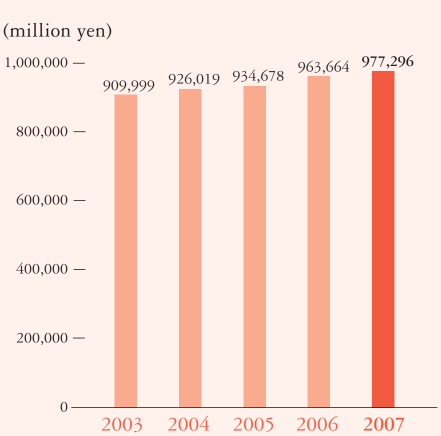
2. The United States dollar amounts represent translations of Japanese yen at the rate of ¥118=$1. See Note 1 to consolidated financial statements.

3. See Note 1 to consolidated financial statements with respect to the determination of the number of shares in computing the per share amounts.

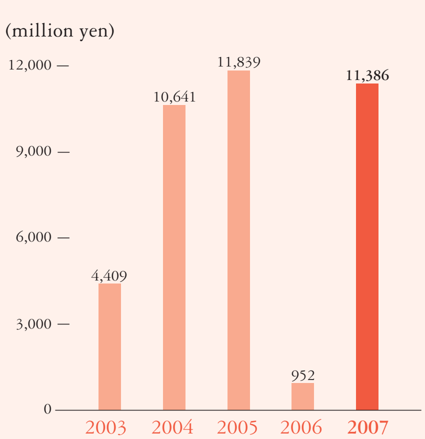
4. During the year ended March 31, 2006, the Company changed its method of inventory costing from an annual average cost method to a moving average cost method. Management believes this change is preferable and it provides for a more prompt and appropriate determination of the amounts of cost of goods sold and inventory. The cumulative effect of the change in the costing method as of April 1, 2005 was ¥396 million, net of taxes of ¥275 million and has been presented in the statements of consolidated income as "Cumulative effect of accounting change." The effect of the change during the year ended March 31, 2006 was to decrease income before extraordinary item and cumulative effect of accounting change by ¥240 million (¥1.05 per share) and to increase net income by ¥156 million (¥0.68 per share), respectively.

5. In accordance with Statement of Financial Accounting Standards No. 141, the Companies recognized as an extraordinary gain the excess of fair value of additionally acquired net assets over the cost relating to an investment in a subsidiary for the year ended March 31, 2006. The extraordinary gain recognized was ¥555 million and has been presented in the statements of consolidated income as "Extraordinary gain on negative goodwill."

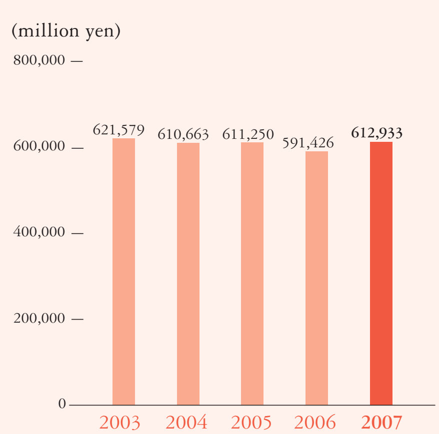
Net Sales



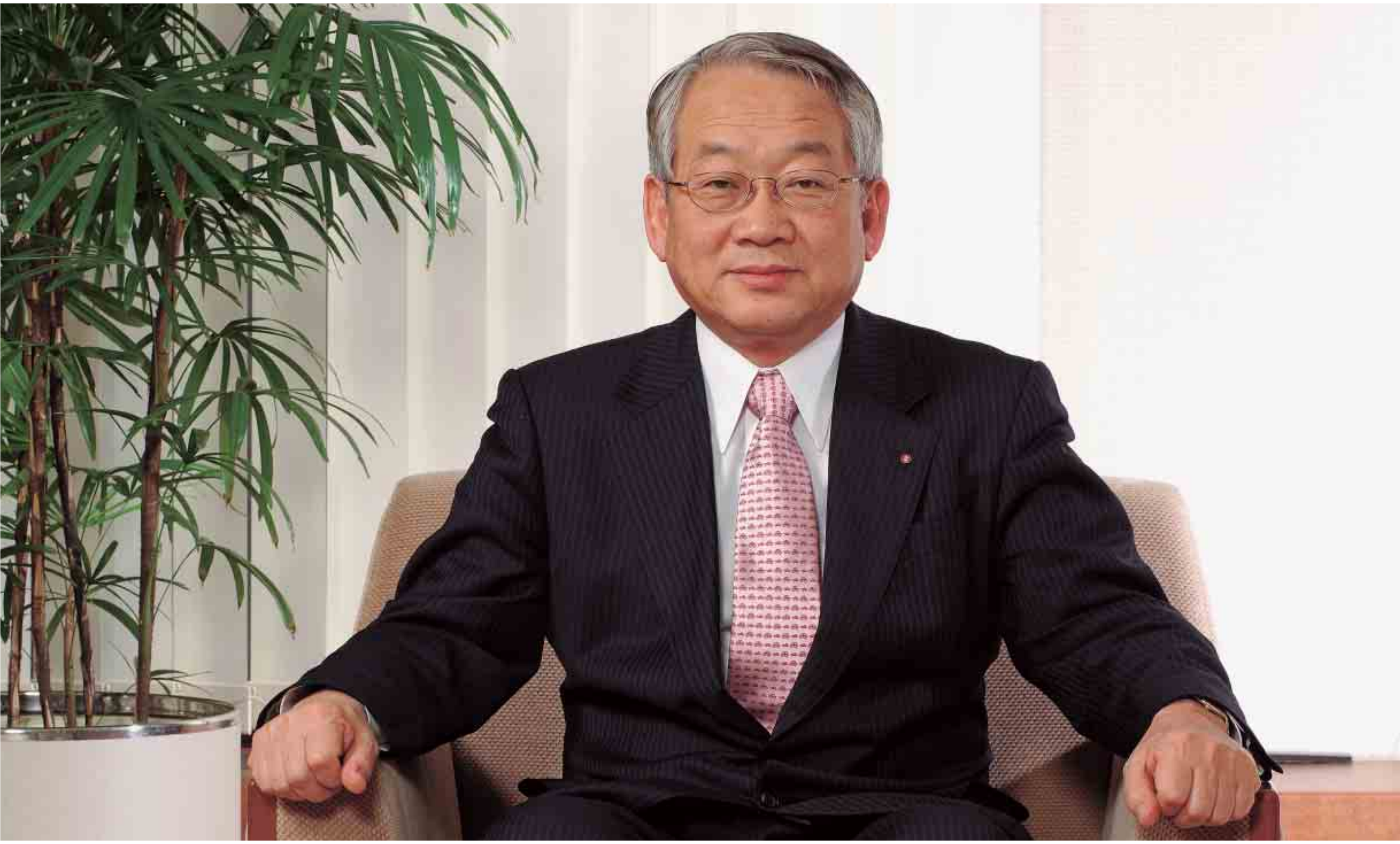
Net Income



Total Assets



To Our Stakeholders



Representative Director & President
Hiroshi Kobayashi

Regarding my appointment as president

On April 1, 2007, I was appointed to replace Yoshikiyo Fujii as company president of the Nippon Meat Packers (Nippon Ham) Group. Following Mr. Fujii's appointment as company president in August 2002, the Nippon Ham Group engaged in intensive measures directed towards business recovery and enforcing strict compliance in management. We are confident that the results of these efforts have successfully been attained. However, strict adherence to the law, essential though it is, is not enough for a company; sustained growth must also be achieved. In order to grow following the compliance that it has developed as a base, the Nippon Ham Group must not merely continue with the same approach but instead change the intentions and activities of the Group from within.

Earlier on, I oversaw the acquisition of Hoko Co. Ltd. by the Affiliated Business Division and implemented structural reforms to create the Nippon Ham Group's Marine Products Business and Dairy Products Business divisions. In recent years, I have also carried out structural reform in the Processed Foods Business Division. Using this experience and continuing with compliance management and governance reinforcement, I aim to raise efficiency and lead the Nippon Ham Group in its role as a manufacturer that provides No. 1 quality.

Challenging business environment continues in the food industry

In general, business conditions have made a gradual, long-term recovery; however the business environment for the food industry remains extremely severe. In addition to the continued rise in raw materials prompted by the economic expansion of the BRIC countries, the prices of ingredient materials such as flour, cooking oil, and seasoning have also increased. The high price of crude oil has delivered a further blow, inflating costs of materials such as films for packaging and fuel.

While imports of U.S. beef from cattle less than 20 months of age have become possible, the amount of beef available that meets Japan's import standards remains low. As a result, the quantity imported has been limited to 10% of the volume prior to the imposition of the import embargo. Following the outbreak of avian influenza, an over-concentration on imports from Brazil has inflated the price of chicken. As a result, the business environment surrounding the food industry is expected to become even more severe.

Success of reform seen in increased income and profits in fiscal 2007

The three-year *New Medium-Term Management Plan Part II* that began in the previous fiscal year has completed its first year, amid a harsh business environment. Through the plan, which is based on the theme of corporate value improvement by continued reform and challenge, we have launched reforms that will improve profitability. In production operations, we are continuing with measures taken in the previous year to implement radical reforms of cost structure. As part of this effort we have reduced costs through a realignment of our production locations and production lines, which included the realignment of two ham and sausage factories, and through the utilization of idle assets.

In marketing operations, we revised prices of processed foods and other products and realigned our marketing organization, thereby creating a marketing system with closer ties to local communities. In fresh meats operations, we have accentuated quality in our marketing, increasing the volume of priority brand items produced at our own farms. As a result, net sales for the fiscal year ended March 31, 2007 increased by 1.4% over the previous year to ¥977.3 billion. On the earnings side, reduced operating expenses due mainly to cost structure reforms in the Processed Foods Division, and a decrease in expenses booked in "Other" under "Cost and Expenses" such as special severance benefit caused current term income from consolidated operations before income taxes to increase 5.9 times to ¥13.7 billion. In addition, net income increased 12.0 times from the previous year to ¥11.4 billion mainly as a result of a decrease in current term income taxes due to the consolidated tax filing system that will become applicable from the next fiscal year. Net income per share increased from ¥4.17 in the previous year to ¥49.89.

At the Nippon Ham Group, our greatest strength is our people—they have sustained our corporate philosophy since our founding

Granting that the same business environment applies to the entire industry, the same conditions of competition apply to any company. In this context, our policy is to further boost the cost competitiveness we are gaining in each area of operations. However, cost reductions alone will not be sufficient to prevail over the competition. It is essential for us to increase our competitive edge, not merely in the obvious sense with regard to products, but also our quality as a company—and this requires us to examine where our strengths and our uniqueness lie.

Nippon Ham Group's strength is in its people. Our corporate philosophy calls for us to impart the "Joy of Eating, create a culture that makes a new era and contribute to society". I strongly feel that having this philosophy as a base has provided an unbroken line through which we have inherited something of the character of our founder: the tenacity to see tasks through to their completion. It is working at the front-line that motivates our people to thrive. The power of our people and of working at the front-line enables us to strictly adhere to compliance measures and to improve product and company quality. I will build up Nippon Ham Group's strengths as an organization through focusing on people to achieve a revolution of awareness that will raise our strengths at the front-line. In addition to increasing our product power, I am committed to raising the quality of our human resources to increase the quality of Nippon Ham, thereby creating a company of unrivalled distinctiveness.

Transforming into a corporate organization that prevails over global competition

Faced with sluggish growth in the domestic market, the Nippon Ham Group aims to surmount the current host of problematic issues and tough business environment to become a corporate organization that prevails over global competition. To do this, we must attain the financial structure that befits a leading company in the food industry. The Nippon Ham Group will improve asset efficiency by streamlining total assets, reducing interest-bearing debt and preparing for possible future interest rate increases. We aim for an ROA of 5% by the fiscal year ending March 2009. In addition, we will set a target for monetary sales of over ¥1 trillion to aim for dynamic expansion of sales and an improvement in profitability. In particular, we have prioritized the manufacture of ingredient materials such as sauces and dressings as playing a decisive role in our core businesses. Through specializing in and expanding these technology-intensive products, we will broaden the range of markets in which the Nippon Ham Group is involved. Furthermore, we will target cost competitiveness; improving this will allow us access to markets from which we are currently excluded because of our existing costs. We will achieve this by implementing organizational and cost structure reforms tailored to each industry.

Strategic growth and innovation through improved efficiency—keywords for reform

The keywords for reform are "strategic growth" and "innovation through improved efficiency." Strategic growth involves undertaking the challenges of new fields and creating new strategies. In order to develop into a corporate organization that will continue to be strong into the future, we have established the Corporate Strategy Office. In order to boost competitiveness, we must avoid becoming attached to excessive independence and instead proactively advance our business alliances to form a robust and strong corporate entity and reinforce the Group's competitiveness. In an age that demands speed, swift action is of the essence.

"Innovation through improved efficiency" refers to a management policy that emphasizes balance sheets and cash flow. The Nippon Ham Group keeps its investments within the scope of earnings and the amount of depreciation. As part of this approach, we will implement the following six strategies, as outlined in the *New Medium-Term Management Plan II*.

1. Business expansion through strong sales and marketing efforts

By promoting specialization, we will foster professional sales personnel, thereby strengthening our ability to develop new proposals and concepts. This will enable us to expand our businesses. By realigning our sales system for processed food operations, we will strengthen our sales power after further reassessing the ties between our fresh meats and affiliated businesses operations.

2. Establishment of an optimum logistics structure

We realize that building our distribution system is a major issue. We have already built a distribution system for fresh meats operations, but numerous issues remain to be solved in processed foods operations. In June 2007, we finished clarifying what was needed for the entire system of processed foods operations, and we have already started building a detailed system. Nippon Ham Group owns approximately 300 sales and refrigerated storage locations, which it has unified into a system and thereby perfecting the functions of its chilled distribution to provide nationwide coverage. Integrating the fresh meats operations system into the supply chain management (SCM) of processed foods operations has enabled us to build a distribution system that spans the entire Group. In a plan due to take effect in the fiscal year ended March 2009, we intend to consider strategies for cooperative delivery.

3. Development of global strategies and expansion of overseas sales

Prevailing over global competition depends upon expanding sales overseas; Nippon Ham Group has sales operations in 12 countries, and invests directly in those in the U.S., China and Australia. In fresh meats operations, we have already expanded tripartite trade and in processed foods we have acquired factories in China—we are engaging in intensive business and capital alliances that will enable us to expand sales in China and export to production locations in Europe and the U.S.

4. Strengthening of human resources development and lifting of vitality

In the short term, we will seek to acquire personnel skilled in M&As, business and capital alliances, and overseas business. In the medium term, we will implement a training program to cultivate young management personnel with a global perspective, in order to systematically develop next-generation managers. We will also review our personnel systems to develop a versatile human resources policy.

5. Improvement in asset efficiency and maximization of cash flows

In addition to measures to increase sales and earnings, management will shift to an emphasis on balance sheets and cash flow. The *New Medium-Term Management Plan Part II* targets an ROA of 5%. In capital investments we have prioritized ROI as well as carrying out efficient investment within the scope of the amount of depreciation. Furthermore, we will provide for future interest rate increases by reducing interest-bearing debt, optimizing our inventories and improving our DE (debt to equity) ratio.

6. Implementation of IT-driven speedy management

The Nippon Ham Group will work towards creating a unified group system coupled with its distribution system, to accelerate the optimization of overall Nippon Ham Group operations.

To further increase corporate value

In the current severe business environment, the Nippon Ham Group faces a host of issues, and it is crucial that we adopt a realistic approach to management. The core of our management policy has not changed fundamentally in ten years, but it is important that we change our strategies and tactics in response to the changing business environment. If one thing has changed, it is our speed. The ability to quickly interpret the frenetic changes of the markets and then to quickly react—this requires speedy management. In order to further increase our corporate value, it is essential that we clearly define our tasks and then execute them quickly. To do this, we will depart from excessive independence and intensively pursue opportunities for business and capital alliances and M&As. The Nippon Ham Group has chosen the path of transformation. Standing at the forefront, I will use my leadership to fulfill the expectations of all our stakeholders as we advance boldly toward this transformation.

July 2007

Hiroshi Kobayashi

Representative Director & President

Message from the Chairman

After becoming president of the Nippon Meat Packers (Nippon Ham) Group in August 2002, I consistently and rigorously pursued the restructuring of our corporate culture, enforcing Strict Compliance in management and our customer-focused *Management for No. 1 Quality* policy. The Nippon Ham Group introduced a retirement age for its president on the basis of the corporate governance reforms that I myself implemented and, having reached this age, I retired as president and assumed the position of chairman on April 1, 2007. Looking ahead, in my role as chairman, I am committed to supporting the president's business strategies and making every effort to promote compliance management as a cohesive force.

Future Management Issues—Responding to Globalization and Improving Corporate Earnings

The business environment of the Nippon Ham Group is projected to become increasingly challenging. In addition to persistently high raw material prices and disruptions to meat supply and demand caused by the embargo on U.S.-produced beef, uncertainties about the future include further rises in crude oil prices and the impact of demand for ethanol on animal feed prices. At the same time, from a global standpoint, WTO trends and FTA- and EPA-related developments indicate that competition for international markets will intensify further, and the spread of globalization cannot be ignored. Against this backdrop, the Nippon Ham Group must grow to survive. Moreover, to attain sustained growth we must expand earnings. The Nippon Ham Group recognizes that its most important management issues are how to respond to globalization and how to improve corporate earnings.

Measures to Achieve a Performance Recovery

Under these business conditions, all employees worked together to achieve the restructuring of our corporate culture and the promotion of management reform. These two were the key themes of the three-year *New Medium-Term Management Plan Part I* that was drafted when I became President. As a result, we were largely successful in ensuring strict compliance in management. Unfortunately, our financial results were disappointing. Consequently, we implemented reforms to bring about a performance recovery in line with the *New Medium-Term Management Plan Part II*, based on the theme of corporate value improvement through continued reform and challenge. We laid the foundation for future growth by creating a more community-oriented marketing organization, and reinforced the competitive strength of our route sales even further. With the same aim, we realigned our sales organization to increase efficiency and strengthen our ability to respond to individual customer needs, and reorganized plants to improve production efficiency.

Furthermore, the Nippon Ham Group built a "Safety Chain" to pursue food safety and reliability in line with our *Management for No. 1 Quality* policy. Building on the "Safety Chain," we have been constructing a quality-based value chain to pursue even higher quality. To this end, we are acquiring HACCP, ISO, SQF and other external certifications for our production plants. We are also putting in place a framework to ensure quality for our customers in all operations, from upstream farming and processing to downstream marketing. I am confident that these measures in conjunction with the Nippon Ham Group's unique vertically integrated system for meat production will contribute to achieving our strategy to produce distinctive brand products within a challenging market environment.

Representative Director and Chairman
Yoshikiyo Fujii

Outlook for the Nippon Ham Group

To achieve sustained growth for the Nippon Ham Group we must increase sales and reform our earnings base by shifting to a competitive cost structure. This cost structure must apply to all of our three main business operations: processed foods, fresh meats and affiliated business (comprising marine and dairy products). At the same time, we recognize that ongoing globalization requires us to bolster overseas sales by selling from our overseas bases to the rest of the world. Our new president, Mr. Hiroshi Kobayashi, has working experience in all the three business operations, and has a track record in the Processed Foods Division of achieving future-focused reforms. In this sense in particular, I am convinced that he is the most suitable person to lead us in implementing reforms to the Nippon Ham Group.

I myself, in my role as chairman, will make every effort to support our new president's growth strategies and ensure that the Nippon Ham Group continues to fulfill the expectations of its shareholders and all other stakeholders.

Changing our Approach Through Individuals in the Workplace

In recent years, companies have been increasingly aware of the importance of internal controls. To establish a strong corporate foundation and withstand latent risks—two key purposes of internal controls—I believe the awareness and actions of each individual employee in the course of their day-to-day work are paramount. It is what happens in the workplace and the individuals who do it that move an organization. Consequently, I intend to reform the way we work, focusing on the individual, so that each employee feels greater responsibility, creating a corporate culture brimming with vitality. By changing our workplace practices for the better, we will also reduce costs and improve product development. This in turn results in an improved business performance. For us to survive in a challenging business environment, all our employees must do their very best. I am convinced that if our employees have the right approach, this will contribute significantly to raising the corporate value of the Nippon Ham Group.

April 1, 2007

Yoshikiyo Fujii

Representative Director and Chairman

Feature: Nippon Ham Group's strengths and challenges

Each of the Nippon Ham Group's business divisions recognizes its strengths as well as the challenges it faces. In this feature, the general managers of three business divisions describe the Nippon Ham Group's approach in tackling various business challenges—an approach aimed at achieving strategic growth and innovation through improved efficiency.

Processed Foods Business Division

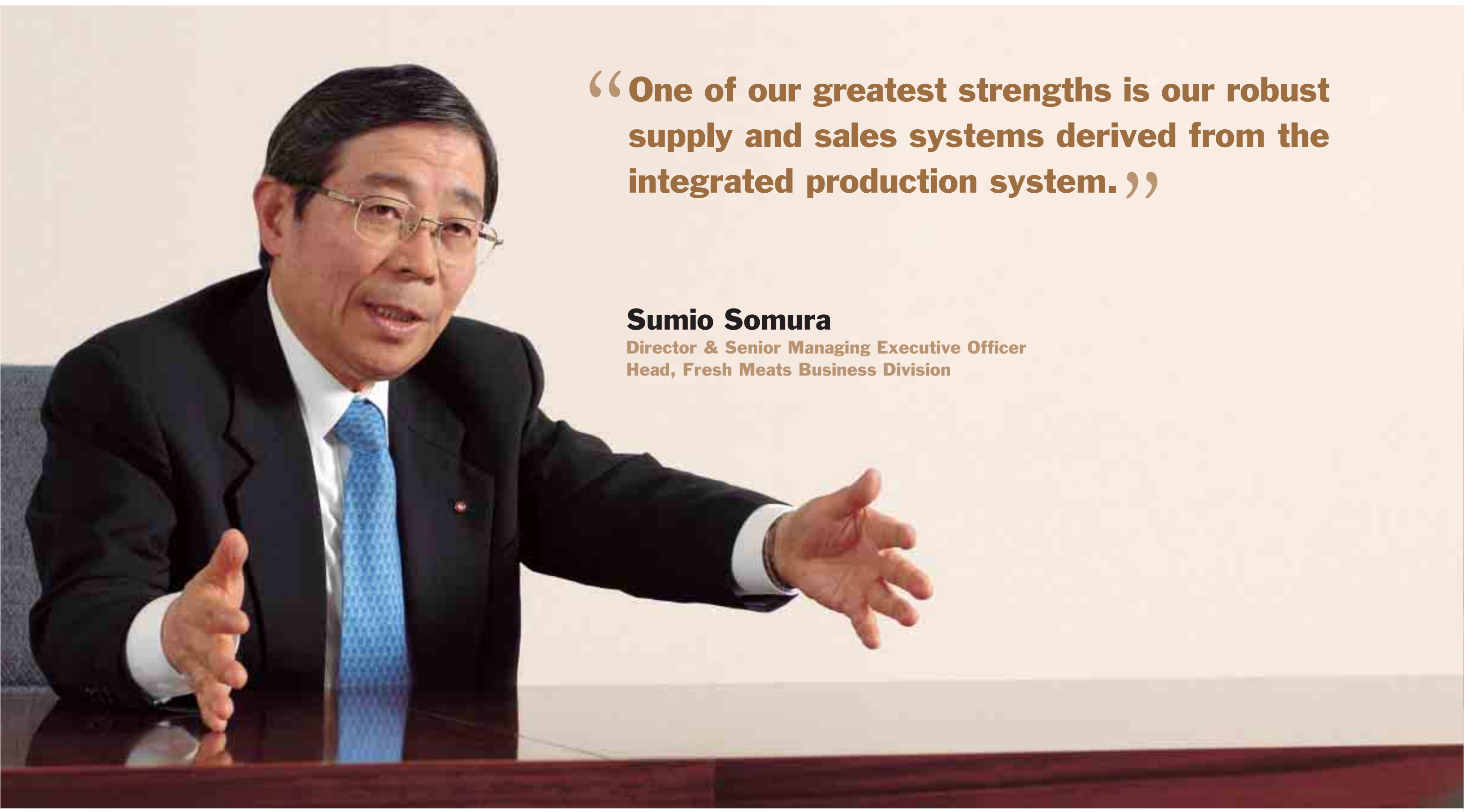
"We are using our planning, product development and technological capabilities to create new markets."

Koji Uchida
Director & Managing Executive Officer
Head, Processed Foods Business Division

The strengths of the Nippon Ham Group's Processed Foods Business Division derive primarily from its products, which are No. 1 in each category: *SCHAU ESSEN* (sausage), *Chuka Meisai* (Chinese-food materials) and *Ishigama Kobo* (chilled pizzas). These products are underpinned by the planning capabilities of the Sales and Marketing Division, which ascertains consumer needs, and the product development and technological capabilities of the Production Administrative Division, which responds to these needs. The division's competitive superiority is also derived from its nationwide sales network and its ongoing marketing activities which have forged close relationships with local communities. In addition, the Nippon Ham Group's processed foods business clearly distinguishes itself from similar operations in other companies by its integrated system for procuring raw materials.

ISSUE	RESPONSE TO THE ISSUE
Reduce the cost of sales ratio **Prices of raw materials remain at high levels, and are one factor depressing earnings. Consequently, an issue for the Nippon Ham Group is the need to reform its business structures to generate earnings, and in particular its cost structure to reduce the cost of sales ratio.**	In the processed foods business, the Nippon Ham Group must create a cost structure to outperform other companies in the industry. To this end, we have been eliminating and consolidating plants and production lines. Moreover, we are improving some products, discontinuing others, and raising productivity by strengthening the production and sale of principal products. We are also achieving benefits of scale through centralized purchasing, allowing us to negotiate reduced procurement prices. On the marketing front, we have been bolstering sales and increasing efficiency by realigning our organization according to sales channels. We are also separating indirect and direct sales to eliminate lost business opportunities. The benefits of these actions are already starting to appear. Finally, we will endeavor to cut costs by implementing the SCM (Supply Chain Management) reforms currently being formulated from the fiscal year ending March 31, 2008.
Conduct marketing activities with closer ties to local communities **As competition in sales to volume retailers intensifies, the Processed Foods Business Division needs to conduct marketing activities with closer ties to local communities.**	By establishing a network of sales subsidiaries with close ties to local communities, we are accelerating area-based business development, strengthening proposal-based marketing activities offering solutions to client retailers, and at the same time building trust. Heretofore, our clients created their retail stores following a comparatively standardized format. Now, however, our clients want to create individualized stores that suit their particular region. Consequently, they are looking to us for distinctive layout and product proposals. The division will continue to conduct marketing activities using precise sales plans that match the particular characteristics of the region as they change week-by-week throughout the year. The division will also continue to implement product strategies rooted in communities, such as local products for local consumption.
Respond to the polarization of consumption **Against a backdrop of continually declining retail prices, customers are increasingly seeking high value-added products. This presents us with the issue of how to respond to this polarization of consumption.**	We will pursue cost reductions, and at the same time improve existing products by adding value. We will also launch new brand products offering added value in existing product categories. To accomplish this, we are strengthening product development by integrating and realigning the framework for development at Head Office. The Nippon Ham Group's brand strategy, which leverages its vertically integrated system for meat production, is a particular strength of the Nippon Ham Group, unparalleled in the industry. We will use this strategy to the full to achieve our aim of providing high value-added products. On the marketing front, we will launch a dedicated organization to expand sales by strengthening proposal-based marketing of products that offer added value, targeting client retailers.

Fresh Meats Business Division



One of the greatest strengths of the Fresh Meats Business Division is its robust supply and sales systems underpinned by Nippon Ham Group's integrated production system, whereby the entire process from production of fresh meats through to sales is handled within the Group. As regards our supply system, the Nippon Ham Group owns farms both in Japan and overseas, and is building a global procurement network and a distribution network. Furthermore, we are also building a network for our domestic sales system which can speedily supply products from our marketing bases located throughout Japan, spearheaded by our distribution centers in Tokyo and Osaka.

ISSUE

RESPONSE TO THE ISSUE

Expand sales overseas

The Nippon Ham Group possesses the fresh meat industry's largest sales network in Japan, and holds the top market share. In Japan, however, it will be difficult to achieve substantial growth in the medium- and long-term due to ongoing population decline, a low birthrate and a growing proportion of elderly people. Consequently, the division needs to expand sales overseas by making use of the Nippon Ham Group's integrated production system.

Approximately two-thirds of the beef that the Nippon Ham Group produces in Australia is shipped to areas outside of Japan and Australian regions. The Nippon Ham Group is expanding its production capability for Australian-produced beef at Oakey Abattoir Pty. Ltd. Specifically, we will increase our current processing capability of 1,000 cattle per day to 2,000 cattle per day, comprising not only grass-fed cattle raised on pasture but also grain-fed cattle that produce tender beef. As well as increasing production of high value-added meat, we expect to improve profitability. Looking ahead, we will expand our overseas business, especially in Asia, a leading region for exports. In the U.S., we will expand our pork business by increasing our production of pork at contract farms.

Increase sales in Japan

Various factors including the facts that women in Japan are spending more time outside the home and that the prepared foods market is growing, resulting in fewer meals being cooked at home. The corresponding decline in purchases of meat means we need to increase sales in Japan through other avenues.

First, the Nippon Ham Group will endeavor to conduct marketing activities based on close ties with local communities to both increase volume sales routes and tap demand in restaurant and home-meal replacement routes. In particular, we will expand our market share by establishing a new department to focus on markets for prepared foods. We are also training some personnel as food advisors to offer innovative women-oriented food proposals, reinforcing this move by proactively recruiting female employees. Furthermore, we expect beneficial synergies to result from collaboration with processed foods operations in brand product development.

Improve profit margins

Worldwide supply and demand patterns for meat have been disrupted since the outbreak of BSE, avian influenza and other livestock diseases. The business environment continues to make it difficult to increase earnings, mainly due to high animal feed costs, violent fluctuations in cattle prices due to drought in Australia, and rising prices for food resources caused by the impact of currency markets and the increased purchasing power of emerging countries. In these circumstances, the issue is how to improve profit margins both in Japan and overseas.

In the U.S., we will increase the number of pigs raised on Texas Farm, LLC. and reduce costs. In our beef business in Australia, we will increase the profitability of processing plants as a strategy to improve earnings. A balanced approach will be taken to develop the business: for example, instead of forcing the less unprofitable plants to increase production, we will bolster production of profitable grain feed cattle. Furthermore, we will control the risks associated with animal feed prices by entering into futures contracts.

Affiliated Business Division

"With our high degree of specialization, we can satisfy the most detailed needs."

Hiroji Okoso
Director & Senior Managing Executive Officer
Head, Affiliated Business Division

The chief strength of the Affiliated Business Division is its specialization. It is this specialization that enables the division to focus on good quality businesses and increase efficiency, as well as operate businesses that add significant value in the market. Although markets have been characterized by high-volume consumption until recently, increasing individualism, together with a declining birthrate and a growing proportion of elderly people, is resulting in a steady decrease in the volume of food purchased at one time. We view the Affiliated Business Division as a composite business entity that can handle small-volume transactions in response to this business environment.

ISSUE

RESPONSE TO THE ISSUE

Strengthening the division's earnings potential

Sales are increasing in the marine products and dairy products businesses. However, high raw material prices, intensifying price competition and other factors are depressing earnings. Strengthening the division's earnings potential is one issue that faces us.

To strengthen earnings potential, the division is developing high value-added products. In the context of our commitment to Customer Satisfaction (CS)-oriented management, we are conducting product development strongly focused on the consumer and offering customers a wide variety of product proposals. One example of our success in this area is *Vanilla Yogurt* from subsidiary Nippon Luna Inc. By focusing on creating a delicious and authentic product of high quality, Nippon Luna was able to generate customer satisfaction, the result being a long-running staple product. Similarly, *Niku Dango* from Nippon Pure Food, Inc. was a success due to the better texture and meat quality achieved through meticulous attention to raw materials and processing technology.

Increase sales in the marine products business

In the marine products business, we are faced with the issue of how to increase sales going forward in order to further accelerate future growth.

To increase sales in the marine products business, Marine Foods must respond precisely to the needs of each customer in each of the customer's sales channels. With this in mind, the company plans to introduce to its lineup more products offering high unit-prices and profit margins, such as tuna and its own proprietary products. By conducting small-lot, high-frequency manufacturing and sales, Marine Foods will demonstrate its superiority.

Growth strategy for the dairy products business

The Nippon Ham Group's dairy products are highly acclaimed by consumers, and increased sales are projected. However, we need to build a strategy for the future from the CS viewpoint.

We have formulated a growth strategy for the future to increase sales of existing products in addition to increasing the number of high value-added products handled. In our yoghurt and lactic acid probiotic beverages business, we must create core brand products to carry on the success of *Vanilla Yogurt*. We are also aiming to reinforce development of healthy products incorporating beauty-enhancing ingredients, and products that feature distinctive containers, or are eaten in an alternative way. At the same time, we intend to create staple products that will stay the course as other products are changed or discontinued.

Corporate Governance

The Nippon Ham Group has been working on group management that enables each business division and affiliated company to conduct business operations with the organizational framework and business strategies best suited to their respective markets, exhibit their strengths and make full use of the group's collective capabilities. Thoroughly entrenching compliance management and enhancing corporate governance are both crucial for our operating base. For this reason, the Nippon Ham Group is committed to firmly establishing corporate governance functions and properly fulfilling its responsibility to explain its activities to customers, shareholders, business partners, employees and other stakeholders.

Basic Policy on Corporate Governance

The Nippon Ham Group's basic policy on corporate governance is to clarify responsibility and authority. The group has done this by adopting an executive officer system to clearly delineate the management oversight function of directors and the business execution function of executive officers. Furthermore, considering the important role of directors, who bear responsibility for management oversight, as well as decision-making speed and appropriateness, and the responsibilities of the Board of Directors, the number of directors has been set at a maximum of 12. Headquarter departments and committees have also been reinforced to support the Board of Directors. To maintain the board's transparency, the appointment of at least 2 external directors has been set as a basic policy. The term of office for directors is one year, which is designed to clarify management accountability on a fiscal-year basis.

Moreover, we are building a management oversight framework comprising corporate auditors and the Board of Corporate Auditors. The number of corporate auditors has been set at 5 to provide adequate audit capabilities for the Board of Directors. As a basic policy, at least 3 of the corporate auditors are appointed from outside the group.

In principle, the Board of Directors and the Board of Corporate Auditors should collectively contain at least two appointees, excluding the executive officer that oversees accounting—one with experience and knowledge in finance, and one who has specialist knowledge of the law as an attorney or other legal professional.

The Nippon Ham Group is not only strengthening corporate governance through this management framework. Recognizing the importance of actively conducting corporate governance activities in the workplace, we are also bolstering internal control functions at business locations and group companies.

Internal Control Functions

The Nippon Ham Group has established basic principles of compliance that are expressed in its code of conduct. As well as requiring adherence to laws and regulations, these principles call for the realization of fair and appropriate management, and cooperation with society at large, on the basis of the moral outlook and sense of values required of the Nippon Ham Group both as a corporate entity and a member of society.

To ensure the appropriateness of management decisions, the Corporate Governance Committee, the Investment and Finance Committee and the Management Strategy Committee investigate and discuss all relevant matters. Furthermore, the Nippon Ham Group has established the Risk Management Team to comprehensively manage the risks facing the entire group. Through close ties with the Compliance Promotion Department and other relevant departments, this team, in line with risk management guidelines, has systems in place for conveying information quickly and accurately, and mounting a rapid response, in the event that any anticipated risks should materialize. Meanwhile, the Crisis Management Committee, renamed the Risk Management Committee since last year, is responsible for discussing and deciding on issues and countermeasures pertaining to risk management promotion throughout the group.

The Compliance Committee, which meets regularly, reports and makes proposals to the Board of Directors concerning the familiarity of employees with compliance policies, specific compliance topics and other matters. Furthermore, the Compliance Promotion Department coordinates compliance initiatives for the entire Nippon Ham Group in an across-the-board manner.

The Audit Department conducts internal audits of Nippon Ham Group companies by working together with the business divisions that oversee the businesses of each group company.

Takeover Defense Plan

At the meeting of the Board of Directors held on May 19, 2006, Nippon Meat Packers, Inc. (the "Company") decided to introduce Defense Plan Against a Large Purchase Action of Shares of the Company. This plan was approved at the General Meeting of Shareholders held in June 2006 and was to remain in effect until the 2007 General Meeting of Shareholders.

The plan envisages the following chain of events. When the Company recognizes that a Large Purchase Action of shares would result in the purchaser holding 20% or more of the voting rights of the Company, the prospective purchaser will be asked to provide relevant information about the Large Purchase Action or the Large Purchase Proposal. Based on this information, the Corporate Value Evaluation Committee, composed of independent members from outside the Company, will assess the prospective purchase and advise the Board of Directors whether or not to trigger the defense measure. Finally, the Board of Directors will decide whether or not to actually trigger the defense measure, giving all due consideration to the committee's recommendation.

The following revisions to the plan were made at a meeting of the Board of Directors held on May 18, 2007, and were approved at the General Meeting of Shareholders held in June 2007.

1. Withdrawal of Defense Measure
   The Company may withdraw the defense measure due to Circumstances such as that the Large Purchaser has withdrawn the Large Purchase Action or Large Purchase Proposal.
2. Terms and Conditions of the Exercise of the Stock Acquisition Rights
   The Plan provides an additional clause to the effect that the Stock Acquisition Rights may not be exercised without meeting the requirements mentioned below, in the event that requirements are imposed for the exercise of Stock Acquisition Rights under the laws and ordinances of the relevant country to which the shareholders are subject, such as a requirement for performing a specified procedure or specified condition.
3. Recommendation of the Corporate Value Evaluation Committee relating to triggering defense measure
   Under the Plan insofar as the Corporate Value Evaluation Committee does not determine that the Requirements for Triggering Defense Measure have been objectively met, the Board of Directors of the Company shall not resolve on triggering defense measure.

The company believes that any Large Purchase Action must ultimately facilitate the maximization of the Company's corporate value and common interests of its shareholders, as shown by the specified policy and content of the Large Purchase Action.

The Board of Directors of the Company will quickly disclose information relating to any resolution to trigger or not trigger the defense measure and such other matters as the Board of Directors of the Company determines appropriate so as to enable the shareholders to make the appropriate decision.

Board of Directors

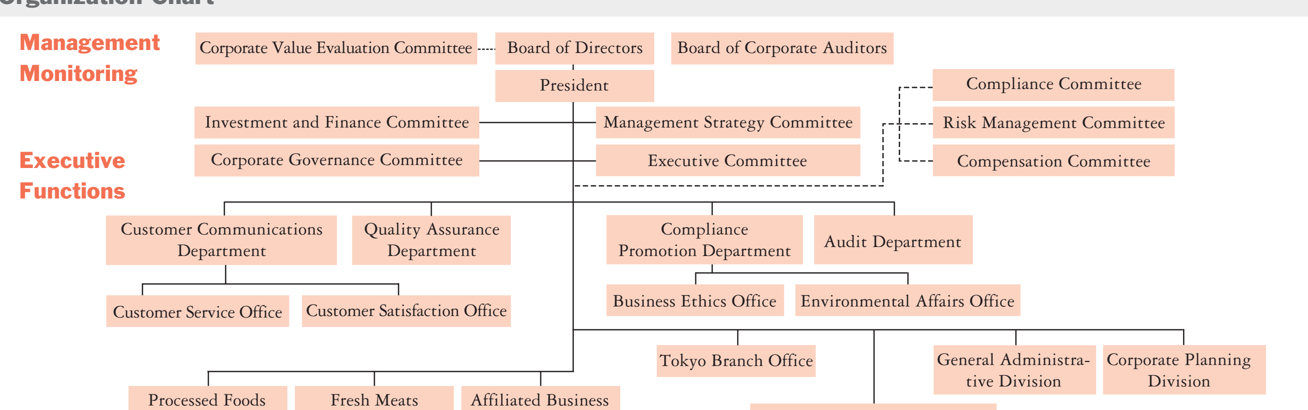
Chairman, Representative Director	Yoshikiyo Fujii
President, Representative Director	Hiroshi Kobayashi
Director, Senior Managing Executive Officer	Sumio Somura
Director, Senior Managing Executive Officer	Haruaki Takeda
Director, Senior Managing Executive Officer	Hiroji Okoso
Director, Managing Executive Officer	Noboru Takezoe
Director, Managing Executive Officer	Bin Ueda
Director, Managing Executive Officer	Koji Uchida
External Director	Sachiko Hayakawa
External Director	Akira Fujii
Auditor (Full-time)	Toshio Inui
Auditor (Full-time)	Soichi Furukawa
Outside Auditor	Kaoru Izumi
Outside Auditor	Masahiro Seki
Outside Auditor	Tokito Sasaki

(Corporate Officers and Executives)

Managing Executive Officer	Takaharu Chujo
Senior Executive Officer	Masumi Wakamatsu
Senior Executive Officer	Yoshio Tada
Senior Executive Officer	Kazuhiro Tsujimoto
Senior Executive Officer	Katsutoshi Nishio
Senior Executive Officer	Kazuhiko Morishita
Executive Officer	Kunihiko Fukuhara
Executive Officer	Katsumi Inoue
Executive Officer	Kenichi Tamagaki
Executive Officer	Hideyuki Koide
Executive Officer	Kiyoshi Shigyo
Executive Officer	Takahito Okoso
Executive Officer	Toru Kurokawa
Executive Officer	Toshimichi Miyachi
Executive Officer	Masayuki Matsuba
Executive Officer	Shunichi Ogata
Executive Officer	Masaki Masui
Executive Officer	Kazushi Ohta

(As of June 28, 2007)

Organization Chart



(As of April 1, 2007)

Review of Operations

The design of the Hamrins characters draws on the theme of processed foods, including hams and sausages. As ambassadors for the Nippon Ham's food education on the website and events in stores, the Hamrins support our activities with their healthy exuberance.

http://www.nipponham.co.jp/hamrins/

SCHAU ESSEN

The Korewa Benri Fresh Ham

Meat Stick Links Chicken Links • Pork Links

Processed Foods Business Division

The Processed Foods Business Division comprises the Hams and Sausages Division, the Deli & Processed Foods Division, and the Sales and Marketing Division.

Amid a business environment that continues to be extremely challenging due to rising prices for raw materials, the Processed Foods Business Division aims to transform itself into a company with overwhelming competitive capabilities. To achieve this, we have been steadily implementing the four business strategies set out in our *New Medium-Term Management Plan Part II*: establish a solid profit structure, build a marketing framework to respond to changing times, expand the market share of hams and sausages, and expand sales of processed foods.

In April 2006, we established the Quality Improvement Committee in the Production Administrative Division, in line with our policy of *Management for No. 1 Quality*. The intention was to ensure that our products bring satisfaction and enjoyment to our customers as well as safety and reliability. Personnel from marketing and back office departments also participated in the committee, which established FT-CCP standards as a means to clarify the focus of activities. This formed the basis for rigorous implementation of quality control.

FT-CCP stands for Fresh and Tasty-Critical Control Point, referring to the fact that products are required to meet critical control standards for freshness and tastiness. The following products have been designed as FT-CCP products:

SCHAU ESSEN (savory flavor and juiciness in meat)
Shinsen Seikatsu Roast Ham (texture and color in ham)
Chuka Meisai Subuta (deep-fried aroma/flavor and texture in meat)
Chicken Nugget (tastiness in meat and texture of both meat and coating)
Chikichiki Bone (spicy flavor and color from frying)
Ishigama Kobo Pizzas (texture of pizza crust, baked flavor and taste of tomato sauce)
Other products

In addition to the above, we implemented various quality improvement measures centered on the NQC (Nippon-Ham Quality Control) circle. There are currently about 300 quality-control circles in existence throughout the entire Group, and we will further strengthen these activities in the fiscal year ending March 31, 2008. To improve our earnings potential, we implemented measures throughout the division to cut costs, such as reducing the cost of sales ratio by improving yields, and reviewing business expenses. These actions achieved benefits that exceeded forecasts.

On the sales front, we upwardly revised delivery prices in July 2006 because of various rising costs, including prices for pork as a raw material, energy costs and the prices of packaging materials. In autumn 2006, we conducted a campaign in association with the baseball victory of the Hokkaido Nippon Ham Fighters that contributed to increased sales. With regard to strategies for specific sales channels, for volume retailers we refined our marketing to strengthen initiatives in collaboration with client retailers and proposal-based marketing capabilities. In particular, we focused on purchase-based proposals aimed at creating class categories, namely developing new sales areas, from the customer's perspective. In the foodservice channel, we are cultivating highly specialized sales engineers and building a system which can respond speedily to the rapidly changing foodservice market. At our direct sales subsidiaries, which between them command 99 sales offices and 1,780 marketing personnel, we are reforming the overall organization to further promote ties with local communities, in addition to improving SCM functions.

Furthermore, we will take on the challenge of new product categories, for example, foods for people with allergies, and sauces. As we expand our business domains, we will develop these new categories in collaboration with existing ones.

Hams and Sausages Division

In the fiscal year ended March 31, 2007, price competition intensified in supermarkets and elsewhere in the retail sector to which we responded with modifications of various standards and other measures. To reduce costs, we raised the efficiency of our production lines by realigning two plants and eliminating some lines. We also reduced costs by using centralized purchasing to secure benefits of scale.

On the product front, sales of our top brand *SCHAU ESSEN* were strong, increasing over 10% year on year in monetary terms. We made full use of our vertically integrated system for meat production—the Nippon Ham Group's greatest strength—launching a new brand targeting the general consumer that uses only raw materials from the Nippon Ham Group's own farms in Japan. In the gift product sector, we launched the *Utsukushi-no-kuni* brand which similarly uses only raw materials from the Nippon Ham Group's own farms in Japan. By integrating all stages of the process from manufacturing to sales, we can offer products that make the grade not only in terms of basic safety and reliability, but also in terms of flavor. Furthermore, we strengthened the production and sales of fresh ham, the epitome of the value-added product, with the aim of gaining the top share in the market.

The Nippon Ham Group improved its brand image by making use of its Hamrins characters. They participated in events held at supermarkets, and in regional communities the characters played a role in school visits and other food education activities rooted in the region.

Utsukushi-no-kuni

Kirei Batake Aloe & Lemon Dressing • Wafu Wasabi Dressing

Chiki Chiki Born • Chicken Nuggets

Deli & Processed Foods Division

Chuka Meisai Butaniku no Kuromiso Itame

Ishigama Kobo Ebi Mayonnaise-fu Pizza

Omugi Gyu Roast Beef

In the year ended March 31, 2007, approximately 20% of the sales in deli & processed foods operations were accounted for by new products. As products were improved or discontinued, new products contributed to sales and the division's sales increased year on year. Turning to the products themselves, the division currently handles approximately 1,200 items, led by the four major product categories of Prefried, Hamburgers and Meatballs, *Chuka Meisai* and *Ishigama Kobo*. We developed a new product category, Sauces, Dressings and Pastas, which was launched during the year. In the year ended March 31, 2007, we gave particular attention to focusing on CS activities, actively paid heed to consumers' opinions and further increased the number of value-added elements in our products. As a result, *Ishigama Kobo* was particularly highly acclaimed and achieved a 6.1% year-on-year increase in sales by volume. Moreover, Prefried products also sold well.

The Nippon Ham Group established the subsidiary Premier Deli Co., Ltd. to boost the development of high-end products designed to be sold through specific sales channels, such as in gift stores, or by mail order. Looking ahead, we will also focus on deli products manufactured using the Nippon Ham Group's integrated system.

In overseas production bases, the division took action including measures to deal with Japan's "Positive List" system for agricultural chemical residues in foods. In this way we were proactive in ensuring our customers' safety and peace of mind, thereby earning greater trust in the market.

Fresh Meats Business Division

Sales Overview by Livestock Type

[Beef]

In July 2006, the Japanese embargo on imports of beef produced in the U.S. was lifted and it became possible to import beef from cattle aged 20 months or younger. However, the levels of beef imported have been less than 10% of those before the embargo was imposed because there is only a limited amount of beef available that satisfies Japan's import criteria.

Sales of domestic beef rose because there were few imports of beef produced in the U.S. We opened an office in Kyushu to promote sales to food companies and took other actions to increase sales volumes, resulting in improved earnings from domestic beef. The Nippon Ham Group proceeded to develop a variety of beef brands, including the Japanese-beef brand *So-o Wagyu*, the region-exclusive crossbred brands *Kyushu Saibigyu* and *Oshu Saibigyu*, and the *Kyushu Bimigyu* and *Kita No Bimigyu* brands of dairy fattening cattle.

With no increases in the levels of imports from the U.S., the main beef imports handled continue to be Australian-produced beef. Regarding sales of Australian beef, we strengthened proposal-based marketing activities such as promoting displays of the *Omugi Gyu* and *Olive Gyu* brands. However, sales volumes did not rise and a challenging environment continued on the earnings front. This was because Australia has become a high-priced production area due to rising prices for live cattle in Australia and because sales prices in Japan are low, partly due to stagnation in domestic demand for imported beef.

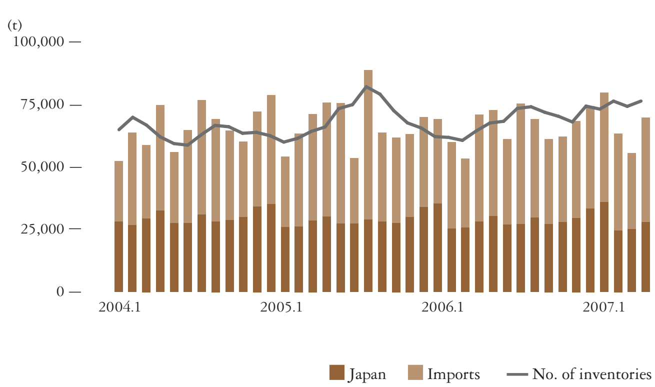
In our beef production business in Australia, the challenging business environment continued and earnings struggled mainly due to the disruption to live cattle prices caused by the impact of drought, the high rate of the Australian dollar and rising prices of animal feed.

大麦牛
オーストラリア産

豪州産
オリーブ牛
Olive Beef

Beef brands sold by the Nippon Ham Group

Beef supply and demand trends



Pork brands sold by the Nippon Ham Group

Poultry brand sold by the Nippon Ham Group

[Pork]

Pork sales rose as they had in the previous fiscal year, reflecting increased domestic demand for pork as a substitute for beef, caused by the impact of the embargo on imports of U.S.-produced beef and rising prices for Australian-produced beef.

Demand increased for domestic pork mainly due to the increasingly food safety-oriented approach adopted by consumers. Against this backdrop, the Nippon Ham Group boosted sales of pork brands that matched the needs of consumers.

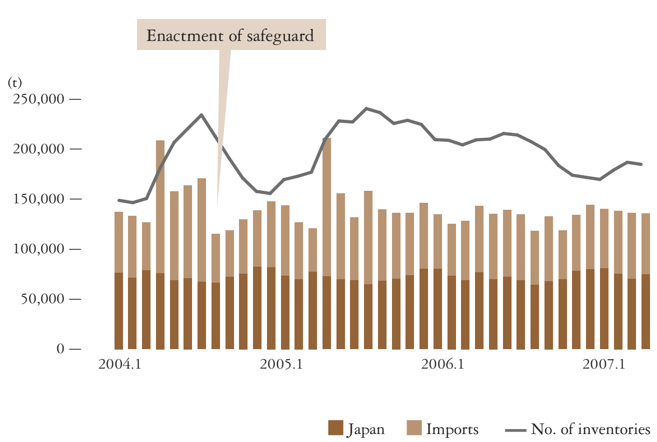
Both sales volumes and unit prices of imported pork increased year on year as no safeguard restrictions were imposed on imports and supply stabilized. Demand increased for the *Andes Kogan Buta* brand of pork produced in Chile.

[Poultry]

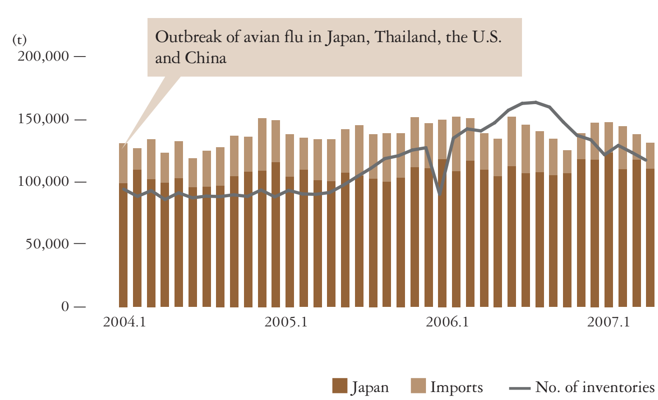
Consumption of poultry has been steadily increasing but market prices have been declining yearly. In the area of domestic production, market prices dropped due to excess supply. This was because the amount of poultry supplied had increased, reflecting a rising enthusiasm for production generated by the rise in market prices in the previous fiscal year. Poultry sales struggled temporarily due to the outbreak of avian influenza, but overall a certain level of earnings was maintained.

Prices of imported poultry rose last fiscal year as Brazil became the only remaining source of production of fresh poultry. However, market prices fell as imports of heat-treated poultry from Thailand and China increased and demand for processed poultry declined. Consequently, in the first half of the fiscal year profitability worsened despite increased import volumes. However, in the second half of the year stable earnings were achieved due to a settling down after inventory adjustments.

Pork supply and demand trends



Poultry supply and demand trends

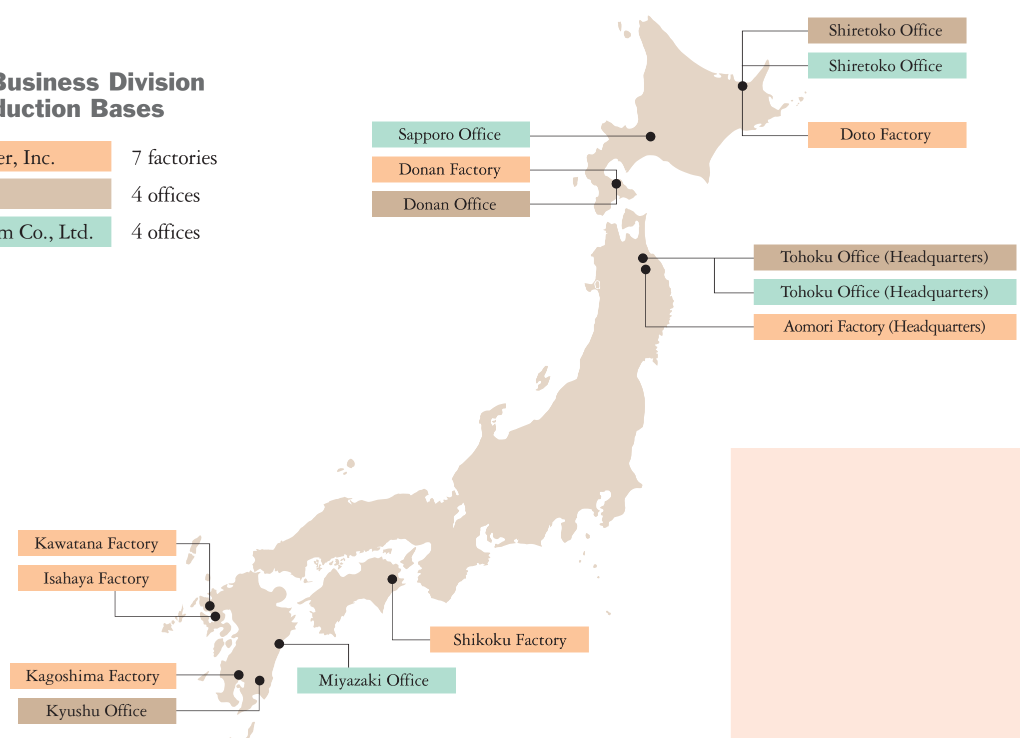


Overview of Domestic Sales

The Nippon Ham Group expanded sales to large volume retailers and the restaurant industry, and increased sales of all types of domestically processed livestock, reflecting the heightened orientation of consumers toward safety and reliability. Our marketing activities for large volume retailers were carried out by a dedicated volume sales department, with marketing activities more closely tied to each area, which developed new customers such as regional medium-sized supermarkets. Aiming to increase sales in the home-meal replacement market, we worked to expand the sales routes of raw materials for processed products, targeting the prepared foods sales areas of supermarkets. We succeeded in further increasing sales by broadening sales channels in the growing prepared foods market. We also established new dedicated organizations to handle our prepared foods operations which targets different institutional buyers from our meat operations. Furthermore, to conduct innovative women-oriented proposal-based marketing, we assigned about 15 female marketing personnel to act as food advisors. We plan to increase these specialized personnel during the fiscal year ending March 31, 2008.

Fresh Meats Business Division Domestic Production Bases

Nippon Food Packer, Inc.	7 factories
Interfarm Co., Ltd.	4 offices
Nippon White Farm Co., Ltd.	4 offices



Overseas Sales and Strategies

Australia

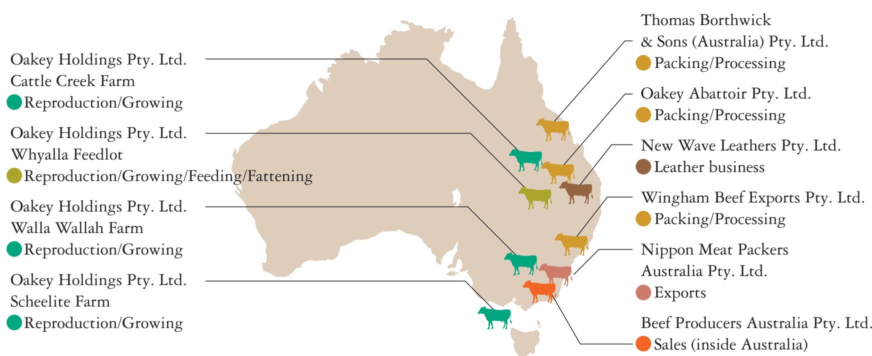
In Australia, the Nippon Ham Group has built an integrated production system that handles many of the beef business processes, from breeding to fattening, producing and sales. This business model, unique to the Nippon Ham Group, allows us both to guarantee quality, thereby winning the trust of the consumer, and to provide traceability.

Whyalla Feedlot

The beef we produce is supplied roughly equally in three directions: one-third of production is exported to Japan, one-third to other overseas markets, mainly the U.S., and one-third is shipped to locations within Australia. At Oakey Abattoir Pty. Ltd., which conducts packing and processing, we completed a new abattoir in November 2006 to augment operations of the cutting plant active in the previous fiscal year. The current combined processing capability of the cutting plant and abattoir is 1,000 cattle per day (via a one-shift system), and we established a framework for increased production. We plan to raise this processing capability to a maximum of 2,000 cattle per day (via a two-shift system), aiming to achieve this in the fiscal year ending March 31, 2009.

Our leather business in Australia is conducted by New Wave Leathers Pty. Ltd. The company purchased two plants in the year ended March 31, 2006, and currently operates three plants. Leather products are normally shipped in a salted state, but this company processes the leather to ship it in the wet-blue tanned state as a value-added product. This production method employs an advanced processing technology that is relatively rarely used in Australia, thereby realizing a product that has a substantially competitive edge.

Production and sales bases of fresh meats in Australia



Texas Farm

The U.S.

In the U.S., the Nippon Ham Group's Texas Farm, LLC. produces pork. Texas Farm ships a steady 600,000 pigs annually, and also conducts a business in which the company buys piglets from Canada and then contracts farms in the U.S. to do the fattening. In the year ending March 31, 2006, the company bought 200,000 pigs from Canada. Looking ahead, the company plans to buy 200,000 pigs annually. The economic background to this contract business of the Nippon Ham Group is that in Texas prices of animal feed are high and there are few facilities for processing pork. We are now working to reduce production costs by contracting farms in the Midwestern states of the U.S.—where animal feed prices are low—to fatten the bought pigs. In the year ending March 31, 2008, we plan to produce 100,000 new piglets by contracting a total of 300,000 piglets and increasing the entire number of piglets shipped from 800,000 in the previous fiscal year to 900,000.

Affiliated Business Division

The businesses of the Affiliated Business Division are conducted by six affiliated companies: Marine Foods Corporation, an industry leader in foodservice-use sushi ingredients; HOKO Co., Ltd., which handles the ROLF brand of cheese and excels in raw material procurement for processed marine products; Nippon Luna Inc., which manufactures and sells *Vanilla Yogurt* and other dairy products; Nippon Pure Food, Inc., which conducts secondary processing of meat and meat extract operations; Nippon Dry Foods, Inc., which manufactures and sells freeze-dried foods; and Maruwa & Co., Inc., which markets health-food products through mail order and online sales.

Amid a general trend toward foods that are more diversified as well as more individualized, the merits of pursuing operational scale are limited. The markets in which Affiliated Business Division companies operate are those in which attention to quality is paramount. We intend to tap these markets to build fourth and fifth income streams—incorporating our marine products and dairy products businesses—to stand alongside fresh meats, hams and sausages, and processed foods. In this context, the Affiliated Business Division is steadily implementing its three business strategies in line with the *New Medium-Term Management Plan Part II* strengthen earnings potential, expand business by strengthening marketing, and expand the health foods business.

In the fiscal year ended March 31, 2007, we acted to strengthen our earnings potential on the assumption that we would maintain sales. The trend toward more diversified consumption patterns and small-lot purchasing is pronounced, while overall market size is continuing to contract due to the demographic changes of fewer children and more elderly people. Our marketing strategy reflects the fact that it is time for us to move away from volume production and instead toward growth through CS-focused products designed for specific markets. In a situation where focusing on the consumer is essential, we strive to manage our businesses from a CS-oriented perspective. To this end, we are giving priority to front-line operations, ensuring each subsidiary thoroughly grasps consumer needs, and making use of CS feedback from customers not only in manufacturing, but also in decision-making.

Hoko *Rolf Brand*

Sushi product ingredients-
Marine Foods' flagship product

Maruwa *The Drink Supli Series*
Kenko Kazoku Mix Juice

Sushi product ingredients sold by Marine Foods

Marine Foods *Ajitsuke Aloe Mozuku*

HOKO *Light Tuna Flake*

Marine Products Business

Group companies Marine Foods and HOKO are the main companies handling our marine products business. Marine Foods boasts outstanding supply capabilities in the market for sushi product ingredients and also sells processed products developed in-house. HOKO commands superior capabilities in the procurement of processed raw materials; its products complement those of Marine Foods, and together they capture synergies by sharing an overseas network in northern Europe, Russia and elsewhere.

Marine foods

Marine Foods is building a robust sales organization targeting the market for sushi ingredients. In the fiscal year ended March 31, 2007, the company reaped substantial benefits by opening up new sales channels and developing existing ones, especially at supermarkets and other volume retailers. Active efforts to sell tuna and processed products from the company's own manufacturing plant contributed to increased sales.

Against the backdrop of a worldwide decline in fishing yields, demand for fish is increasing in China, Russia and Europe. Consequently, the prices of raw materials for our marine products soared, reflecting the worldwide consumption of the same marine resources that used to enter Japan. In response, Marine Foods shifted away from its existing product lineup (focused on sushi ingredients) toward products with high earnings potential such as tuna and its own processed products. In line with this policy, the company established two dedicated organizational units to sell the tuna and processed products, respectively. Furthermore, Marine Foods exports seaweed and other processed marine products to North America and in the future plans to export these products to Europe and other markets as well.

HOKO

HOKO operates four main businesses: raw materials operations centered on fish, frozen foods, shelf-stable foods and the cheese-related portion of the dairy products business. One particular strength in the marine products business is the company's strong capability in procuring raw materials for processed marine products. Another strength is the company's overseas network in northern Europe, Russia and elsewhere, established through past business transactions. HOKO uses this robust network to process raw materials procured from overseas at plants in China and Southeast Asia, thereby producing both products to sell and to use as raw materials for the company's own frozen foods. Group company Marine Foods mainly handles fresh fish products such as sashimi (raw fish) and sushi ingredients, whereas HOKO mainly handles processed marine products that use mackerel or other fish with a more robust texture. This means that the two companies can separate the fish products they handle and build well-balanced product lineups. Furthermore, the two companies continue to exchange information about raw materials and are working together to generate synergies in the export of processed marine products to Europe.

Dairy Products Business

Our dairy products category comprises the cheese business, and the yoghurt and lactic acid probiotic beverages business. HOKO conducts the former business while Nippon Luna handles the latter.

Cheese business (HOKO)

In the cheese business, HOKO manufactures and sells foodservice- and consumer-use cheeses under the ROLF brand. In the year ended March 31, 2007, we developed new sales channels for foodservice cheeses, including selling to manufacturers of bread and other bakery products. We also made efforts to place the ROLF brand of consumer-use cheeses in stores and conducted sales activities that gave the utmost priority to achieving brand recognition.

Yoghurt and lactic acid probiotic beverages business (Nippon Luna)

Nippon Luna was the first company to bring “liquid yoghurt” to Japan. In the year ended March 31, 2007, the core product *Vanilla Yogurt*, which has a flavor similar to milk, performed well and it steadily increased in sales as a key brand. Nippon Luna pursues two themes in its product development— delicious and authentic products, and health-oriented products—and is improving its product development capabilities to meet the expectations of consumers and business partners. In the foodservice product sector, the company started manufacturing and selling cream cheeses and cream yoghurt sauces from the year ended March 31, 2007. Nippon Luna particularly increased its business in the Western-style confectionery field by supplying sauce ingredients for western-style desserts and for manufacturers of confectionery. The company’s policy of expanding foodservice sales channels proceeded steadily; the company will strengthen and improve its sales capabilities to increase sales going forward.

Other Businesses

Nippon Pure Food, Inc. operates two businesses: the secondary meat processing business, which uses flavoring and heat processing to add value to meat products; and the meat extract business. In the meat extract business in particular, the company targeted sales growth by actively expanding its proposal-based marketing with sauces and cooking stocks that use fresh ingredients. Nippon Dry Foods, Inc., in addition to supplying the ingredients for cup noodles, manufactures and sells freeze-dried foods for consumers, including Chinese-style egg soup, vermicelli in broth and collagen soup. In the year ended March 31, 2007, the company focused on developing its own products with high earnings potential, and renewed its efforts with regard to retort pouch products. In addition to focusing on freeze-dried soups, the company is developing products that are healthy as well as offering authentic flavor. Maruwa & Co., Inc. markets health-food products through mail order and online sales, and sells healthfood products to corporate customers. In the year ended March 31, 2007, the company increased sales by specializing in foods offering beauty-related benefits. Looking ahead, the company will form business alliances with other companies and add new sales channels to increase the scale of its business.


HOKO *Dice Cheese*


HOKO *Norwegian Cheese*

Nippon Luna *Vanilla Yogurt*

Nippon Luna *Shibo 0% Ichigo no Yogurt*


Nippon pure food *Tori Tsukune*

Nippon Dry Foods *Kuki Wakame Soup*

The Nippon Ham Group's *Management for No. 1 Quality*— Measures Towards Quality Assurance

The Nippon Ham Group has set the pursuit of *Management for No. 1 Quality* as one of its management policies in the *New Medium-Term Management Plan Part II*. To realize this policy, the Nippon Ham Group is implementing three measures. First, we will create a framework in which we continue to develop products and technology that our customers find appealing and enjoyable. Second, we will establish a corporate culture in which management gives priority to customer satisfaction and quality. Third, we will build a brand image in which the Nippon Ham Group is synonymous with high quality.

Developing Products and Technology which Provide Reassurance, Satisfaction and Enjoyment to Consumers

The Nippon Ham Group's measures towards Open Quality stem from our belief that we should adopt the customer's perspective by offering safe, high-quality products and make every effort to provide the information that customers need. *Management for No. 1 Quality* follows as an extension of these activities. It involves going beyond mere product quality management to ultimately ensure the satisfaction and enjoyment of consumers. We intend to achieve overwhelming excellence of quality in terms of customer response, safety, taste and freshness, thereby increasing competitive superiority. Of the three phases, Phase I ended in March 2007.

Steps to Create Management for No.1 quality

Phase I
Year ended March 31, 2007
Framework to improve and develop products that satisfy customers in terms of safety, taste and freshness

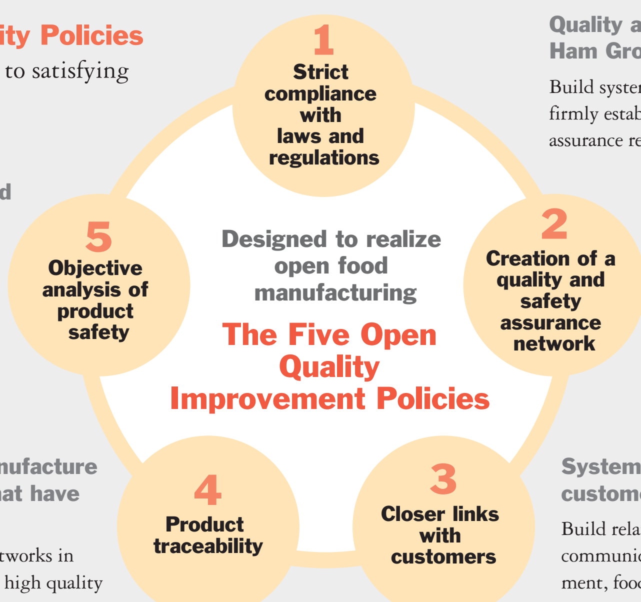
Phase II
Year ending March 31, 2008
Framework to develop market-creation products through all departments coordinating activities as a quality-based value chain

Phase III
Year ending March 31, 2009
Firmly establish corporate culture in which *Management for No. 1 Quality* functions as a system generating customer satisfaction

→ **Build a system to ensure *Management for No. 1 Quality***

Five Fundamental Quality Policies

Quality assurance: from safety to satisfying and appealing quality



Quality assurance based on the 24 Nippon Ham Group quality assurance regulations
Build system guaranteeing reassurance and satisfaction by firmly establishing the Nippon Ham Group's quality assurance regulations and quality standards

Organic group tie-ups to guarantee quality
Build value chain to ensure high-quality grades, including those for safety, freshness and taste

System to respond with sincerity to customer feedback
Build relationships of trust with customers through communication activities in the areas of the environment, food culture, food and health, and food education

Traceability of purchase, manufacture and sales of raw materials that have been verified as safe
Build verification and investigation networks in countries of origin to ensure safety and high quality of raw materials and products

Introduce HACCP system and obtain external certification
Build CS management system that continues to use customer information to develop products that create value

Management for No. 1 Quality is in Itself the Nippon Ham Group's Management Strategy

Haruaki Takeda
Director, Senior Managing Executive Officer, in charge of Quality Assurance Department, Customer Communications, and Research and Development Center

Open Quality Policy

Two key issues emerge when one considers the role of a food company. The first is the necessity of providing safe, high-quality products. The second is the necessity of clearly communicating details of the company's activities: safety does not by itself bring reassurance. We introduced Open Quality to make the Nippon Ham Group's activities as open as possible, with the aim of giving our customers peace of mind.

Going Beyond Safety and Reliability, to Provide Satisfaction and Enjoyment

Open Quality is the basis of our pursuit of *Management for No. 1 Quality*. Safety and reliability are now taken for granted, and satisfaction is also a given. This is why we want to offer a quality that inspires surprise and enjoyment, the likes of which people have never experienced before. Continual improvement in the pursuit of higher quality marks the starting point of *Management for No. 1 Quality*.

Management for No. 1 Quality Moves into Phase II

Phase I brought the establishment of a quality-based value chain, which now connects the quality of all our business activities. Following this, we have moved into Phase II, the development of high-quality products. The management of product safety is merely an aspect of what we consider as quality management. Our concept of quality assurance of course includes product quality assurance in the background. But going beyond this, it includes an awareness of the need for quality assurance to be applied to the company itself.

Quality Assurance—The Basis of the Nippon Ham Group's Management Strategy

The Nippon Ham Group's management strategy focuses on improving the Group's corporate value by using quality assurance to consistently develop and promote high-quality products. Quality assurance forms the cross-functional paradigm of each business division strategy and is essential to increase competitive superiority. Product differentiation has been a challenge in recent years, but I think that *Management for No. 1 Quality* will greatly contribute to differentiating our company's quality from others.

Performing CS Activities from the Customer's Perspective

The Nippon Ham Group management and staff adhere to a CS philosophy that gives the highest priority to the customer's perspective. In particular, we recognize the customer's voice as a precious resource in product development. During fiscal 2007, we received approximately 28,000 opinions and inquiries from customers. Furthermore, we are also focusing on food education, which stresses the importance of experiencing food through all five senses. We promote food education by offering "food experience" in the form of factories open to visits and summer cooking schools for parents and children. We also offer "food knowledge" in the form of educational support for children.

Environmental Protection Activities—To Leave a Beautiful Planet to the Next Generation

Working Towards a Sustainable Society

The Nippon Ham Group formulated its *Eco Action Plan* to quantify its targets in responding to environmental problems, and is working continually to achieve the plan's targets.

In the year ended March 31, 2007, we started our *Eco Action Plan Part II*, which includes targets to be achieved by the end of the year ended March 31, 2009.

The *Eco Action Plan Part II* promotes a variety of environmental improvement activities aimed at taking good care of our Earth's natural environment to bequeath it to future generations with its beauty intact. To this end, the plan sets six environmental targets in areas such as curbing emissions of greenhouse gases and reducing volumes of waste generated.

Eco Action Plan Part I Results
(the year ended March 31, 2004—the year ended March 31, 2006)

	Reduction in CO_2 emissions (output units)	Reduction in amount of water used (consumption units)	Reduction in amount of waste generated (output units)
Targets (By the end of FY2005)	5% reduction compared to FY2002	5% reduction compared to FY2002	Recycling rate 90%
Results (At the end of FY2005)	5.0% reduction	5.8% reduction	91.50%

Eco Action Plan Part II Targets
(the year ended March 31, 2007—the year ended March 31, 2009)

				New targets		
	Reduction in CO_2 emissions (output units)	Reduction in amount of water used (consumption units)	Reduction in amount of waste generated (output units)	Promote recycling	Promote introduction of low gas-emission vehicles	Promote green purchasing by the entire Nippon Ham Group
Quantitative Targets (By the end of FY2008)	4.5% reduction compared to FY2005	4.5% reduction compared to FY2005	6% reduction compared to FY2005	95% or more (at factories)	60% or more (of all Nippon Ham vehicles)	75% or more (of all purchased office supplies and paper)

Using Resources Efficiently

The Nippon Ham Group uses a large number of vehicles in its sales activities as well as during delivery. However, gas emissions produced by vehicles cause atmospheric pollution, while the burning of fuels produces greenhouse gases, both of which are damaging to the environment. The Nippon Ham Group is committed to reducing its impact on the environment through measures such as the introduction of low gas-emission vehicles and natural gas vehicles, and its *Eco Drive Campaign*, which promotes the efficient use of vehicles. In addition, at the Hokkaido Plant in Ebetsu City run by Nippon Ham Sozai Co., Ltd., used vegetable oil is recycled into biodiesel fuel (BDF). By initiating the trial use of this fuel in the Hokkaido Nippon Ham Fighters' company trucks, we are making efforts towards the even more efficient use of resources.

Nippon Ham Sozai Co., Ltd. plant in Ebetsu City, Hokkaido, which produces mainly fried chicken wings and bite-sized deliciously soft pork cutlets

Recycling equipment

Used vegetable oil from deep-frying process recycled as truck fuel

Fighters' truck, which runs on biodiesel fuel

The Responsibilities of the Nippon Ham Group

The Nippon Ham Group engages in business activities in a wide range of areas in the food industry. These business activities rely upon us fulfilling our responsibilities as a member of society. Using our characteristics as a food company and working in cooperation with members of the local community, we continually engage in making contributions to society.

Support for Sports and Athletics

The Nippon Ham Group strives to develop and popularize sports activities and athletics to help build communities that foster the physical and mental health of their members.

We own the Hokkaido Nippon Ham Fighters, a professional baseball team, and we are involved in the management of Cerezo Osaka, a J. League Division 2 soccer team. The Nippon Ham Group is involved in baseball and soccer school events throughout Japan, arranging instruction by players and coaches from these teams. Furthermore, we were special sponsors of the UNICEF Cup 2007 Ashiya International Fun Run, which supports the activities of UNICEF (the United Nations Children's Fund). We also sponsored the Nippon Ham Cup Futsal Tournament and other events as a means to help young people grow up healthily through sports activities.

Support for the Environment: Forest Preservation

The Nippon Ham Group conducts voluntary forest preservation activities based on the Forestry Agency's *"Corporate Forest"* system. We are currently conducting these activities within three designated forested areas: Mount Onari in Hyogo Prefecture, Mount Tsukuba in Ibaraki Prefecture and around Jokoji near Seto City in Aichi Prefecture. Nippon Ham Group employees and others carry out forest preservation activities such as planting trees and cutting back undergrowth. We also invite members of the general public to participate in activities such as nature-observation walks, thereby reminding people of the importance of our forests.

Recycling-oriented Farming

The Nippon Ham Group acts to coexist constructively with society at large through our recycling-oriented agricultural activities, which use an integrated system involved in areas of operation ranging from the raising of livestock to sales and distribution.

When raising livestock, it is inevitable that animal waste will be produced. However, the Nippon Ham Group treats this waste, so rich in organic constituents, as a precious resource, and makes good use of it by producing fertilizer. Returning this fertilizer to the farmland serves to maintain and increase fertility. Also, growing vegetables in local farms allows us to provide our customers with vegetables that are safe and reliable.

Furthermore, these fertilizers are also used by local farmers, and in parks and flowerbeds in the surrounding area. We are committed to the effective use of this resource not only within the Nippon Ham Group, but in the region as a whole.

Through recycling-oriented farming, the Nippon Ham Group strives to avoid squandering the plentiful blessings of nature, to cultivate fertile land and to create farm produce that is safe and delicious.

1. To collect together all livestock waste at the Fertilizer Center

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2. To treat and process this animal waste into fertilizer

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3. To make use of this fertilizer on farmland and flowerbeds

The Research & Development Center (RDC)

The Nippon Ham Group's Research & Development Center (RDC) at Tsukuba, Ibaraki Prefecture is involved in three core research areas: food products and ingredients with advanced health benefits, food-inspection technologies and foods for sports and athletics. RDC conducts fundamental and applied research and product development that does more than merely address food safety and reliability—its activities produce foods with high added value. RDC aims to raise the Nippon Ham Group's corporate value in various ways. The outcomes of its research activities lead to strategic business proposals and find practical applications. RDC thus contributes to the strategic diversification of the group and the development of innovative technology that can be effectively used in the group's businesses.

Furthermore, RDC is strengthening its R&D framework through such measures as forming industry-government-academia alliances, utilizing public sector research support systems and conducting personnel exchanges. In research activities, priority is given to the fields of functional-food ingredients, inspection reagents, fresh meats, processed foods and quality assurance.


Research and Development Center

Policies for New Businesses

The Nippon Ham Group will propose business models in the fields of health supplements, functional-food ingredients derived from livestock and marine products, and inspection reagents for foods. To this end, we will make full use of core technologies and resources in which the group has competitive superiority to strengthen our business foundation.

1. R&D and commercialization of functional-food ingredients

The Nippon Ham Group is carrying out studies on the functionality of the functional-food ingredients from livestock and marine resources that contribute to maintaining or improving health. Our research activities accumulate scientific evidence in such areas as chicken breast extract (CBEX) poultry peptide preparation and marine-based ß-glucan (seaweed-derived), and we established new manufacturing technology at our test plant, which we then marketed.

Looking ahead, we are aiming at commercialization, targeting the markets for functional-food ingredients derived from livestock and marine resources.

CBEX®

Syuku

2. Developing new health supplements

We are developing health supplements that use our functional-food ingredients, aiming at the market demand for products that aid beauty, prevent lifestyle-related diseases and alleviate fatigue. We offer collagen, peptides, gelatin and elastin extract in the area of general beauty and skincare, and the poultry peptide preparation for alleviating fatigue.

Looking ahead, a group company will be in charge of the sales activities for the health supplements developed in collaboration with RDC, and RDC will support business through R&D in foods with high added value, including the Nippon Ham Group's processed foods category.

Specifically, we are selling three products in a series incorporating newly developed pig placenta extract. We are also developing and selling health supplements for consumption during sports and athletics to alleviate muscular fatigue, improve stamina and increase body strength. These supplements are made from an extract produced by our own technology whose active ingredient is included in poultry preparation.

3. Building the food inspection reagent business

RDC is building a food inspection reagent business, centered on FASTKIT, a food allergen screening test kit. FASTKIT, which is approved by the Ministry of Health, Labour and Welfare as a means of testing for specific substances in food, continues to demonstrate its superiority in the market. RDC is expanding business by developing reagent products to supervise food safety such as new allergen screening kits and kits to detect pathogenic microorganisms.


FASTKIT, a food allergen screening test kit

In addition, the Nippon Ham Group will use cutting-edge equipment and analysis techniques based on genetic engineering to detect undesirable substances in foods. Such substances include agrichemicals, drugs used to treat livestock and other residues, as well as pathogens causing foodborne diseases and other potentially harmful organisms. Both the equipment and analysis techniques will be internally commercialized by the group.

In November 2006, FASTKIT was awarded the Achievement Prize at the 36th Japanese Food Industry Awards. These awards are sponsored by the publishers of the Japanese food industry's newspaper and the award is a prestigious one judged by reputed specialists, including representatives of public institutions.

Looking ahead, RDC aims to move beyond foods to develop businesses in new fields by conducting joint projects with academic research organizations nationwide.

Technology Development

RDC contributes to the Nippon Ham Group's businesses by developing technologies mainly for improving the productivity of fresh-meat production, supporting new uses of the side products of livestock rearing and developing functional foods in the processed-food category. Furthermore, RDC conducts leading-edge research with an eye to future applications.


Technological development scene

1. Basic technology developments regarding production and taste of fresh meats

The taste and flavor of the Nippon Ham Group's fresh meats are underpinned by RDC's research and assessments. These activities contribute to differentiate products of ours from those of competitors, and are useful in cultivating the Nippon Ham Group's own unique brand.

Furthermore, RDC conducts technology development centered on the diagnoses and other procedures required to maintain good hygiene at our rearing farms to enable the group to raise even healthier pigs offering the highest standards of food safety.

2. Research on microbe utilization

RDC develops lactic-acid bacteria with probiotic properties, such as the ability to strengthen the immune system, and aims to develop product applications such as yoghurt and fermented products.

Information sent from the Research & Development Center (RDC)

The Food Allergy Website

The Nippon Ham Group runs "The Food Allergy Website," designed to help people with food allergies and their family members prepare and eat tasty foods that won't activate their allergies. On the website, visitors can find out about our ongoing research activities relating to food allergies and our own proposals for meals.

http://www.food-allergy.jp/

The Importance of the Hokkaido Nippon Ham Fighters

Nippon Ham Group acquired a professional baseball team in 1973, and in 1974, Japan's Pacific League witnessed the birth of the Nippon Ham Fighters. 1981 brought victory in the Pacific League pennant. In 2004, following the team's relocation to Hokkaido, the team was renamed "Hokkaido Nippon Ham Fighters." The team realized a long-held ambition by clinching victory in the Japan Series in 2006.

Increasing the Visibility of the Nippon Ham Group

Nippon Ham's founder, Yoshinori Okoso, had two reasons for his decision to acquire a professional baseball team in 1973. One reason was to contribute to society and promoting sports in the form of professional baseball was a means to support the healthy development of young people. Another reason was to facilitate business growth, since the acquisition would increase the visibility of Nippon Ham. Owning a baseball team has made our name known throughout the country, creating new business and bringing us closer to our customers. This has increased the trust and affinity that people feel towards us—which has in turn helped to expand the areas of our business, increase sales and raise the company profile.

Realizing Our Corporate Philosophy Through the Hokkaido Nippon Ham Fighters

Group management runs the baseball team on the basis of the Group's corporate philosophy. The Nippon Ham Group's corporate philosophy calls for us to impart the "Joy of Eating" slogan, create an epoch-making culture and contribute to society. The baseball team is the embodiment of this philosophy. Providing joy to our customers requires meeting their highest priority of physical and mental health. The enjoyment brought by food and sports and athletics is essential for achieving this health. The very existence of our baseball team embodies this corporate philosophy.

Raising the Nippon Ham Group Brand Value

The evolution of brand value involves processes of visibility, recognition and preferability. To move through these processes, the baseball team management approach needs to evolve from a role of increasing visibility to one of accepting corporate social responsibility. We have increased the visibility of Nippon Ham substantially, but there is still need for efforts to increase recognition and preferability. The Hokkaido Nippon Ham Fighters play a significant role in this. Running a baseball team is part of Nippon Ham Group's CS (Customer Satisfaction)-oriented management approach, and a symbol of our esteem for our customers. Winning games is an important factor in this, but the love that the baseball team receives from its fans, and the attention that it gains just by being there—this is what improves the Nippon Ham brand value.

1981 victory:
Ex-owner Yoshinori Okoso is tossed in the air.

In 2006, Hokkaido Nippon Ham Fighters—Number One in Japan!
For the first time in 44 years, the Hokkaido Nippon Ham Fighters claimed victory in the Japan Series. Just three years after relocating to Hokkaido, the team was able to share the excitement of realizing this dream with local residents and all of its fans.

On November 18, 2006, some 143,000 people lined the streets of Sapporo to see the Hokkaido Nippon Ham Fighters victory parade. Amid showers of confetti, the manager and players were greeted with continuous excited cheers from their fans.

Hokkaido Nippon Ham Fighters' activities

Through sport, the Hokkaido Nippon Ham Fighters are proactively creating opportunities for people to interact with each other. As part of their local community, the Fighters coexist with their neighbors and strive to achieve sport-oriented communities in which sport is a part of daily life.

Players visit a school

Players visited an elementary school in Sapporo City and played catchball and other games with the children and shared a meal. In 2006, they visited 10 elementary schools and received a warm welcome from the teachers as well as the children.

Baseball Academy Group

Ex-Fighters players visit various local communities and give baseball lessons. They hold "field clubs" for elementary schoolchildren, baseball clubs for junior high school students, and overnight summer camps which include baseball practice. The players also visit care facilities and other institutions. Through baseball, the players are vigorously interacting with local communities.

Financial Section

Contents

Five-Year Summary

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31

	Millions of Yen				
	2007	2006	2005	2004	2003
Net Sales	**¥977,296**	¥963,664	¥934,678	¥926,019	¥909,999
Net Income	**11,386**	952	11,839	10,641	4,409
Total Assets	**612,933**	591,426	611,250	610,663	621,579
Total Shareholders' Equity	**298,428**	291,580	268,621	262,096	246,981
	Yen				
Per Share Amounts:					
Basic earnings per share:					
Income before extraordinary item and cumulative effect of accounting change	**¥49.89**	¥ 0.01	¥51.86	¥46.61	¥19.30
Extraordinary gain on negative goodwill		2.43			
Cumulative effect of accounting change		1.73			
Net income	**¥49.89**	¥ 4.17	¥51.86	¥46.61	¥19.30
Diluted earnings per share:					
Income before extraordinary item and cumulative effect of accounting change	**¥49.83**	¥ 0.01	¥51.85	¥46.32	¥19.30
Extraordinary gain on negative goodwill		2.43			
Cumulative effect of accounting change		1.73			
Net income	**¥49.83**	¥ 4.17	¥51.85	¥46.32	¥19.30
Cash Dividends	**¥16.00**	¥16.00	¥16.00	¥16.00	¥16.00

Notes 1. The above figures are based on the consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

2. See Note 1 to consolidated financial statements with respect to the determination of the number of shares in computing the per share amounts. The effect of convertible debentures was antidilutive for the year ended March 31, 2003.

3. Due to an incident revealed in fiscal 2003 involving the intentional mislabeling of imported beef, certain retailers removed the Companies' products from their shelves for a certain period, which reduced the Companies' net sales. The Companies repurchased and disposed of the beef sold to the government and certain products held by retailers. As a result, the Companies' net income significantly declined during the year ended March 31, 2003.

4. During the year ended March 31, 2006, the Company changed its method of inventory costing from an annual average cost method to a moving average cost method. Management believes this change is preferable and it provides for a more prompt and appropriate determination of the amounts of cost of goods sold and inventory. The cumulative effect of the change in the costing method as of April 1, 2005 was ¥396 million, net of taxes of ¥275 million and has been presented in the statements of consolidated income as "Cumulative effect of accounting change." The effect of the change during the year ended March 31, 2006 was to decrease income before extraordinary item and cumulative effect of accounting change by ¥240 million (¥1.05 per share) and to increase net income by ¥156 million (¥0.68 per share), respectively.

5. In accordance with Statement of Financial Accounting Standards No. 141, the Companies recognized as an extraordinary gain the excess of fair value of additionally acquired net assets over the cost relating to an investment in a subsidiary for the year ended March 31, 2006. The extraordinary gain recognized was ¥555 million and has been presented in the statements of consolidated income as "Extraordinary gain on negative goodwill."

Management's Discussion and Analysis

Basic Management Policies

The Nippon Ham Group advocates two key elements of its corporate philosophy, 1) to create a culture that marks a new era and contribute to society under the basic theme "joy of eating" and 2) to be a place where employees can feel truly happy and fulfilled, and engages in business -focused on foods- with a mission of management to contribute to people's happy and healthy life by supplying safe, secure and high-quality foods. The "joy of eating" represents the excitement of good eating and preciousness of health and we will actively focus our efforts on proposals as to various eating lifestyles and the creation of a food culture, as well as supporting the promotion of health through sports and athletics. We also believe that the Nippon Ham Group's business is a socially important business as it will secure a stable supply of foods for future generations by nurturing nature and producing foods while feeling grateful for its blessings. We believe that by conducting business in this manner, our employees will feel happy and do their work with a sense of satisfaction, which will allow us to provide high quality foods and services to consumers.

Medium- and Long-Term Management Strategies and Issues

In April 2006, the Nippon Ham Group implemented its *New Medium-Term Management Plan Part II* (for the fiscal years from April 1, 2006 to March 31, 2009) with the goal of achieving corporate value improvement through continual reform and challenge. The Nippon Ham Group has instituted three management policies developed from those listed in the *Medium-Term Management Plan Part I*. They are *Management for No. 1 Quality*, improvement in the quality of group management and aggressive business expansion, and CSR promotion and brand-value improvement. They will reflect in this time period as the one for focusing efforts on business development and improvement of management in quality.

Under these three policies, the Nippon Ham Group will, centering on its high quality and strong sales and marketing efforts, promote its group strategy from the perspective of total optimization. Using optimal business strategies based on the analyses of the respective market conditions, advantages and competitive relations of its business divisions and related companies, the company will respond to the expectations of consumers and secure sustainable growth and increased earnings. This will enhance the corporate value of the Nippon Ham Group.

In the processed foods business (covering hams, sausages and processed foods), the Nippon Ham Group will continue its dynamic reforms. We will also promote reforms of the cost structure of its production system by improving the efficiencies and specialization of its production lines, as well as abolition and consolidation of its line of products where needed. With regard to marketing, we will promote strategies through channels and expand specialized consulting sales, as well as expand our marketing areas by offering fine-tuned services. In addition, the Nippon Ham Group will further enhance cooperation between its production and sales and marketing sections and develop new-category products and high value-added products to expand sales and increase profits.

In the fresh meats business, based on its integrated system covering production to marketing, the Nippon Ham Group will enhance the accuracy and promptness of its system for delivering safe, secure and high-quality fresh meats in the freshest conditions, accurately and promptly, nationwide to increase consumer satisfaction. The Nippon Ham Group will also improve its domestic and overseas production sites and expand its global purchase networks to further increase trading volumes and its market share.

With regard to marine and dairy products, the Nippon Ham Group will develop these business fields as part of the Nippon Ham Group's intended strategic diversification of business. In the marine products business, we will promote cooperation within the Nippon Ham Group to improve our capabilities for procuring raw materials and improve production sites overseas. In the dairy products business, we will penetrate the general desserts market, in addition to the yogurt market, and expand sales through new channels. In addition, in the cheese business, through the use of technology to make processed cheese, we will develop a unique new business.

The Nippon Ham Group has attached a brand statement called *The Brilliance of People, the Future of Food* to its group brand. The Nippon Ham Group is composed of various companies that take on challenges in the various fields of food. The statement represents all management and employees' wishes, as well as commitments to all stakeholders, to contribute to the happy and healthy life of people and build a bright future that enlivens people by engaging in business and duties from the customers' perspectives at all times while offering the joy of eating.

All management and employees of the Nippon Ham Group are determined to confront the difficult business environment, under the group brand.

(1) Improvement of the Quality of Group Management

(i) The Nippon Ham Group will further promote group management as has been done under the *New Medium-Term Management Plan Part I* and allocate its management resources of personnel, facilities, funds, information and brands from the perspective of total optimization to enhance the strategic formation and management efficiencies of the Group. Additionally, we will promote independent, autonomous management of each group company and establish internal control systems for the Nippon Ham Group to strengthen its functions of governance.

(ii) We will further strengthen fund administration of the whole Nippon Ham Group to expand financing within the Group and improve its efficiencies of procurement and management of funds. We also plan to maximize cash flows and reduce interest-bearing debt.

(iii) The Nippon Ham Group will proactively utilize information technology (IT) to support operational activities and will also upgrade managerial information to realize prompt-decision management.

(iv) The Nippon Ham Group will focus its efforts on establishing systems for human resource cultivation and human resource information and utilizing various human resources to strengthen management of human resources.

(2) Aggressive Business Expansion

(i) The Nippon Ham Group has developed through its marketing capabilities centering on route sales by salespersons who directly visit customers. The Nippon Ham Group regards its sales sections as engines to stimulate growth. Hence, we will restructure our organization in response to changes in the distribution structure and build up a system that can increase salespersons' motivations to work and allow them to develop their skills to higher levels. Additionally, the Nippon Ham Group will further enhance its marketing capabilities through synergistic effects added through cooperation within the Group to expand business.

(ii) The Nippon Ham Group will establish an SCM system integrating the procurement of raw materials, production, logistics and marketing to have comprehensive information regarding production, inventory and customers and maintain complete quality control in every stage to improve quality.

(iii) The Nippon Ham Group will establish a global network to purchase and procure raw materials on a steady basis and expand its integration system overseas to establish a system to assure safety and security for consumers. The Nippon Ham Group will make every effort to strengthen its foundation and cultivate human resources to increase sales overseas.

Analysis of Financial Condition and Operating Results

The forward-looking statements in this section are based on the Nippon Ham Group's assessment as of March 31, 2007.

Overview of business

The Japanese economy during the fiscal year under review continued its stable growth supported by steady capital investment, though private-sector spending remained modest.

However, the food and fresh meats industry continues to face a severe business environment due to increased prices of raw meats on account of livestock illness and changes in the movement of international demand, rising energy and material costs on account of higher oil prices, and price competition with imported processed products among others.

Under these circumstances, the Nippon Ham Group has vigorously implemented various management measures to produce corporate value improvement through continual reform and challenge. This was set forth as the theme of the three-year *New Medium-Term Management Plan Part II* that commenced on April 1, 2006.

To be specific, the Nippon Ham Group, in its production sections, has continued its efforts to drastically reform its cost structure since the previous fiscal year. During the fiscal year under review, the Nippon Ham Group reorganized its production sites and production lines, including the closing of two factories of hams and sausages, and utilized its idle assets to reduce costs. In its marketing sections, the Nippon Ham Group has increased its efforts to revise prices of its hams and sausages and processed foods and reformed its marketing system to make it more community based. On the other hand, to make strategic moves toward global development, the Nippon Ham Group has strengthened its supply sites for the Japanese market, improved its production systems in China and increased trade between foreign supply markets of fresh meats and marine products and other countries.

With regard to the improvement of the quality of products, to realize the *Management for No. 1 Quality* (one of the business policies under the *New Medium-Term Management Plan Part II*), the Nippon Ham Group has directed its efforts to develop and improve products according to their features at its respective business divisions and group companies to ensure such qualities to satisfy and impress consumers in terms of security and safety. Additionally, the Nippon Ham Group has continued its efforts to maintain and improve its quality auditing and monitoring systems, acquire more third-party certifications, including HACCP, ISO and SQF, and respond to the Positive List System for Agricultural Chemical Residues in Foods to cultivate its quality-oriented corporate culture.

To take one step further in compliance in management, the Nippon Ham Group has promoted corporate social responsibility (CSR) unique to the Nippon Ham Group, covering food education, support for sports and athletics, recycling-oriented agriculture and measures for non-allergic food among others.

Furthermore, the Nippon Ham Group has focused on making all employees in management positions better aware of compliance, developing various systems and strengthening human resource development in response to internal control audits to build up bases for group management.

As a result of these activities, net sales for the fiscal year under review amounted to ¥977.3 billion, up 1.4% from the previous fiscal year.

In regard to profits, while the business environment remained difficult due to a rise in prices of raw meats, increased material costs and other factors, operating expenses decreased due to the reform of the cost structure in the processed foods business and expenses booked in "Other" under "Cost and Expenses" such as special severance benefit, decreased. Consequently, income from consolidated operations before income taxes amounted to approximately ¥13.7 billion, up 485.4% from the previous fiscal year. Net income amounted to approximately ¥11.4 billion, up 1,096.0% due to a decrease in tax expenses, principally as the consolidated tax filing system will be applied from the next fiscal year.

Sales by product category

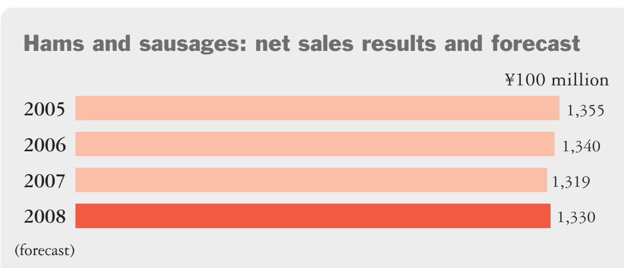
In the hams and sausages business, the Nippon Ham Group revised prices in July 2006 to recover earnings. Consequently, the Nippon Ham Group was temporarily placed in a difficult position in terms of sales quantity. However, partly due to thank-you sales in October 2006 for backing the Hokkaido Nippon Ham Fighters, a Japanese professional baseball team, in winning the Japan Series Championship in that month, sales of Nippon Ham consumer products such as its main products *SCHAU ESSEN*, increased, among other products. In addition, under such favorable conditions, the year-end gift blitz

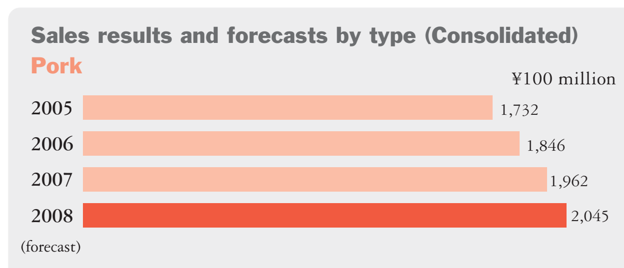
SALES BY PRODUCT CATEGORY

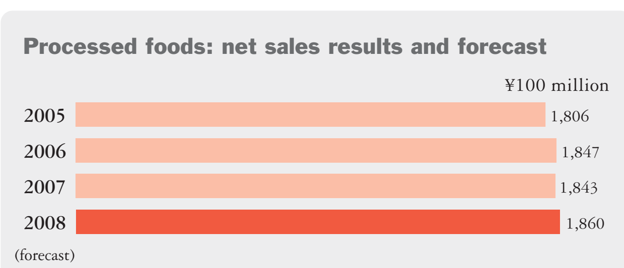
	Results for fiscal year ended 2007/3 (millions of yen)	Year-on-year comparison (%)
Net Sales	977,296	1.4
Hams and Sausages	131,987	(1.5)
Processed Foods	184,320	(0.2)
Fresh Meats	510,695	2.8
Marine Products	83,353	1.0
Dairy Products	21,832	0.6
Others	45,109	2.8

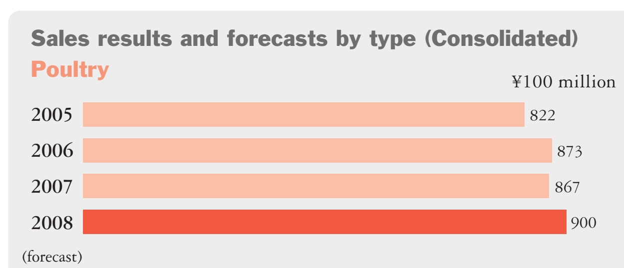
turned in favor of the Nippon Ham Group. However, due to the transfer of business of an overseas subsidiary during the previous fiscal year, overall revenues of the hams and sausages business decreased.

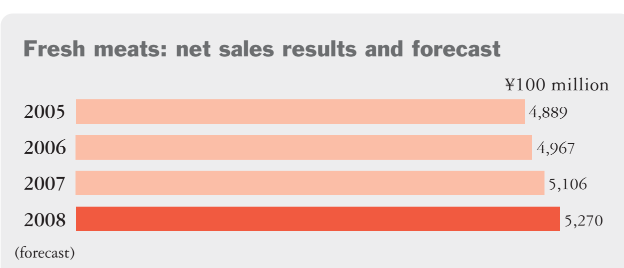
In the processed foods business, price competition was intensifying in the industry and the Nippon Ham Group had difficulty in selling its existing products. However, we made a recovery by launching new products that fit consumer needs in spring and autumn. Specifically, sales of *Ishigama Kobo* series and pre-fried products increased greatly. We also endeavored to develop a new category of products that would not compete with existing products. However, sales of products for commercial use were weak due to price competition with rival companies and cheaper imported processed products. The Company also focused its

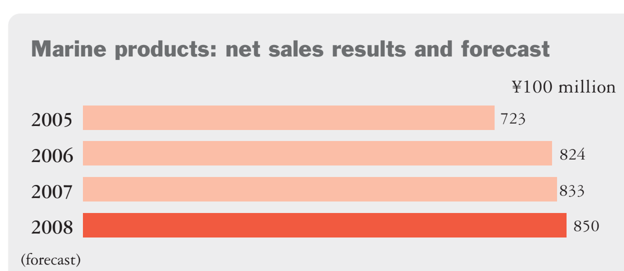


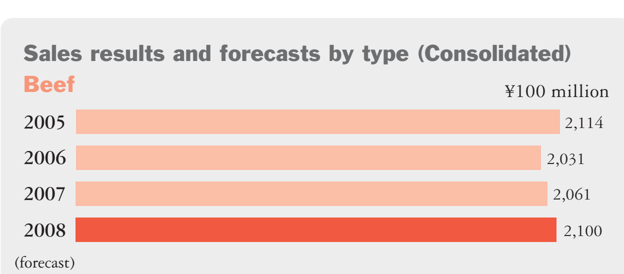


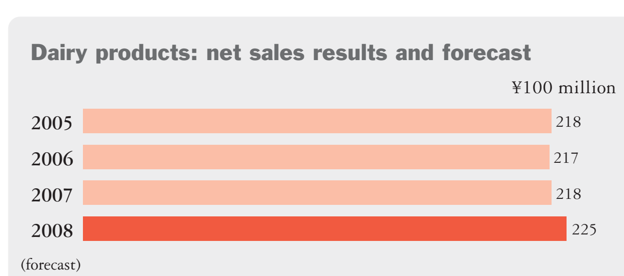












efforts on enhancing cooperation between the hams and sausages business and processed foods business to optimize management through joint purchases of materials and quality improvement.

In the fresh meats business, while sales volume of U.S. beef have continued to lag even after imports resumed, sales of domestic beef and pork, as substitutes for U.S. beef, increased among others. Specifically, with the sales force and marketing capabilities of its sales and marketing subsidiaries nationwide, the Nippon Ham Group has focused its efforts on expanding trading volume of its key brand products produced at its own farms. We also have endeavored to keep a reasonable inventory level and improve the productivity of our domestic processing factories to increase profits. On the other hand, we have expanded the business of contracting the breeding of swine in the United States and Japanese cattle in Japan. Business in Australia had a tough time due to a sharp rise in prices of feeder's cattle there, but struck a note of recovery in the second half of the fiscal year under review.

In the marine products business, material prices remained high due to decreased fish catches against the backdrop of a decrease in fishery resources and higher oil prices, and higher demand in Europe, Russia and China. In these harsh market conditions, the Nippon Ham Group has continued its efforts to revise prices and offer alternative products, and also expand lines of products by organizing teams respectively specializing in specific fish species and to cultivate overseas markets. On the other hand, the Nippon Ham Group has restructured its logistics system and reduced inventory to cut costs.

In the dairy products business, with regard to yogurts and lactic acid probiotic beverages, sales of *Vanilla Yogurt*, its mainstay product, increased steadily. The Nippon Ham Group has also focused its efforts on developing high value added products to meet consumer needs and cultivate a new market. With regard to cheese, the Nippon Ham Group has endeavored to expand sales by placing top priority on gaining recognition of its brand *ROLF* and cultivating marketing channels for commercial use. However, overall sales did not do well.

Earnings

The cost of goods sold rose 0.1% from the previous fiscal year to approximately ¥790 billion, and the cost of goods sold ratio declined from 81.9% in the previous fiscal year to 80.8%. Gross profit increased 7.6% to approximately ¥187 billion in conjunction with the improvement in the cost of goods sold ratio. Selling, general and administrative (SG&A) expenses decreased 8.9% to approximately ¥171 billion. Despite increased distribution costs due to the high price of crude oil and other factors, personnel expenses were reduced by the transfer of certain employees to subsidiaries and other measures, as well as the contribution of the absence of the settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund that was booked in the previous year. The SG&A expense ratio decreased from 19.5% in the previous fiscal year to 17.5%.

Income from consolidated operations before income taxes rose a substantial 485.4% to approximately ¥13.7 billion due to the increase in gross profit and the decreases in SG&A expenses, special severance payments and other items.

The effective tax rate based on income from consolidated operations before income taxes decreased from 99.3% in the previous fiscal year to 15.0% because tax expenses fell mainly due to the consolidated tax filing system that will become applicable from the next fiscal year.

Consequently, net income substantially increased 1,096.0% from the previous fiscal year to approximately ¥11.4 billion, and net income per share totaled ¥49.89.

Cash Flows

Net cash provided by operating activities was approximately ¥33.4 billion, in comparison with ¥21.2 billion from the previous fiscal year. This was mainly due to an increase in net income and trade notes and accounts payable, and a decrease in inventories.

Net cash used in investing activities totaled approximately ¥19.7 billion, up from ¥16.7 billion used in the previous year. This was mainly due to purchases of property, plant and equipment totaling approximately ¥16.5 billion.

Net cash used in financing activities totaled approximately ¥6.3 billion, up from approximately ¥1.7 billion used in the previous year. This mainly reflected a decrease in short-term bank loans and cash dividends, despite an increase in long-term debt.

As a result, cash and cash equivalents at the end of the year totaled approximately ¥34.5 billion, an increase of approximately ¥7.3 billion from the end of the previous fiscal year.

Financial Condition

Total assets at the end of the year increased 3.6% from the end of the previous fiscal year, accounting for approximately ¥613 billion. By item, with regard to current assets, inventories decreased by 2.0%, accounting for approximately ¥115 billion, while trade notes (non-interest bearing) and accounts receivable increased by 13.0%, accounting for approximately ¥116 billion and cash and cash equivalents increased by 26.9%, accounting for approximately ¥34.5 billion. As a result, current assets increased by 7.9% from the end of the previous fiscal year, accounting for approximately ¥293 billion. Property, plant and equipment decreased by 0.8% from the end of the previous fiscal year, accounting for approximately ¥257 billion as additions to property, plant and equipment were made within the scope of the amount of depreciation and amortization.

Deferred income taxes – non-current increased by 52.3% from the end of the previous fiscal year, accounting for approximately ¥13.4 billion, principally as the consolidated tax filing system will become applicable from the next fiscal year.

With regard to liabilities, current liabilities increased by 2.4% from the end of the previous fiscal year, accounting for approximately ¥202 billion, as trade notes (non-interest bearing) and accounts payable increased by 6.7% from the end of the previous fiscal year, accounting for approximately ¥94.0 billion, while short-term bank loans decreased by 9.1%, accounting for approximately ¥65.3 billion. Long-term debt, less current maturities increased by 9.8%, accounting for approximately ¥95.2 billion due to an increase in long-term loans payable. As a result, liabilities increased by 4.9% from the end of the previous fiscal year, accounting for approximately ¥312 billion.

Interest-bearing debt increased by approximately ¥1.5 billion from the end of the previous fiscal year to account for approximately ¥171.2 billion.

Shareholders' equity increased by 2.3% from the end of the previous fiscal year to account for approximately ¥298 billion mainly due to the increase in net income. As a result, the ratio of shareholders' equity decreased by 0.6% from the end of the previous fiscal year to 48.7%.

Capital Expenditures

The Nippon Ham Group invested in property, plants and equipment to enhance, rationalize and strengthen its integrated system of feeding, processing, production, distribution and sales.

Investments in property, plants and equipment during the fiscal year ended March 31, 2007 totaled approximately ¥19.4 billion.

Of that amount, the parent company used approximately ¥4.3 billion to expand and upgrade facilities in hams and sausages and processed foods.

In addition, consolidated subsidiaries used roughly ¥4.5 billion on building and upgrading manufacturing facilities for hams and sausages, and processed foods, roughly ¥4.7 billion on expanding and upgrading livestock breeding facilities, approximately ¥3.4 billion on expanding and upgrading production and processing facilities, and approximately ¥800 million on building, expanding and upgrading manufacturing facilities for marine foods and dairy products.

Management's Awareness of Issues and Policies Going Forward

The business environment is expected to continue to remain difficult during the fiscal year ending March 31, 2008. Based on compliance in management nurtured heretofore, the Nippon Ham Group will promote the policies set forth in its *New Medium-Term Management Plan Part II* as concrete strategies in response to changes in the market and consumers for the purpose of expansion and growth of business.

In the processed foods business, prices of raw meats still remain high and will be factors to put pressure on earning profit. The Nippon Ham Group will continue structural reforms to enhance cost competitiveness. We will also restructure our original logistics system to cut costs and enhance our competitive superiority. In addition, the Nippon Ham Group will make every effort to revise its marketing system to strengthen its area marketing and expand sales of new-category products to meet consumer needs by marketing through its integrated production and marketing system, as well as products using raw meats procured from the farms of the Nippon Ham Group in Japan.

In the fresh meats business, a sharp rise in feedstuff prices has caused higher cost in the production sections and the Nippon Ham Group is expected to be placed in a difficult situation. In this situation, the Nippon Ham Group will, by taking advantage of its integrated system covering production at its own farms to marketing, further enhance cooperation within the Nippon Ham Group and implement brand strategies. For example, we will encourage our sales promotion staff to make innovative proposals from the perspectives of consumers and make more serious inroads into mass-market and food service routes. In the production sections, on the other hand, we will endeavor to cut costs through improvement of productivity and expansion of scale.

In the marine products business, while this market is continuing to rise, the Nippon Ham Group will expand marketing channels and strengthen cooperation with its trading partners in and outside of Japan to cultivate new production centers and new products and differentiate itself from rival companies. The Nippon Ham Group will also establish a system to supply domestic fresh fish and expand trading in fresh and processed marine products.

In the dairy products business, while prices of raw materials are rising, the Nippon Ham Group will develop high value-added products from the perspective of consumer satisfaction (CS), break into new marketing channels and routes to expand its business fields in the future and strengthen trading with its major clients to increase sales.

With regard to its efforts in quality enhancement, Nippon Ham will, in cooperation with any and all sections of the Nippon Ham Group, carry out activities to maintain and enhance the safety and quality grades, make functional use of the advantage and technology of its integrated system and aggressively develop those products and services that may be needed through communication with consumers and the market.

The Nippon Ham Group will promote corporate social responsibility (CSR) on a near-at-hand level, such as community activities through food education and sports.

The business environment surrounding the Nippon Ham Group remains very difficult and many problems need to be addressed. However, the Group will pursue reforms and challenges with an unflagging resolve to overcome such obstacles and achieve management targets. The Group aims to become a corporate group that can compete at a global level.

Business Risks

Risks with the potential to affect the Nippon Ham Group's operating results and financial condition include, but are not limited to, the following major risks. Although these risks include items that are future-oriented, they constitute the major risks determined as of March 31, 2007.

Product Price Risks

The Nippon Ham 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, including for hams and sausages, and processed foods. Consequently, the group's earnings and financial condition are vulnerable to changes in livestock prices. Also, the livestock breeding business that supplies our fresh meats is naturally affected not only by changes in product prices, but also by swings in feed prices.

To contend with these price variations, the Nippon Ham Group works to diversify its product procurement channels, develop high value-added products, and establish distinctive marketing strategies. The group also arranges to stably procure raw materials in anticipation of product demand and maintains appropriate inventories of fresh meats.

The Nippon Ham Group's operating results are also vulnerable to price changes due to outbreaks of disease, for example BSE, avian flu and foot-and-mouth disease, and the imposition of safeguard tariffs, that is, emergency restrictions on imports.

Foreign Exchange Risks

The Nippon Ham Group conducts import and export operations involving various currencies, and these transactions expose the group to foreign exchange risks originating from associated trade receivables and payables, firm purchase commitments, and forecasted transactions. The foreign exchange risk to which the group is most susceptible is related to the U.S. dollar. To reduce foreign exchange risks, the group utilizes forward foreign exchange contracts and currency swap agreements.

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

Interest Rate Risks

The Nippon Ham Group raises the majority of the funds it requires through loans from third parties and other interest-bearing debt, and hence is exposed to the risk of interest rate fluctuations at all times.

Most of our interest-bearing debt, in the amount of ¥171.2 billion as of March 31, 2007, was fixed-rate debt and therefore an interest rate increase should have no significant direct effect for the time being. However, to prepare for a rise in fund-raising costs associated with a prospective increase in funding requirements, the Nippon Ham Group is working to increase cash flows from operating activities and keep capital investment within the scope of the amount of depreciation.

However, if interest rates rise in the future, the Nippon Ham Group's fund-raising business conditions may deteriorate.

Stock Price Risks

Marketable securities held by the group consist principally of the shares of its business partners, and hence the group is exposed to stock price risks associated with market price fluctuations.

As of March 31, 2007, overall these marketable securities represent unrealized capital gains. However, stock movements in the future may have an adverse effect on the group's operating results and financial condition.

Risks from Natural Calamities and Social Events

The Nippon Ham Group engages in business operations all over the world. The geographical areas of such operations involve the following potential risks. Any of the following events may have an adverse effect on the business results of the Group:

- Occurrence of a natural calamity such as an earthquake
- Unforeseeable establishment of adverse -or repeal of favorable- laws or regulations
- Occurrence of an unforeseeable adverse economic or political event
- Occurrence of a terrorist attack, conflict, or similar event
- Social unrest caused by the spread of an infectious disease, such as worldwide avian influenza.

Risks of Leakage of Personal Information

The Nippon Ham Group strives to rigorously protect and control the personal information it keeps and safeguards through educating employees and other measures, based on its regulations for safeguarding personal information. However, the leakage of personal information due to an unforeseeable event may have an adverse effect on the business results of the group as a result of the loss of trust in the group by society at large and other factors.

Safety-Related Risks

The Nippon Ham Group has built rigorous quality control systems, including working toward the acquisition of ISO, HACCP, and other certifications for its quality control systems. Looking ahead, the group will work to further strengthen quality improvement initiatives to assure all safety aspects. However, the occurrence of a quality problem that falls outside the scope of these frameworks and initiatives may have an adverse effect on the business results of the group.

Consolidated Balance Sheets

Nippon Meat Packers, Inc. and Subsidiaries
March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2007	2006	2007
CURRENT ASSETS:			
Cash and cash equivalents (Note 1)	¥ 34,482	¥ 27,180	$ 292,224
Time deposits	6,630	4,507	56,189
Marketable securities (Notes 1, 3 and 14)	355	198	3,006
Trade notes (non-interest bearing) and accounts receivable (Note 1)	116,248	102,832	985,148
Allowance for doubtful receivables	(707)	(906)	(5,988)
Inventories (Notes 1 and 2)	114,638	117,011	971,510
Deferred income taxes (Notes 1 and 7)	5,509	4,832	46,685
Prepayments and other current assets	15,355	15,389	130,123
Total current assets	292,510	271,043	2,478,897
INVESTMENTS AND NON-CURRENT RECEIVABLES:			
Investments in associated companies (Note 1)	925	1,079	7,843
Other securities investments (Notes 1, 3 and 14)	24,118	26,792	204,387
Deposits and other investments	13,006	13,817	110,219
Total investments and non-current receivables	38,049	41,688	322,449
PROPERTY, PLANT AND EQUIPMENT –			
At cost, less accumulated depreciation (Notes 1, 4, 6 and 12)	257,591	259,727	2,182,971
DEFERRED INCOME TAXES – Non-current (Notes 1 and 7)	13,394	8,795	113,511
OTHER ASSETS (Note 5)	11,389	10,173	96,516
TOTAL	¥612,933	¥591,426	$5,194,344

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 65,306	¥ 71,823	$ 553,441
Current maturities of long-term debt (Note 6)	11,878	12,485	100,665
Trade notes (non-interest bearing) and accounts payable	94,021	88,141	796,788
Accrued income taxes (Notes 1 and 7)	3,939	3,847	33,377
Deferred income taxes (Notes 1 and 7)	1,287	723	10,903
Accrued expenses	14,824	14,342	125,625
Other current liabilities	10,469	5,552	88,725
Total current liabilities	201,724	196,913	1,709,524
LIABILITY UNDER RETIREMENT AND SEVERANCE PROGRAM (Notes 1 and 8)	12,919	10,743	109,482
LONG-TERM DEBT, LESS CURRENT MATURITIES (Notes 6, 12 and 14)	95,174	86,663	806,558
DEFERRED INCOME TAXES – Non-current (Notes 1 and 7)	2,552	3,577	21,625
MINORITY INTERESTS	2,136	1,950	18,103
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1 and 16)			
SHAREHOLDERS' EQUITY:			
Common stock, no par value - authorized, 570,000,000 shares;			
issued: 2007 and 2006 – 228,445,350 shares (Notes 1 and 10)	24,166	24,166	204,795
Capital surplus (Notes 1, 9 and 10)	50,813	50,688	430,620
Retained earnings:			
Appropriated for legal reserve (Note 10)	6,802	6,741	57,644
Unappropriated (Notes 10 and 17)	211,212	203,542	1,789,935
Accumulated other comprehensive income (Note 11)	5,737	6,664	48,619
Treasury stock, at cost: 2007 – 249,927 shares			
2006 – 186,792 shares (Note 10)	(302)	(221)	(2,561)
Total shareholders' equity	298,428	291,580	2,529,052
TOTAL	¥612,933	¥591,426	$5,194,344

Statements of Consolidated Income

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	2007
REVENUES:				
Net sales (Note 1)	¥977,296	¥963,664	¥934,678	$8,282,170
Other (Note 13)	2,102	4,022	2,719	17,815
Total	979,398	967,686	937,397	8,299,985
COST AND EXPENSES:				
Cost of goods sold (including "Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund" of ¥5,589 million, and settlement loss from the restructuring of employees' benefit plans and special severance payment of ¥531 million in 2006) (Notes 1 and 8)	789,809	789,411	736,119	6,693,302
Selling, general and administrative expenses (including "Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund" of ¥15,210 million, and settlement loss from the restructuring of employees' benefit plans and special severance payment of ¥2,223 million in 2006) (Notes 1 and 8)	171,065	187,732	171,318	1,449,705
Subsidy from the government on the transfer of the substitutional portion of the Employees' Pension Fund (Notes 1 and 8)		(27,434)		
Interest expense	2,928	2,496	2,487	24,809
Other (Notes 4, 8 and 13)	1,928	13,146	5,091	16,342
Total	965,730	965,351	915,015	8,184,158
INCOME FROM CONSOLIDATED OPERATIONS BEFORE INCOME TAXES	13,668	2,335	22,382	115,827
INCOME TAXES (Notes 1 and 7):				
Current	5,598	6,089	8,451	47,438
Deferred	(3,549)	(3,771)	2,084	(30,078)
Total	2,049	2,318	10,535	17,360
INCOME FROM CONSOLIDATED OPERATIONS	11,619	17	11,847	98,467
EQUITY IN LOSSES OF ASSOCIATED COMPANIES – Net of applicable income taxes (Note 1)	(233)	(16)	(8)	(1,971)
NET INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	11,386	1	11,839	96,496
EXTRAORDINARY GAIN ON NEGATIVE GOODWILL (Note 1)		555		
CUMULATIVE EFFECT OF ACCOUNTING CHANGE – Net of taxes of ¥275 million (Note 1)		396		
NET INCOME	¥ 11,386	¥ 952	¥ 11,839	$ 96,496
	Yen			U.S. Dollars
PER SHARE AMOUNTS (Note 1):				
Basic earnings per share:				
Income before extraordinary item and cumulative effect of accounting change	¥49.89	¥0.01	¥51.86	$0.42
Extraordinary gain on negative goodwill		2.43		
Cumulative effect of accounting change		1.73		
Net income	¥49.89	¥4.17	¥51.86	$0.42
Diluted earnings per share:				
Income before extraordinary item and cumulative effect of accounting change	¥49.83	¥0.01	¥51.85	$0.42
Extraordinary gain on negative goodwill		2.43		
Cumulative effect of accounting change		1.73		
Net income	¥49.83	¥4.17	¥51.85	$0.42

See notes to consolidated financial statements.

Statements of Changes in Consolidated Shareholders' Equity

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen						
	Common Stock	Capital Surplus	Retained Earnings Appropriated for Legal Reserve	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
BALANCE, MARCH 31, 2004	¥24,166	¥50,438	¥6,616	¥198,181	¥(17,162)	¥(143)	¥262,096
Net income				11,839			11,839
Net unrealized gains on securities (Notes 1 and 3)					54		54
Net unrealized gains on derivative financial instruments (Notes 1 and 14)					13		13
Minimum pension liability adjustment (Note 8)					(2,625)		(2,625)
Foreign currency translation adjustment					833		833
Cash dividends (Note 10)				(3,653)			(3,653)
Transfer to retained earnings appropriated for legal reserve (Note 10)			21	(21)			
Treasury stock acquired (Note 10)						(53)	(53)
Stock option granted (Note 9)		117					117
Exercise of stock options (Note 9)		(2)				2	0
BALANCE, MARCH 31, 2005	24,166	50,553	6,637	206,346	(18,887)	(194)	268,621
Net income				952			952
Net unrealized gains on securities (Notes 1 and 3)					1,973		1,973
Net unrealized gains on derivative financial instruments (Notes 1 and 14)					28		28
Minimum pension liability adjustment (Note 8)					20,052		20,052
Foreign currency translation adjustment					3,498		3,498
Cash dividends (Note 10)				(3,652)			(3,652)
Transfer to retained earnings appropriated for legal reserve (Note 10)			104	(104)			
Treasury stock acquired (Note 10)						(27)	(27)
Stock option granted (Note 9)		135					135
BALANCE, MARCH 31, 2006	24,166	50,688	6,741	203,542	6,664	(221)	291,580
Net income				11,386			11,386
Net unrealized losses on securities (Notes 1 and 3)					(1,822)		(1,822)
Net unrealized gains on derivative financial instruments (Notes 1 and 14)					621		621
Minimum pension liability adjustment (Note 8)					2,062		2,062
Foreign currency translation adjustment					2,029		2,029
Adjustment to initially apply FASB Statement No. 158, net of tax (Note 8)					(3,817)		(3,817)
Cash dividends (Note 10)				(3,652)			(3,652)
Transfer to retained earnings appropriated for legal reserve (Note 10)			61	(61)			
Treasury stock acquired (Note 10)						(93)	(93)
Stock option granted (Note 9)		134					134
Exercise of stock options (Note 9)		(9)		(3)		12	0
BALANCE, MARCH 31, 2007	¥24,166	¥50,813	¥6,802	¥211,212	¥ 5,737	¥(302)	¥298,428

	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 Shareholders' Equity
BALANCE, MARCH 31, 2006	$204,795	$429,560	$57,126	$1,724,931	$ 56,478	$(1,870)	$2,471,020
Net income				96,496			96,496
Net unrealized losses on securities (Notes 1 and 3)					(15,442)		(15,442)
Net unrealized gains on derivative financial instruments (Notes 1 and 14)					5,269		5,269
Minimum pension liability adjustment (Note 8)					17,474		17,474
Foreign currency translation adjustment					17,191		17,191
Adjustment to initially apply FASB Statement No. 158, net of tax (Note 8)					(32,351)		(32,351)
Cash dividends (Note 10)				(30,950)			(30,950)
Transfer to retained earnings appropriated for legal reserve (Note 10)			518	(518)			
Treasury stock acquired (Note 10)						(791)	(791)
Stock option granted (Note 9)		1,136					1,136
Exercise of stock options (Note 9)		(76)		(24)		100	0
BALANCE, MARCH 31, 2007	$204,795	$430,620	$57,644	$1,789,935	$ 48,619	$(2,561)	$2,529,052

See notes to consolidated financial statements.

Statements of Consolidated Comprehensive Income

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

		Millions of Yen			Thousands of U.S. Dollars (Note 1)
		2007	2006	2005	2007
NET INCOME		¥11,386	¥ 952	¥11,839	$ 96,496
Other comprehensive income (loss), net of tax (tax amounts shown below):					
Net unrealized gains (losses) on securities available for sale:					
Unrealized holding gains (losses) during the year, net of following tax effects:		(1,800)	3,413	805	(15,254)
2007/3	¥1,251 million ($10,600 thousand)				
2006/3	¥(2,372) million				
2005/3	¥(559) million				
Less: Reclassification adjustments for net gains included in net income, during the year, net of following tax effects:		(22)	(1,440)	(751)	(188)
2007/3	¥16 million ($131 thousand)				
2006/3	¥1,000 million				
2005/3	¥522 million				
		(1,822)	1,973	54	(15,442)
Net unrealized gains on derivative financial instruments:					
Unrealized gains during the year, net of following tax effects:		718	28	13	6,093
2007/3	¥(499) million ($4,234 thousand)				
2006/3	¥(19) million				
2005/3	¥(9) million				
Less: Reclassification adjustments for net gains included in net income, during the year, net of following tax effects:		(97)			(824)
2007/3	¥80 million ($683 thousand)				
		621	28	13	5,269
Minimum pension liability adjustment, during the year, net of following tax effects:		2,062	20,052	(2,625)	17,474
2007/3	¥(1,433) million ($12,143 thousand)				
2006/3	¥(13,934) million				
2005/3	¥1,825 million				
Foreign currency translation adjustment		2,029	3,498	833	17,191
Total other comprehensive income (loss)		2,890	25,551	(1,725)	24,492
COMPREHENSIVE INCOME		¥14,276	¥26,503	¥10,114	$120,988

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	2007
OPERATING ACTIVITIES:				
Net income	¥ 11,386	¥ 952	¥ 11,839	$ 96,496
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Cumulative effect of accounting change		(396)		
Depreciation and amortization	23,774	24,452	23,578	201,473
Subsidy from the government on the transfer of the substitutional portion of the Employees' Pension Fund		(27,434)		
Settlement loss from the transfer of the substitutional portion of the Employees' Pension Fund		20,799		
Settlement loss from the restructuring of employees' benefit plans		2,754		
Income taxes deferred	(3,549)	(3,771)	2,084	(30,078)
Extraordinary gain on negative goodwill		(555)		
Decrease (increase) in trade notes and accounts receivable	(12,345)	(5,293)	232	(104,616)
Decrease (increase) in inventories	3,458	(20,494)	(9,919)	29,306
Decrease (increase) in prepayments and other current assets	280	(3,192)	2,458	2,372
Increase (decrease) in trade notes and accounts payable	5,805	(1,971)	7,702	49,194
Increase (decrease) in accrued income taxes	94	(1,578)	(2,930)	798
Increase (decrease) in accrued expenses and other current liabilities	3,878	(3,681)	(1,682)	32,863
Other, net	583	(1,799)	1,518	4,951
Net cash provided by (used in) operating activities	33,364	(21,207)	34,880	282,759
INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(16,544)	(19,809)	(24,625)	(140,201)
Proceeds from sales of property, plant and equipment	1,291	3,660	2,308	10,939
Increase in time deposits	(1,991)	(818)	(1,300)	(16,871)
Purchases of marketable securities and other securities investments	(687)	(1,102)	(696)	(5,823)
Proceeds from sales of marketable securities and other securities investments	119	3,669	3,179	1,005
Business acquisitions, net of cash acquired			(366)	
Decrease in deposits and other investments	1,061	1,159	1,247	8,987
Other, net	(2,989)	(3,420)	(3,277)	(25,329)
Net cash used in investing activities	(19,740)	(16,661)	(23,530)	(167,293)
FINANCING ACTIVITIES:				
Cash dividends	(3,676)	(3,669)	(3,671)	(31,150)
Decrease in short-term bank loans	(8,625)	(6,636)	(3,878)	(73,096)
Proceeds from long-term debt	19,278	36,780	9,847	163,370
Repayments of long-term debt	(13,413)	(28,193)	(20,390)	(113,672)
Other, net	114	(27)	(53)	966
Net cash used in financing activities	(6,322)	(1,745)	(18,145)	(53,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,302	(39,613)	(6,795)	61,884
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	27,180	66,793	73,588	230,340
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	¥ 34,482	¥ 27,180	¥ 66,793	$ 292,224
ADDITIONAL CASH FLOW INFORMATION:				
Interest paid	¥ 2,919	¥ 2,450	¥ 2,675	$ 24,738
Income taxes paid	4,458	8,367	12,758	37,777
Capital lease obligations incurred	1,400	423		11,868

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Meat Packers, Inc. and Subsidiaries
For the Years Ended March 31, 2007, 2006 and 2005

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

Nature of Operations – The Companies (as defined below) operate predominantly in a single industry, the production and distribution of fresh and processed meat products. The Companies' 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 Nippon Meat Packers, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into United States dollar amounts with respect to the year ended March 31, 2007 are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118=$1, the approximate rate of exchange on March 31, 2007. 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 except for the omission of segment information as required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." In certain respects, effect has been given in the financial statements to adjustments, which have not been entered in the general books of account of the Companies maintained principally in accordance with Japanese accounting practices.

The preparation of 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 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.

Certain reclassifications of the prior years' financial statements have been made to conform to the current year's presentation.

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 the Company and all of its majority-owned subsidiaries (collectively, the "Companies"). Intercompany transactions and balances have been eliminated. Investments in associated companies (20% to 50% owned) are accounted for using the equity method of accounting.

(2) Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand and demand deposits.

(3) Receivables – The Companies grant credit to customers who are primarily retailers and wholesalers in Japan.

(4) Inventories – Inventories are stated at the lower of average cost or market value. Market value generally represents net realizable value.

During the year ended March 31, 2006, the Company changed its method of inventory costing from an annual average cost method to a moving average cost method. Management believes this change is preferable and it provides for a more prompt and appropriate determination of the amounts of cost of goods sold and inventory.

The cumulative effect of a change in the costing method, as of April 1, 2005 was ¥396 million, net of taxes of ¥275 million and has been presented in the statements of consolidated income as "Cumulative effect of accounting change." The effect of the change during the year ended March 31, 2006 was to decrease income before extraordinary item and cumulative effect of accounting change by ¥240 million (¥1.05 per share) and to increase net income by ¥156 million (¥0.68 per share), respectively.

(5) Marketable Securities and Investments – The Companies' investments in debt securities and marketable equity securities (included in "marketable securities" and "other securities investments") are classified as either Available-for-Sale or Held-to-Maturity based on the Companies' intent with respect to holding and the nature of securities. Investments classified as Available-for-Sale are reported at fair value with unrealized holding gains and losses, net of applicable income taxes, recorded as a separate component of shareholders' equity. Investments classified as Held-to-Maturity are recorded at amortized cost. All other securities investments are stated at cost, unless the value is considered to have been impaired.

The Companies regularly review investments in debt securities and marketable equity securities for impairment based on criteria that include the extent to which the securities' carrying value exceeds its related market price, the duration of the market decline, and the Companies' ability and intent to hold the investments. Other securities investments stated at cost are reviewed periodically for impairment.

(6) Depreciation – The declining-balance method of depreciation is used for approximately 52%, 54% and 55% of total depreciable assets as of March 31, 2007, 2006 and 2005, respectively, and the straight-line method is used for the remaining depreciable assets. Depreciation expense includes depreciation related to capital lease assets which are depreciated over the shorter of lease term or estimated useful lives. The ranges of estimated useful lives used in the computation of depreciation are as follows:

Buildings	15 – 38 years
Machinery and equipment	5 – 12 years

(7) Impairment of Long-Lived Assets – The Companies apply SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement provides one accounting model for the impairment or disposal of long-lived assets. This statement also provides the criteria for classifying an asset as held for sale, broadens the scope of business to be disposed of that qualifies for reporting as discontinued operations and changes the timing of recognizing losses on such operations.

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 Companies determine they are unable to recover the carrying value of the assets, the assets will be written down using an appropriate method.

(8) Goodwill and Other Intangible Assets – The Companies apply SFAS No. 142, "Goodwill and Other Intangible Assets." The statement requires that goodwill no longer be amortized, but instead be reviewed for impairment at least annually. The statement also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

In accordance with the provisions of SFAS No. 141, "Business Combinations," the Companies recognized as an extraordinary gain the excess of fair value of additionally acquired net assets over the cost relating to an investment in a subsidiary for the year ended March 31, 2006. The extraordinary gain recognized was ¥555 million and has been presented in the statements of consolidated income as "Extraordinary gain on negative goodwill."

(9) Business Combinations – The Company apply SFAS No. 141, "Business Combinations." In accordance with the provisions of SFAS No. 141, the acquisitions of subsidiaries were accounted for using the purchase method of accounting.

(10) Retirement and Severance Program – The Companies apply SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" to account for the Companies' employee retirement and severance program.

As allowed under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Companies do not recognize gain or loss on settlement of the pension obligation when the cost of all settlements in 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 Companies disclose the fair value of financial instruments other than derivative instruments as additional information in the notes to financial statements when the fair value is different from the book value of those financial instruments. When the fair value approximately equals 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, 2007 and 2006.

(12) Income Taxes – The Companies apply SFAS No. 109, "Accounting for Income Taxes." In accordance with the provisions of SFAS No. 109, 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 which can be carried forward, using the enacted tax rate at the respective balance sheet dates. 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.

A provision for income taxes is not recorded on undistributed earnings of subsidiaries where the Company 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 Company.

(13) Stock-Based Compensation – The Company applies SFAS No. 123R (revised 2004), "Share Based Payment." In accordance with the provisions of SFAS No. 123R, the share-based compensation is accounted for using the fair value method. Under the fair value based method, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized over the vesting period (one year). The fair value of the award is estimated using the Black-Scholes option-pricing model.

(14) Per Share Amounts – Basic Earnings Per Share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted EPS is computed by dividing net income by the sum of the weighted-average number of common shares outstanding plus the dilutive effect of shares issuable through stock options.

The net income and shares used for basic EPS and diluted EPS are reconciled below.

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Net Income (Numerator)				
Income available to shareholders	¥11,386	¥952	¥11,839	$96,496

	Thousands of Shares		
	2007	2006	2005
Shares (Denominator)			
Average shares outstanding for basic earnings per share	228,236	228,269	228,297
Dilutive effect of stock options	255	155	45
Average shares outstanding for diluted earnings per share	228,491	228,424	228,342

(15) Revenue Recognition – The Companies recognize revenue when the product is received by the customer, at which time title and risk of loss pass to the customer.

(16) Sales Promotion Expenses and Rebates – The Companies account for promotion expenses and rebates in accordance with the provisions of Emerging Issues Task Force Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)" ("EITF 01-09"). EITF 01-09 requires that certain sales promotion expenses and rebates be classified as a reduction of net sales, rather than as selling, general and administrative expenses.

(17) Advertising – Advertising costs are expensed as incurred and included in "selling, general and administrative expenses." Advertising expenses amounted to ¥14,003 million ($118,670 thousand), ¥14,598 million and ¥15,198 million for the years ended March 31, 2007, 2006 and 2005, respectively.

(18) Research and Development – Research and development costs are expensed as incurred. Research and development costs amounted to ¥2,459 million ($20,836 thousand), ¥2,300 million and ¥2,223 million for the years ended March 31, 2007, 2006 and 2005, respectively.

(19) Derivative Instruments and Hedging Activities – The Companies account for derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These statements require all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivative instrument are recognized in either net income or other comprehensive income, depending on the designated purpose of the derivative. Changes in fair value of derivative instruments designated as fair value hedges of recognized assets and liabilities and firm commitments are recognized in income. Changes in fair value of derivative instruments designated and qualifying as cash flow hedges of recognized assets and liabilities, firm commitments and forecasted transactions are reported in accumulated other comprehensive income. These amounts are reclassified into income in the same period as the hedged items affect income.

(20) Guarantees – The Companies account for guarantees in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45")," which addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees. FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees. FIN 45 requires the guarantor to recognize at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

(21) Recent Accounting Pronouncements:

Accounting for Uncertainty in Income Taxes – In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Companies are currently reviewing FIN 48 to determine its impact on future consolidated financial statements.

Fair Value Measurements – In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact on the consolidated financial statements.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88 106, and 132(R)" ("SFAS 158"). SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of consolidated balance sheet date, and provide additional disclosure. On March 31, 2007, the Companies adopted the recognition and disclosure provisions of SFAS 158. The effect of adopting SFAS 158 on the Companies' financial condition at March 31, 2007 has been included in the accompanying consolidated financial statements. The Companies are currently reviewing the measurement provisions of SFAS 158 to determine its impact on future consolidated financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities – In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities, at specified election dates, to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and no entity is permitted to apply SFAS 159 retrospectively unless the entity choose early adoption. The Companies are currently reviewing SFAS 159 to determine its impact on future consolidated financial statements.

2. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished goods	¥ 75,088	¥ 80,881	$636,341
Raw materials and work-in-process	33,644	31,984	285,112
Supplies	5,906	4,146	50,057
Total	¥114,638	¥117,011	$971,510

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 debt securities and marketable equity securities (included in "marketable securities" and "other securities investments") at March 31, 2007 and 2006:

	Millions of Yen								Thousands of U.S. Dollars			
	2007				2006				2007			
	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:												
Equity securities	¥13,749	¥7,590	¥(239)	¥21,100	¥13,046	¥10,430	¥(5)	¥23,471	$116,514	$64,322	$(2,026)	$178,810
Debt securities (corporate bonds and mutual funds)	372	33		405	377	47		424	3,157	277		3,434
Held-to-maturity	499	1	(1)	499	524	4	(2)	526	4,234	7	(9)	4,232
Total	¥14,620	¥7,624	¥(240)	¥22,004	¥13,947	¥10,481	¥(7)	¥24,421	$123,905	$64,606	$(2,035)	$186,476

Fair value and gross unrealized holding losses of debt securities and marketable equity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2007 and 2006 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		2007	
	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:						
Equity securities	¥2,167	¥(239)	¥69	¥(5)	$18,362	$(2,026)
Held-to-maturity	299	(1)	297	(2)	2,531	(9)
Total	¥2,466	¥(240)	¥366	¥(7)	$20,893	$(2,035)

There were no investments in a continuous unrealized loss position for 12 months or more at March 31, 2007 and 2006.

The proceeds from sales of Available-for-Sale securities were ¥83 million ($700 thousand), ¥3,088 million and ¥2,934 million for the years ended March 31, 2007, 2006 and 2005, respectively. These sales resulted in gross realized gains and losses as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Realized gains	¥50	¥2,591	¥1,270	$426
Realized losses	0	(11)	(3)	2

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

Future maturities of debt securities (including mutual funds) classified as available-for-sale and held-to-maturity at March 31, 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Cost	Fair Value	Cost	Fair Value
Due within one year	¥231	¥232	$1,958	$1,967
Due after one year through five years	368	392	3,119	3,322
Due after five years	272	280	2,304	2,371
Total	¥871	¥904	$7,381	$7,660

All other investments in securities, consisting principally of investments in non-traded and unaffiliated companies, for which there is no practicable method to estimate fair values, were carried at their cost of ¥2,468 million ($20,914 thousand) and ¥2,571 million at March 31, 2007 and 2006, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Land	**¥ 89,329**	¥ 88,931	**$ 757,029**
Buildings	**257,991**	250,952	**2,186,363**
Machinery and equipment	**214,943**	210,047	**1,821,550**
Construction in progress	**883**	991	**7,482**
Total	**563,146**	550,921	**4,772,424**
Less accumulated depreciation	**305,555**	291,194	**2,589,453**
Property, plant and equipment – net	**¥257,591**	¥259,727	**$2,182,971**

The Companies recorded net losses on disposition of property, plant and equipment of ¥500 million ($4,238 thousand), ¥1,491 million and ¥1,078 million for the years ended March 31, 2007, 2006 and 2005, respectively. These losses on disposition are included in cost and expenses-other in the statements of consolidated income.

5. INTANGIBLE ASSETS

Intangible assets subject to amortization included in other assets in the consolidated balance sheets at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		**2007**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	**¥11,510**	**¥6,141**	¥ 9,375	¥5,129	**$ 97,546**	**$52,045**
Other	**936**	**528**	701	482	**7,929**	**4,478**
Total	**¥12,446**	**¥6,669**	¥10,076	¥5,611	**$105,475**	**$56,523**

Intangible assets not subject to amortization at March 31, 2007 and 2006 were immaterial.

Amortization expense was ¥1,285 million ($10,891 thousand), ¥1,094 million and ¥902 million for the years ended March 31, 2007, 2006 and 2005, 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
2008	¥1,554	$13,168
2009	1,462	12,393
2010	1,303	11,038
2011	771	6,531
2012	430	3,640

The carrying amount of goodwill at March 31, 2007 and 2006 and change in its carrying amount for the years ended March 31, 2007 and 2006, were immaterial to the Companies' operations.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The annual interest rates applicable to the short-term bank loans outstanding at March 31, 2007 and 2006 range, principally, from 0.8% to 6.9%.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Long-term debt with collateral – mainly banks, insurance companies and agricultural cooperatives, maturing through 2019, interest rates ranging from 0.9% to 2.7% in 2007 and 2006	¥ 14,856	¥17,010	$125,899
Long-term debt without collateral:			
Banks, insurance companies and agricultural cooperatives, maturing through 2012, interest rates ranging from 0.8% to 4.7% in 2007 and from 0.8% to 5.6% in 2006	68,772	58,770	582,816
2.25% notes due September 2008	9,700	9,700	82,203
Non-interest-bearing debt	1,147	1,270	9,722
Capital lease obligations, at from 1.2% to 3.3% maturing through 2017	12,577	12,398	106,583
Total	107,052	99,148	907,223
Less current maturities	11,878	12,485	100,665
Long-term debt, less current maturities	¥ 95,174	¥86,663	$806,558

At March 31, 2007, the aggregate annual maturities of long-term debt are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 11,878	$100,665
2009	17,901	151,707
2010	5,713	48,419
2011	40,577	343,877
2012	21,813	184,852
Thereafter	9,170	77,703
Total	¥107,052	$907,223

At March 31, 2007, property, plant and equipment with a net book value of approximately ¥26,910 million ($228,053 thousand) was pledged as collateral for long-term debt of ¥14,856 million ($125,899 thousand).

Substantially all the short-term and long-term loans from banks are made under agreements, as is customary in Japan, which provide that, under certain conditions, the banks may require the Companies 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 bank. Default provisions of certain agreements grant certain rights of possession to the banks.

7. INCOME TAXES

The Company applied to file a consolidated tax return to National Tax Agency of Japan and approval was received in March 2007. The accounting procedures and presentation based on the consolidated tax filing system were applied during the year ended March 31, 2007. Through the application of the consolidated tax filing system, from the fiscal year beginning April 1, 2007, the amount of taxable income for the national income tax purpose will be calculated by totaling the taxable income of the Company and its wholly owned subsidiaries located in Japan. In addition, the realizable amount of deferred tax assets relating to corporate income tax as of March 31, 2007 was assessed on the basis of the such consolidated tax filing system.

Income taxes in Japan applicable to the Companies, imposed by the national, prefectural and municipal governments, in the aggregate result in a normal effective statutory rate of approximately 41% for the years ended March 31, 2007, 2006 and 2005, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

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

	2007	2006	2005
Normal Japanese statutory tax rates	41.0%	41.0%	41.0%
Increase (decrease) in taxes resulting from:			
Difference in foreign subsidiaries tax rates	(3.3)	15.2	(5.1)
Change in the valuation allowance	(23.9)	15.6	9.7
Permanently non-deductible expenses	3.8	31.4	2.9
Other – net	(2.6)	(3.9)	(1.4)
Effective income tax rates	15.0%	99.3%	47.1%

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2007 and 2006 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		2007	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Securities	¥ (3,241)	¥ 34	¥ (4,132)	¥ 641	$ (27,463)	$ 289
Inventories	1,260	1,060	1,650	423	10,681	8,984
Certain accrued prefectural income taxes	412		305		3,487	
Accrued bonus	3,038		2,592		25,749	
Liability under retirement and severance program	6,026		5,146		51,069	
Investment in subsidiaries		2,504		2,522		21,216
Land	2,215		701	197	18,769	
Other temporary differences	2,772	241	2,661	517	23,487	2,038
Tax loss carryforwards	10,338		15,686		87,610	
Sub-total	22,820	3,839	24,609	4,300	193,389	32,527
Less valuation allowance	(3,917)		(10,982)		(33,192)	
Total	¥18,903	¥3,839	¥ 13,627	¥4,300	$160,197	$32,527

The net changes in the total valuation allowance for the years ended March 31, 2007 and 2006 were a decrease of ¥7,065 million ($59,875 thousand) and an increase of ¥2,667 million, respectively.

At March 31, 2007, the tax loss carryforwards of the Companies amounted to approximately ¥34,125 million ($289,196 thousand) of which ¥32,733 million ($277,397 thousand) is subject to expiration in the period from 2008 to 2014. The remaining balance expires in years beyond 2014 or has an indefinite carryforward period.

The portion of the undistributed earnings of foreign subsidiaries which are deemed to be permanently invested amounted to ¥24,488 million ($207,529 thousand) at March 31, 2007. Provisions are not made for taxes on undistributed earnings and cumulative translation adjustments of foreign subsidiaries whose earnings are deemed to be permanently invested.

8. RETIREMENT AND SEVERANCE PROGRAM

The Company had a non-contributory pension plan and a lump-sum severance indemnities plan covering almost all of its employees. The Company also had a contributory pension plan covering all of its employees. This plan represented the Employees' Pension Fund plan, which was a defined pension plan established under the Japanese Welfare Pension Insurance Law ("JWPIL"). This plan included a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL. In September 2005, the Company transferred the substitutional portion of the benefit obligation and related plan assets of a contributory pension plan to the government. In accordance with the Emerging Issue Task Force ("EITF") Issue 03-02, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company accounted for the entire separation process upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related assets as the culmination of a series of steps in a single settlement transaction. The transfer resulted in the Company recording a subsidy from the government of ¥27,434 million representing the difference between the substitutional portion of the accumulated benefit obligation and the related plan assets in the year ended March 31, 2006. In addition, the Company recorded a gain from derecognition of previously accrued salary progression of ¥991 million, and settlement loss from recognition of actuarial losses of ¥21,790 million in the year ended March 31, 2006. The net gain from derecognition of previously accrued salary progression and the settlement loss were allocated to cost of goods sold for ¥5,589 million and selling, general and administrative expenses for ¥15,210 million in the year ended March 31, 2006.

Effective January 1, 2006, the Company introduced an amended contributory pension plan and a lump-sum severance indemnities plan to establish a new formula for determining benefits including a "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 plan provides for annuity payments for the periods of 10 to 20 years commencing with mandatory retirement. The Company also introduced a defined contribution pension plan. The Company recognized the defined contribution cost of ¥296 million ($2,506 thousand) and ¥72 million for the years ended March 31, 2007 and 2006, respectively. The pension fund of non-contributory pension plan for active employees was transferred to the defined contribution pension plan. A part of the non-contributory pension plan still remains as a funded pension plan for the retired employees. Also settlement paid to employees resulted from early retirement and the transfer to certain subsidiaries, which is more than the sum of the service cost and interest cost, is incurred in the year ended March 2006. As a result of the above series of restructuring of pension plans, the settlement loss from recognition of actuarial losses of ¥2,754 million was recorded in cost of goods sold for ¥531 million and in selling, general and administrative expenses for ¥2,223 million in the year ended March 31, 2006.

On March 31, 2007, the Companies adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Companies to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the March 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the unrecognized actuarial loss, unrecognized prior service cost and all of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provisions of SFAS No. 87. The table below presents the effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheet at March 31, 2007. The adoption of SFAS No. 158 had no effect on the statement of consolidated income for the year ended March 31, 2007, or for any prior period presented.

	Millions of Yen		
	2007		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other assets	¥ 9,467	¥(5,896)	¥ 3,571
Liability under retirement and severance program	12,345	574	12,919
Deferred income taxes	1,196	2,653	3,849
Accumulated other comprehensive income (loss)	99	(3,817)	(3,718)

	Thousands of U.S. Dollars		
	2007		
	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other assets	$ 80,229	$(49,966)	$ 30,263
Liability under retirement and severance program	104,616	4,866	109,482
Deferred income taxes	10,134	22,481	32,615
Accumulated other comprehensive income (loss)	844	(32,351)	(31,507)

Net periodic benefit cost under the Company's retirement and severance program for the years ended March 31, 2007, 2006 and 2005 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Service cost	¥1,188	¥ 2,132	¥ 2,021	$10,062
Interest cost	788	1,865	2,442	6,677
Expected return on plan assets	(514)	(1,288)	(1,548)	(4,352)
Amortization of prior service cost	(196)	115	150	(1,665)
Recognized actuarial loss	407	2,335	2,419	3,458
Derecognition of previously accrued salary progression		(991)		
Settlement loss	448	24,545		3,798
Net periodic pension cost	¥2,121	¥28,713	¥ 5,484	$17,978

The following table sets forth various information about the Company's plans as of March 31, 2007 and 2006.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Change in projected benefit obligation:			
Benefit obligation at beginning of year	¥41,535	¥107,125	$351,993
Service cost	1,188	2,132	10,062
Interest cost	788	1,865	6,677
Actuarial (gain) loss	878	(3,699)	7,442
Plan amendments		(2,587)	
Benefits paid:			
Settlement paid	(1,526)	(10,155)	(12,929)
Others	(1,473)	(2,788)	(12,481)
Return of substitutional portion of contributory pension plan		(50,358)	
Projected benefit obligation at end of year	41,390	41,535	350,764
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year	43,119	61,979	365,419
Actual return (loss) on plan assets	(1,149)	8,177	(9,745)
Employer contribution	1,691	2,955	14,332
Benefits paid:			
Settlement paid		(5,714)	
Others	(1,473)	(2,345)	(12,481)
Return of substitutional portion of contributory pension plan		(21,933)	
Fair value of plan assets at end of year	42,188	43,119	357,525
Funded status at end of year	¥ 798	¥ 1,584	$ 6,761

Amounts recognized in the consolidated balance sheet at March 31, 2007 consisted of:

	Millions of Yen	Thousands of U.S. Dollars
Prepaid benefit cost	¥ 3,571	$ 30,263
Accrued benefit liability	(2,773)	(23,502)
	¥ 798	$ 6,761

Amounts recognized in accumulated other comprehensive income at March 31, 2007 consisted of:

	Millions of Yen	Thousands of U.S. Dollars
Actuarial loss	¥12,066	$102,256
Prior service cost	(3,254)	(27,573)
	¥ 8,812	$ 74,683

The funded status at March 31, 2006, reconciled to the net amount recognized in the consolidated balance sheet at that date, was summarized as follows:

	Millions of Yen
Funded status	¥ 1,584
Unrecognized actuarial loss	10,381
Unrecognized prior service cost	(3,450)
Net amount recognized	¥ 8,515

Amounts recognized in the consolidated balance sheet at March 31, 2006 consisted of:

	Millions of Yen
Prepaid benefit cost	¥1,942
Intangible asset	161
Accumulated other comprehensive income	6,412
Net amount recognized	¥8,515

The accumulated benefit obligation for defined benefit plans at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Accumulated benefit obligation	¥41,390	¥41,535	$350,764

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Plans with projected benefit obligation in excess of plan assets:			
Projected benefit obligation	¥10,316	¥10,404	$87,420
Fair value of plan assets	7,542	8,976	63,917
Plans with accumulated benefit obligation in excess of plan assets:			
Accumulated benefit obligation	10,316	10,404	87,420
Fair value of plan assets	7,542	8,976	63,917

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

	Millions of Yen	Thousands of U.S. Dollars
Prior service cost	¥(238)	$(2,015)
Actuarial loss	516	4,372

Measurement Date

The Company and certain of its subsidiaries used a December 31 measurement date for the plans.

Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	2.0%	2.0%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Discount rate	2.0%	2.0%	2.5%
Rate of increase in future compensation levels		1.9%	2.0%
Expected long-term rate of return on plan assets	2.5%	3.0%	3.5%

The expected long-term rate of return was determined by estimating the future rate of return of each plan asset considering actual historical returns.

Plan Assets

The Company's pension plan weighted-average asset allocations at March 31, 2007 and 2006 by asset category were as follows:

Asset category	2007	2006
Equity securities	54.0%	60.2%
Debt securities	26.2	14.9
Cash	4.8	9.6
Life insurance company general accounts	15.0	15.3
Total	100.0%	100.0%

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

Contributions

The Company expects to contribute ¥1,658 million ($14,052 thousand) to the contributory pension plan in the year ending March 31, 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be made:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥1,353	$11,470
2009	1,771	15,007
2010	1,986	16,834
2011	1,583	13,413
2012	1,717	14,548
2013 – 2017	8,919	75,585

Certain of the Company's subsidiaries have non-contributory pension plans and lump-sum severance plans. The accrued retirement and severance liabilities of these subsidiaries are generally stated at actuarially determined present values of the future liabilities for benefits earned by eligible employees for their services as of the balance sheet date.

Summary information for the subsidiaries' plans for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Net periodic benefit cost for the year	¥ 1,447	¥ 1,326	¥ 1,394	$ 12,265
Benefit obligation at end of year	14,820	13,757	13,329	125,592
Fair value of plan assets at end of year	5,443	4,853	4,142	46,129
Unrecognized actuarial loss		292	754	
Liabilities recognized at end of year	9,377	8,612	8,433	79,463

Assumptions used for the above plans were generally the same as those used for the Company's plans.

Additionally, the Companies provided for directors' retirement allowances of ¥769 million ($6,517 thousand) and ¥701 million at March 31, 2007 and 2006, based on its internal regulations.

Special severance benefit was paid ¥8,605 million in 2006 and ¥1,498 million in 2005 to certain employees for early retirement and employees transferred to certain subsidiaries. The amounts of special severance payments were included in cost and expenses – other in the statements of consolidated income.

9. STOCK-BASED COMPENSATION

The Company granted its shares of common stock to directors, corporate auditors and executive officers of the Company under a fixed stock option plan pursuant to a resolution at the shareholders' meeting. Options granted under the plan have an exercise price of ¥1. The options are vested ratably over a period of one year, and are generally excisable one year after retirement and up to 20 years from the date of grant.

The fair value of the option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended March 31, 2007 and 2006. The expected dividend yield is based on the Company's most recent history and expectation of dividend payouts. Expected volatility is based on the historical volatility of the Company's stock over the most recent period commensurate with the estimated expected life of the Company's stock options and other factors. The risk-free rate is based on the Japanese government bond in effect at the time of grant for a period commensurate with the estimated expected life. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based primarily on historical exercise experience.

	2007	2006	2005
Dividend yield	1.2%	1.2%	1.2%
Expected volatility	24.5%	28.3%	32.4%
Risk-free interest rates	1.5%	0.7%	1.0%
Expected lives	5.6 years	5.7 years	5.7 years

A summary of option activity under the Company's stock option plan at March 31, 2007, and changes during the year then ended were as follows:

	Number of Options	Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value	Exercise Price	Aggregate Intrinsic Value
	Shares	Yen	Years	Millions of Yen	U.S. Dollars	Thousands of U.S. Dollars
Outstanding at March 31, 2006	231,000	¥1			$0	
Granted	121,000	1			0	
Exercised	(10,000)	1			0	
Outstanding at March 31, 2007	342,000	1	16.0	¥422	0	$3,577
Exercisable at March 31, 2007	1,000	¥1	4.3	¥ 1	$0	$ 11

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Total compensation cost recognized under the fair value method during the year	¥134	¥135	¥117	$1,137
Total income tax benefit recognized during the year	42			354

The weighted-average grant-date fair value of stock options granted per share during the years 2007, 2006 and 2005 were ¥1,260 ($11), ¥1,199 and ¥1,243, respectively. The total intrinsic value of options exercised during the years ended March 31, 2007, 2006 and 2005 was ¥12 million ($105 thousand), ¥0 and ¥2 million, respectively.

As of March 31, 2007, there was ¥51 million ($431 thousand) of total unrecognized cost related to nonvested options. That cost is expected to be recognized over period of one year.

Cash received from option exercise for the years ended March 31, 2007, 2006 and 2005 was immaterial.

10. SHAREHOLDERS' EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies 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 that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies 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 Corporate Law 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.

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

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

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies 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, the Company 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 transaction 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 the Company, capital surplus would have increased by ¥33,746 million with a corresponding decrease in unappropriated retained earnings.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of tax effects, at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Net unrealized gains on securities available-for-sale	¥ 4,348	¥ 6,170	$ 36,845
Net unrealized gains on derivative financial instruments	670	49	5,681
Minimum pension liability adjustment		(1,963)	
Pension liability adjustment	(3,718)		(31,507)
Foreign currency translation adjustment	4,437	2,408	37,600
Accumulated other comprehensive income	¥ 5,737	¥ 6,664	$ 48,619

12. LEASED ASSETS AND RENT EXPENSE

The Companies lease certain buildings, machinery and equipment under capital leases. The amounts of these leased assets included in the consolidated balance sheets at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Buildings	¥13,375	¥13,375	$113,346
Machinery and equipment	3,704	2,303	31,389
Total	17,079	15,678	144,735
Less accumulated depreciation	5,157	3,709	43,702
Total	¥11,922	¥11,969	$101,033

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 is included in "long-term debt" in the consolidated balance sheet at March 31, 2007.

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 1,687	$ 14,294
2009	1,687	14,294
2010	1,687	14,294
2011	1,636	13,867
2012	1,485	12,591
Thereafter	5,849	49,567
Total minimum lease payments	14,031	118,907
Less amount representing interest	1,454	12,324
Present value of net minimum lease payments	12,577	106,583
Less current capital lease obligations	1,362	11,543
Long-term capital lease obligations	¥11,215	$ 95,040

The Companies also lease office space, employee housing and office equipment under operating leases that are cancelable at the Companies' option without material penalties. Rent expense under these leases amounted to ¥14,603 million ($123,755 thousand), ¥14,516 million, and ¥16,033 million for the years ended March 31, 2007, 2006 and 2005, respectively.

13. FOREIGN EXCHANGE GAINS (LOSSES)

Net foreign exchange gain of ¥710 million ($6,019 thousand), loss of ¥82 million and gain of ¥184 million were included in the determination of net income for the years ended March 31, 2007, 2006 and 2005, respectively.

14. FINANCIAL INSTRUMENTS

The carrying amounts and fair values of financial instruments at March 31, 2007 and 2006 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable equity and debt securities (see Note 3)	¥ 22,004	¥ 22,004	¥ 24,419	¥ 24,421	$ 186,476	$ 186,476
Long-term debt	(95,174)	(93,511)	(86,663)	(84,958)	(806,558)	(792,468)
Foreign currency forward contracts and currency swap contracts	1,438	1,438	(164)	(164)	12,186	12,186
Interest rate swap contracts	54	54	123	123	455	455

The carrying values of all other financial instruments approximate their estimated fair values. The fair values of long-term debt are estimated using market interest rates. The use of different market assumptions or techniques could affect the estimated fair values.

15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Companies are engaged in export and import transactions, which are denominated in various foreign currencies. In order to mitigate the exposure caused by trade payables and receivables, firm purchase commitments and forecasted transactions denominated in foreign currencies (principally in U.S. dollars), the Companies enter into foreign currency forward contracts and currency swap contracts.

The Companies document their risk management objectives and strategies for undertaking foreign currency hedge transactions. Foreign currency forward contracts and currency swap contracts are entered into under these objectives and strategies and related rules which regulate transactions. The Companies also have a policy that the derivatives are not used for other than hedging activities.

If the critical terms of derivative instruments and the hedged items are the same, changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. The net gains or losses excluded from the assessment of hedge effectiveness were immaterial for the years ended March 31, 2007 and 2006.

At March 31, 2007, an unrecognized gain of ¥638 million ($5,413 thousand) relating to existing foreign currency forward contracts and currency swap contracts is included in accumulated other comprehensive income. The amount of ¥244 million ($2,068 thousand) is expected to be reclassified into income within 12 months from March 31, 2007. The maximum length of time over which the Companies are hedging their exposures to the variability in future cash flows for forecasted transactions is approximately 36 months.

The Company is exposed to risks of variability in future cash flow or fluctuations in fair value mainly on debt obligations. In order to manage these risks, the Company enters into interest rate swap contracts. Interest rate swap contracts are used primarily to convert floating rate debt to fixed rate debt. The hedging relationships between the derivative instruments and hedged items are highly effective in offsetting changes in cash flows or fair values resulting from changes in interest rates.

At March 31, 2007, an unrecognized gain of ¥32 million ($268 thousand) relating to existing interest rate swap contracts is included in accumulated other comprehensive income. The amount of ¥8 million ($68 thousand) is expected to be reclassified into income within 12 months from March 31, 2007.

As of March 31, 2007, the Companies had no significant concentrations of credit risk.

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Company guarantees certain financial liabilities of their associated companies and certain employees' mortgage obligations. The maximum potential amount of future payments which the Company could be required to make under these guarantees was approximately ¥745 million ($6,317 thousand) and ¥746 million at March 31, 2007 and 2006, respectively.

Purchase commitments for capital expenditures were approximately ¥927 million ($7,852 thousand) and ¥1,368 million at March 31, 2007 and 2006, respectively.

17. EVENTS SUBSEQUENT TO MARCH 31, 2007

(1) Cash Dividend

On May 18, 2007, the Board of Directors resolved to pay cash dividends to shareholders of record at March 31, 2007 of ¥16 ($0.14) per share, for a total of ¥3,651 million ($30,942 thousand).

(2) Stock Option

On May 18, 2007, the Board of Directors resolved to propose the following for approval of the shareholders at the meeting to be held on June 27, 2007:

A stock option grant to allow certain executive officers to purchase up to 80,000 shares of the Company's common stock at an exercise price of ¥1 in the period from the day immediately following the grant date of the stock option to June 30, 2027.

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
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Osaka-shi, Osaka 530-0005
Japan

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Fax: +81 6 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

Nippon Meat Packers, Inc.:

We have audited the accompanying consolidated balance sheets of Nippon Meat Packers, Inc. and subsidiaries as of March 31, 2007 and 2006 and the related statements of consolidated income, changes in consolidated shareholders' equity, consolidated comprehensive income and consolidated cash flows for each of the three years in the period ended March 31, 2007 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards No. 131 has not been presented in the accompanying consolidated financial statements. In our opinion, presentation of operating segment information is required for a complete presentation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of segment information as discussed in the preceding paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Nippon Meat Packers, Inc. and subsidiaries at March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

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 conformity 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

June 8, 2007

Member of
Deloitte Touche Tohmatsu

Group Companies

Nippon White Farm Co., Ltd.
Interfarm Co., Ltd.
Texas Farm, LLC
Oakey Holdings Pty. Ltd.

Nippon Food Packer, Inc.
Nippon Pure Food, Inc.
Oakey Abattoir Pty. Ltd.
Thomas Borthwick & Sons (Australia) Pty. Ltd.

Shizuoka-Nippon Ham Co., Ltd.
Nagasaki-Nippon Ham Co., Ltd.
Nippon Ham Shokuhin Co., Ltd.
Nippon Ham Sozai Co., Ltd.
Thai Nippon Foods Co., Ltd.

Tohoku-Nippon Ham Co., Ltd.
Minami-Nippon Ham Co., Ltd.

Japan Food Corporation
Nippon Meat Packers Australia Pty. Ltd.
Day-Lee Foods, Inc.

Higashi Nippon Food, Inc.
Kanto Nippon Food, Inc.
Naka Nippon Food, Inc.
Nishi Nippon Food, Inc.
Nippon Ham Hokubu Chokuhan Co., Ltd.
Nippon Ham Tobu Chokuhan Co., Ltd.
Nippon Ham Chubu Chokuhan Co., Ltd.
Nippon Ham Kinki Chokuhan Co., Ltd.
Nippon Ham Seibu Chokuhan Co., Ltd.

Nippon Logistics Group, Inc.

Marine Foods Corporation
Nippon Luna Inc.
HOKO Co., Ltd

Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd.
Osaka Football Club Co., Ltd.

And 86 other companies
(As of March 31, 2007)

Investor Information

Company Overview

Established: May 1949
Capital: ¥24,166 million
President: Hiroshi Kobayashi
Employees: 2,417 (As of March 31, 2007)
Main Business:
Manufacture and sale of processed meats (hams, sausages, etc.) and cooked foods and the import, purchase and sale of fresh meats.
Head Office:
6-14, Minami-Honmachi 3-chome,
Chuo-ku, Osaka 541-0054, Japan
Tel: +81-6-6282-3031

Share Data (As of March 31, 2007)

Authorized shares: 570,000,000
Issued: 228,445,350
Shareholders: 9,628
Shareholders by Category
Financial institutions:
85 (129,469 thousand shares)
Other companies:
350 (25,100 thousand shares)
Foreign investors:
286 (49,073 thousand shares)
Individual/Other:
8,877 (18,936 thousand shares)
Other:
30 (5,865 thousand shares)
Shareholders by Holding
Less than 1,000:
1,789 (292 thousand shares)
1,000–Less than 10,000:
7,360 (11,937 thousand shares)
10,000–Less than 100,000:
314 (9,042 thousand shares)
100,000–Less than 1 million:
123 (41,831 thousand shares)
1 million–Less than 5 million:
33 (70,653 thousand shares)
More than 5 million:
9 (94,687 thousand shares)

Major Shareholders (Leading 10 by holding)

Name	Holding (thousands of shares)
The Master Trust Bank of Japan, Ltd. (Trust account)	16,772
Japan Trustee Services Bank, Ltd. (Trust account)	14,565
Mitsubishi Corporation	11,784
Hyakujushi Bank, Ltd.	10,037
Meiji Yasuda Life Insurance Company	9,806
The Norinchukin Bank	8,926
Nippon Life Insurance Company	8,182
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,326
The Dai-ichi Mutual Life Insurance Company	7,287
Nipponkoa Insurance Co., Ltd.	4,990

Nippon Meat Packers,Inc. http://www.nipponham.co.jp

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