

# Business Results

## for the First Quarter of FY2018/3

August 3, 2017 (Thu.)  
NH Foods Ltd.

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# **I. Consolidated Business Results for FY2018/3 1Q**

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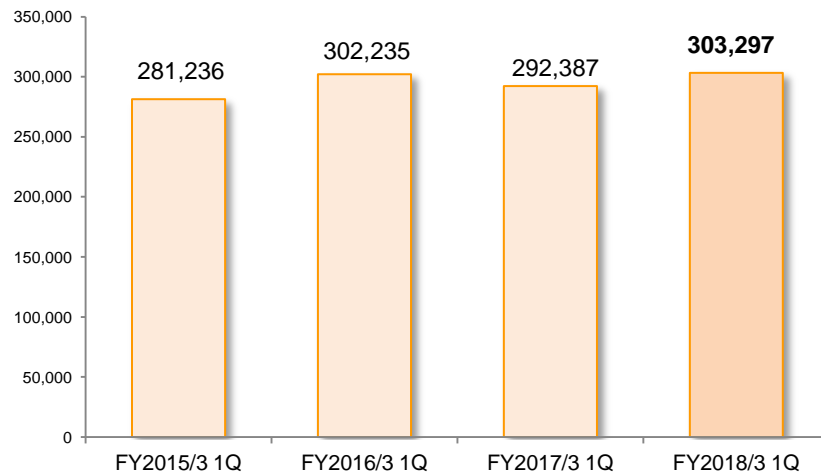
# 1. Operating Segment Data: 1Q (Apr.-Jun.)

(¥ million)

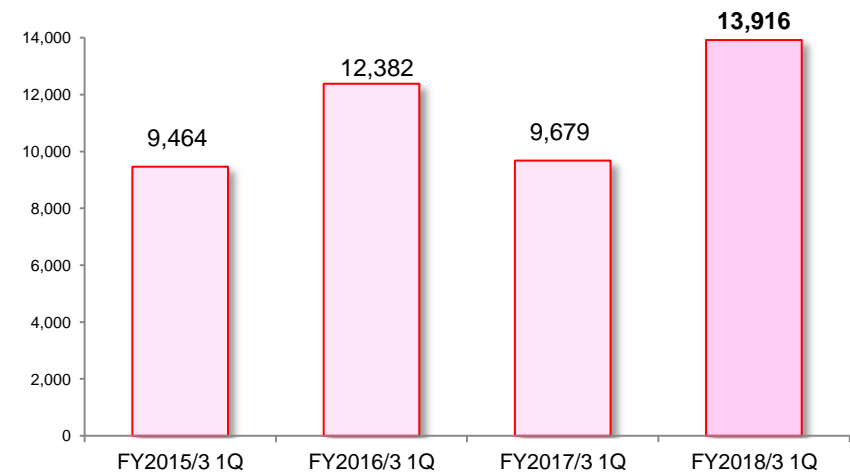
		FY2015/3 1Q	FY2016/3 1Q	FY2017/3 1Q	<b>FY2018/3 1Q</b>	Variance	Variance (%)
Processed Foods Business Division	Net sales	82,555	79,604	81,388	<b>83,228</b>	1,840	2.3
	Operating income	1,060	28	1,111	<b>908</b>	(203)	(18.3)
Fresh Meats Business Division	Net sales	172,321	187,180	184,293	<b>193,091</b>	8,798	4.8
	Operating income	6,199	9,103	8,329	<b>12,874</b>	4,545	54.6
Affiliated Business Division	Net sales	35,441	36,909	37,709	<b>38,283</b>	574	1.5
	Operating income	(41)	188	586	<b>489</b>	(97)	(16.6)
Overseas Business Division	Net sales	57,592	64,932	55,281	<b>55,832</b>	551	1.0
	Operating income	1,842	3,148	(574)	<b>(515)</b>	59	-
Eliminations, adjustments and others	Net sales	(66,673)	(66,390)	(66,284)	<b>(67,137)</b>	(853)	-
	Operating income	404	(85)	227	<b>160</b>	(67)	-
Consolidated	Net sales	281,236	302,235	292,387	<b>303,297</b>	10,910	3.7
	Operating income	9,464	12,382	9,679	<b>13,916</b>	4,237	43.8

 (¥ million)  
 (Consolidated)

## Net Sales


 (¥ million)  
 (Consolidated)

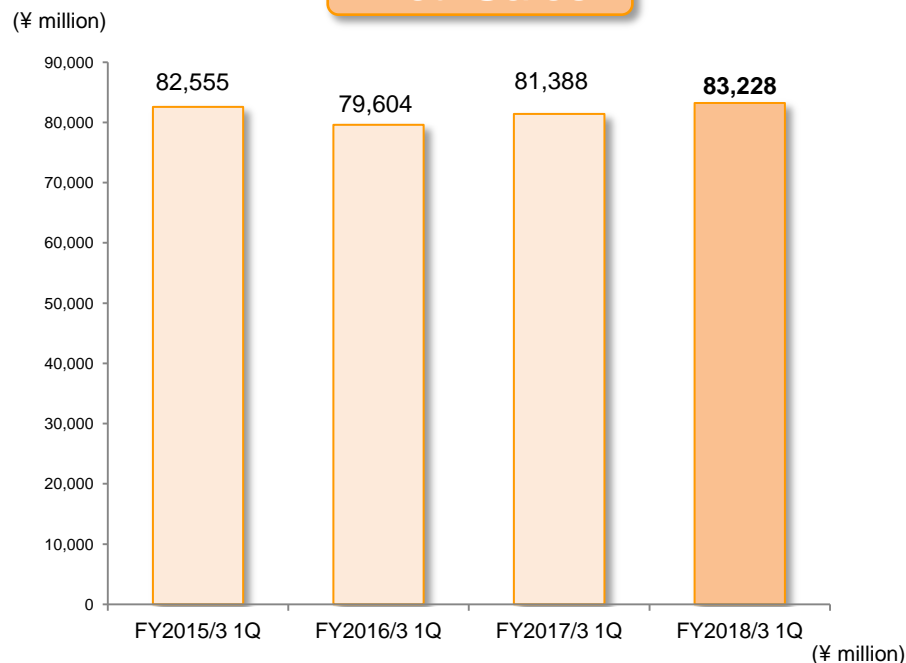
## Operating Income



- Net sales by operating segment and net sales (by category) on page 21 of this presentation do not necessarily correspond (due to intersegment transactions).
- Net sales for each segment include intersegment sales.

## 2. Operating Segment Data: Processed Foods Business Division (1)

### Net Sales



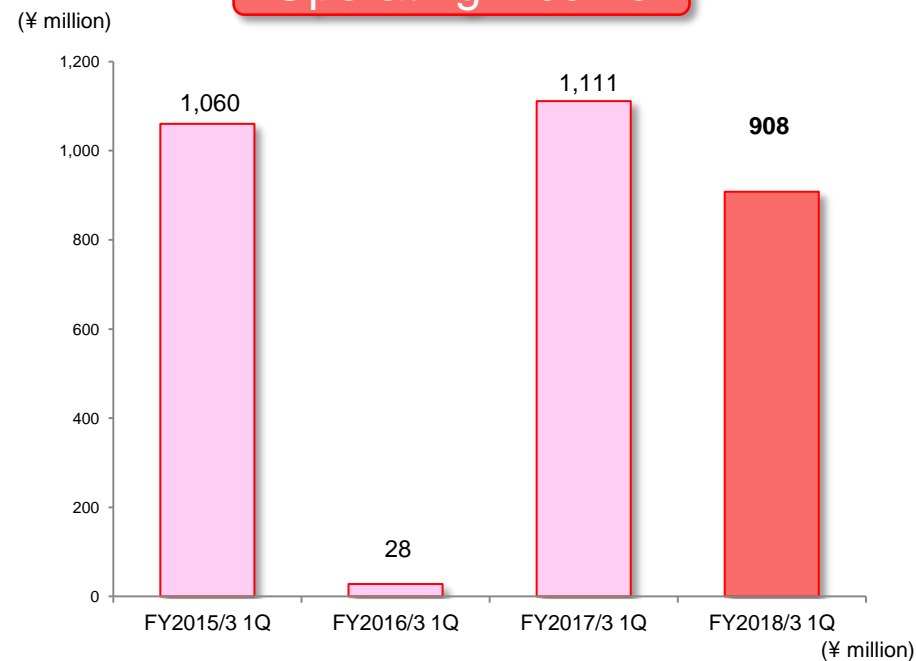
	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Net sales	81,388	83,228	1,840	2.3

### Net Sales in FY2018/3 1Q (Apr.-Jun.)

In hams and sausages, sales of consumer products were on par with last year, owing primarily to lower volume of PB products, despite efforts to bolster sales via television commercials for products such as *Hojun coarse-ground wieners*. Sales of commercial-use products were sluggish due to intensified competition.

In deli and processed foods, sales fell short of the previous year as mainstay products struggled, although efforts were made to strengthen sales promotion of products including *CHIKICHIKI Bone*, which marked its 30th anniversary on the market. Revenue from commercial-use products increased due to favorable performance of products for the CVS and restaurant channels.

### Operating Income



	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Operating income	1,111	908	(203)	(18.3)
Operating income ratio	1.4%	1.1%	-	-

### Operating Income in FY2018/3 1Q (Apr.-Jun.)

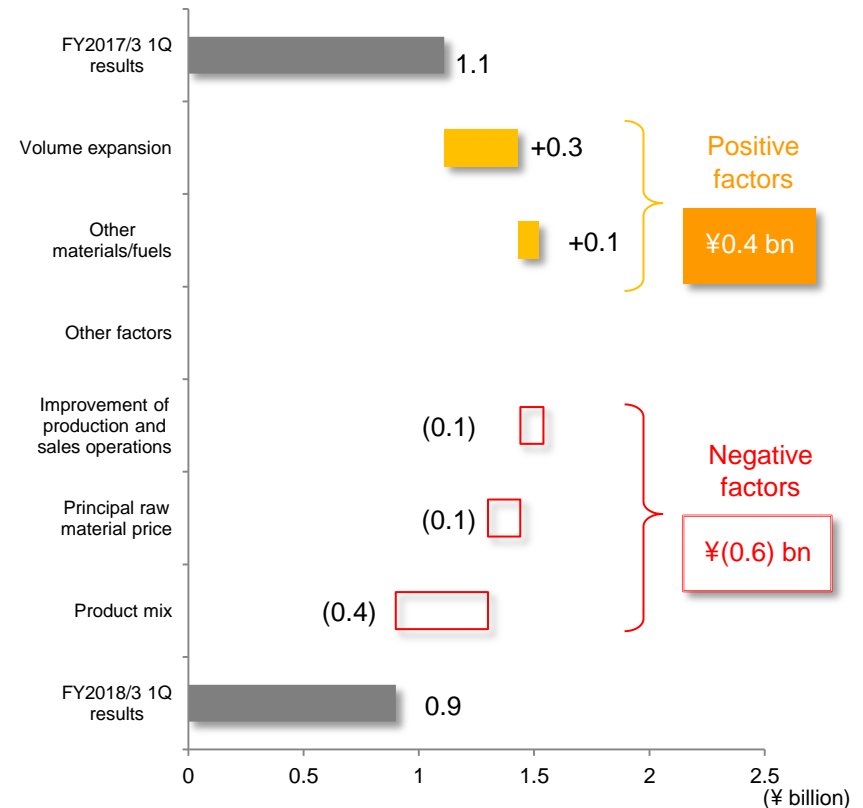
Despite contributions from cost-cutting in sales operations, operating income decreased. Primary factors included higher expenses in production operations such as labor costs.

### Factor Analysis: Changes in operating income (¥ billion)

	FY2018/3		
	1Q forecasts	1Q results	Variance
<b>Volume expansion</b>	0.4	0.3	(0.1)
<b>Profit margin improvement</b>	0.2	(0.5)	(0.7)
<i>External factors</i>	(0.2)	(0.1)	0.1
Principal raw material price	(0.3)	(0.1)	0.1
Other materials/fuels	0.1	0.1	0.0
<i>Internal factors</i>	0.3	(0.5)	(0.8)
Product mix (product renewal)	(0.1)	(0.4)	(0.3)
Improvement of production and sales operations	0.5	(0.1)	(0.5)
<b>Other factors</b>	0.0	0.0	0.0
<b>Total</b>	<b>0.6</b>	<b>(0.2)</b>	<b>(0.8)</b>

\* Due to rounding, item tallies in each division may not match totals.

### Factor Analysis Graph: Changes in operating income results (1Q)



### ● Forecasts Variation Factor Analysis (FY2018/3 1Q)

- Volume expansion: Operating income fell below the forecast due to sluggish volume for deli and processed foods.
- Product mix: Operating income fell below the forecast due to slow growth in high-priced products.
- Improvement of production and sales operations: In addition to volume falling short of the forecast, operating income did not reach the forecast due to higher personnel expenses in production operations.

## ● Major brands sales results



*Hojun® coarse-ground wieners* continues to perform favorably



*Chuka Meisai®* is trending toward recovery due to campaigns, etc.

Reference: Year-on-year sales comparison of major brand products

Hams and sausages	FY2018/3 1Q results	Deli and processed foods	FY2018/3 1Q results
<i>SCHAU ESSEN</i>	101%	<i>Ishigama Kobo</i>	93%
<i>Mori-no-Kaori + Hojun coarse-around wieners</i>	149%	<i>Chuka Meisai</i>	94%
<i>Irodori Kitchen Series</i>	72%	Prefried	102%
<i>Gourmade Steak</i>	93%	Hamburg and meatball	104%
Yakibutas	101%	Curries	105%
<b>Consumer products total</b>	<b>100%</b>	<b>Consumer products total</b>	<b>97%</b>

## ● Sales results by channel

### 1) Consumer products

- Although sales volume of hams and sausages was up due to strong performance of *Hojun coarse-ground wieners*, sales on a monetary basis were on par with last year. Initiatives in this area included active sales promotion of *SCHAU ESSEN* and television commercials.
- Sales volume and amounts in deli and processed foods both fell short of the previous year due to sluggish performance of the mainstay *Chuka Meisai* and *Ishigama Kobo* products, despite strong sales of *CHIKICHIKI Bone*, which celebrated its 30th anniversary on the market.

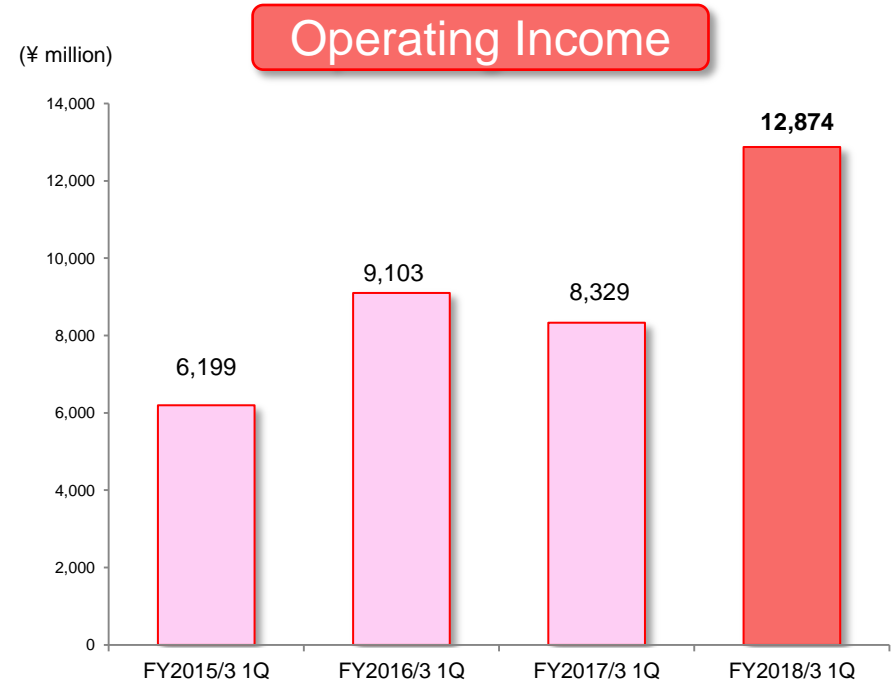
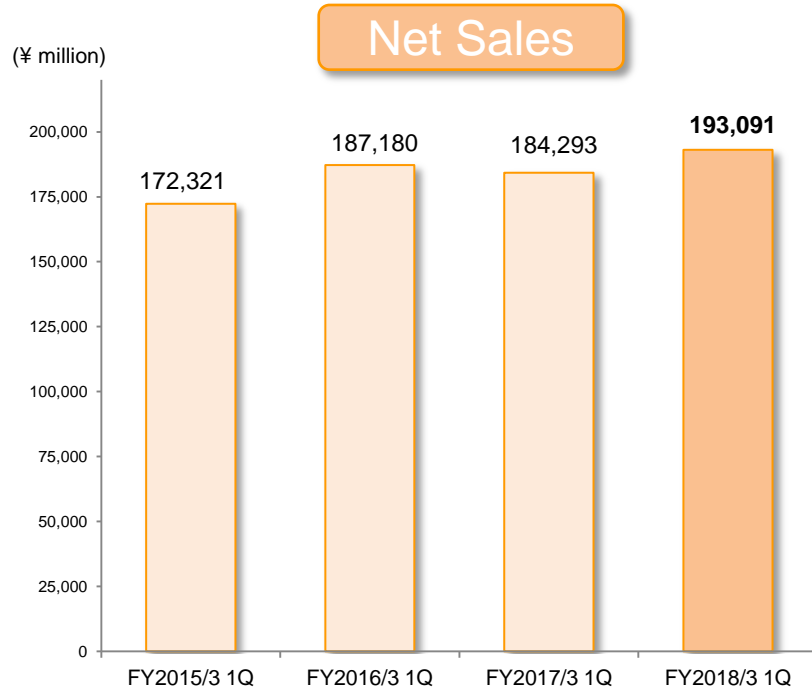
### 2) Commercial-use products

- Sales volume of hams and sausages grew through active menu proposals and participation in sales promotion projects, but sales on a monetary basis fell short of the previous year due to intensified competition.
- Both sales volume and amounts of deli and processed foods were up due to favorable performance of products for both the CVS and restaurant channels.

Reference: FY2018/3 1Q (year-on-year growth in sales by channel)

		Volume	Amount
Hams and sausages	Consumer	104%	100%
	Commercial-use	101%	96%
	<b>Total</b>	<b>103%</b>	<b>100%</b>
Deli and processed foods	Consumer	99%	97%
	Commercial-use	108%	110%
	<b>Total</b>	<b>103%</b>	<b>103%</b>

# 3. Operating Segment Data: Fresh Meats Business Division (1)



	(¥ million)			
	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Net sales	184,293	193,091	8,798	4.8

	(¥ million)			
	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Operating income	8,329	12,874	4,545	54.6
Operating income ratio	4.5%	6.7%	-	-

## Net Sales in FY2018/3 1Q (Apr.-Jun.)

Revenues were up due to an increase in sales prices of both domestic and imported chicken, as well as higher sales volume of imported beef.

## Operating Income in FY2018/3 1Q (Apr.-Jun.)

Operating income was higher in production businesses as a result of robust market prices for domestic chicken, in addition to growth in domestic chicken brand *Sakurahime*. Operating income was also up in sales aspects, owing to factors such as a strong market for imported chicken.



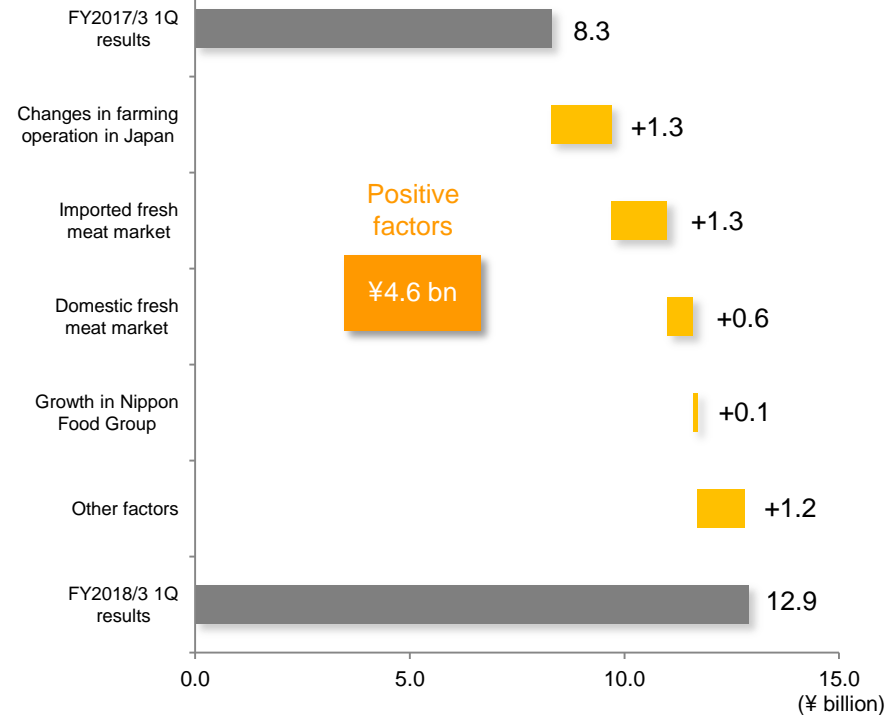
### 3. Operating Segment Data: Fresh Meats Business Division (2)

Factor Analysis: Changes in operating income  
(¥ billion)

	FY2018/3		
	1Q forecasts	1Q results	Variance
Imported fresh meat market	0.1	1.3	1.3
Domestic fresh meat market	0.0	0.6	0.5
Changes in farming operation in Japan	0.0	1.3	1.3
Growth in Nippon Food Group	(0.0)	0.1	0.1
Other factors	0.8	1.2	0.4
<b>Total</b>	<b>0.9</b>	<b>4.6</b>	<b>3.7</b>

\* Due to rounding, item tallies in each division may not match totals.

Factor Analysis Graph: Changes in operating income results (1Q)

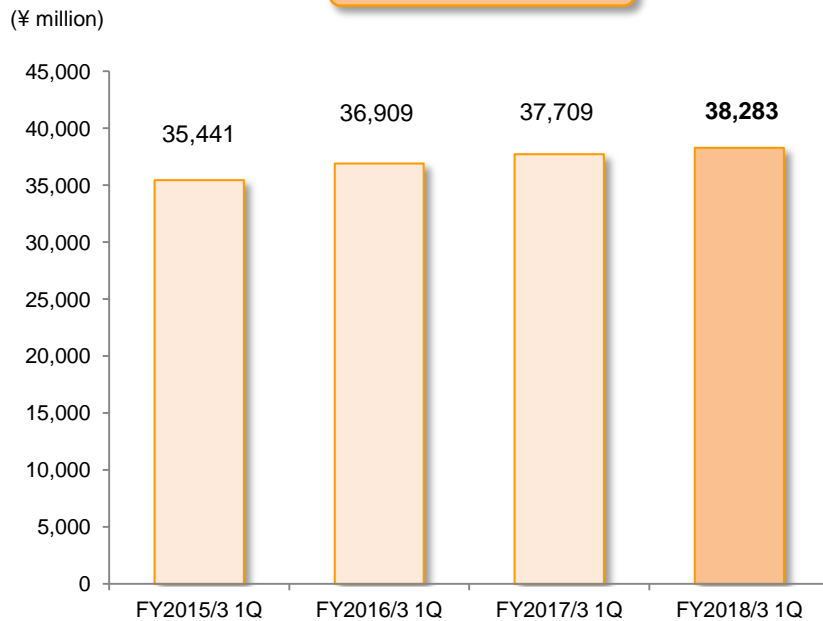


● Forecasts Variation Factor Analysis (FY2018/3 1Q)

- Imported fresh meat market: Operating income was up due to a strong market for imported chicken, despite lower profits in imported beef due to a pullback from strong demand during the previous year.
- Changes in farming operations in Japan: Operating income grew as the chicken market was solid, centered on breast meat, with pork prices also maintaining high prices.
- Growth in Nippon Food Group: Operating income was up due to expanded profits in domestic beef and higher sales from restaurant sales channels.

# 4. Operating Segment Data: Affiliated Business Division

## Net Sales



(¥ million)

	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Net sales	37,709	38,283	574	1.5

### Net Sales in FY2018/3 1Q (Apr.-Jun.)

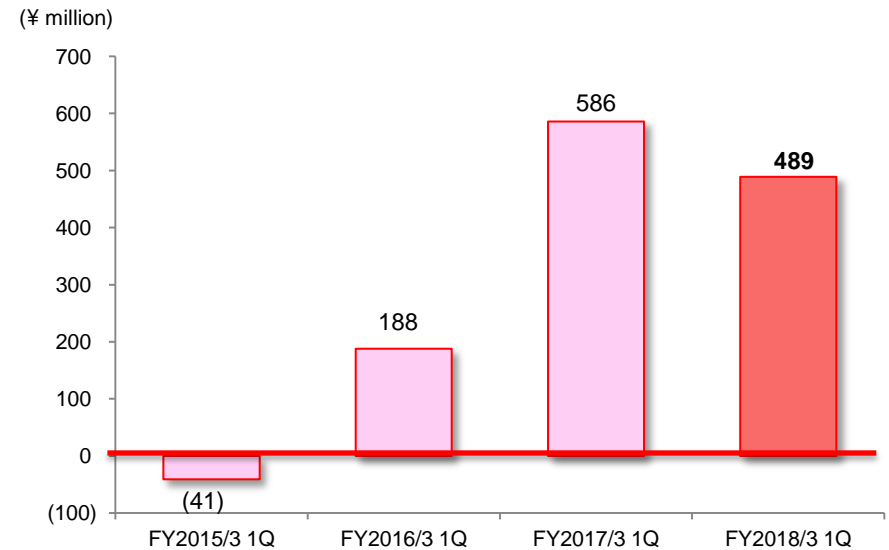
(Marine products business)

Sales were on par with the previous year due to shortages of raw materials for in-house manufactured products and declining catches of salmon and squid, among other factors, despite efforts to revise prices and expand exports.

(Dairy products business)

Revenue increased due to sales growth in lactic probiotic beverages in yogurt, and both in consumer and commercial-use cheeses.

## Operating Income



(¥ million)

	FY2017/3 1Q	FY2018/3 1Q	Variance	Variance (%)
Operating income	586	489	(97)	(16.6)
Operating income ratio	1.6%	1.3%	-	-

### Operating Income in FY2018/3 1Q (Apr.-Jun.)

(Marine products business)

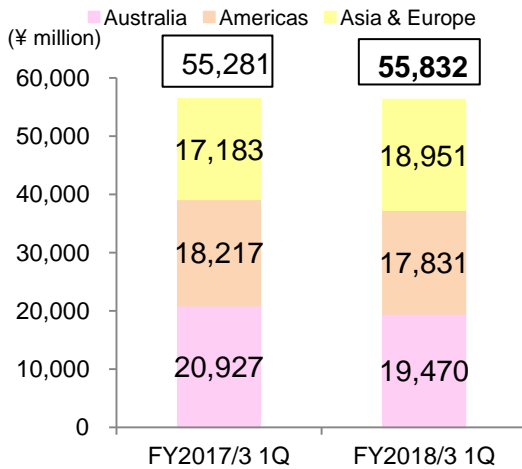
Procurement of raw materials was difficult due to declining catches, causing in-house manufactured products to slump and operating income to decline.

(Dairy products business)

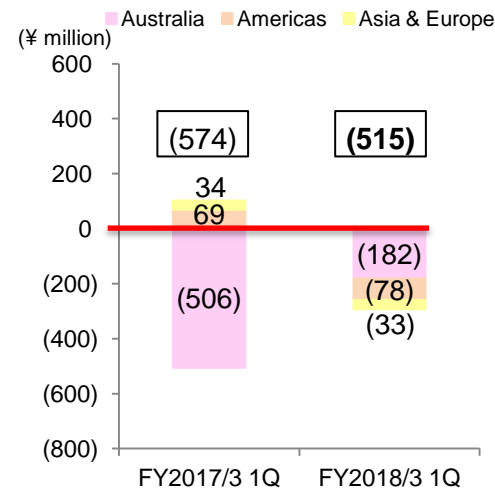
Operating income increased, owing to growth in sales of lactic probiotic beverages and improved plant operating rates as sales of cheese climbed.

# 5. Operating Segment Data: Overseas Business Division (1)

## Net Sales



## Operating Income



### Net Sales in FY2018/3 1Q (Apr.-Jun.)

Although issues such as a slowdown in exports from the United States and a delayed recovery in the number of cattle processed in Australia were present, revenue increased primarily due to a significant increase in net sales at Ege-Tav in Turkey.

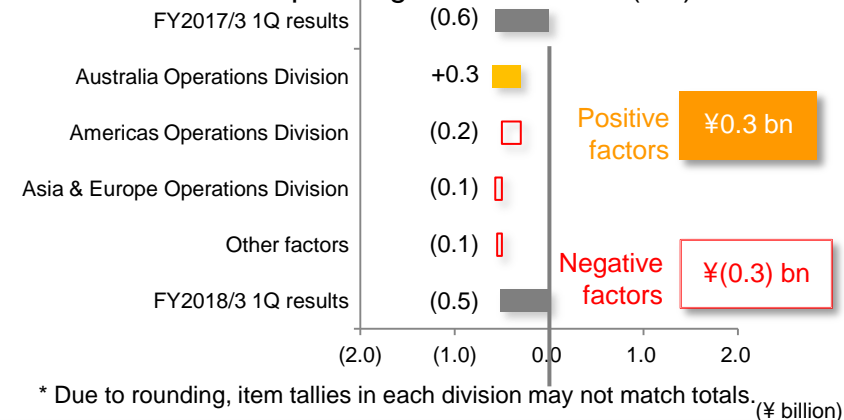
### Operating Income in FY2018/3 1Q (Apr.-Jun.)

Despite a deterioration in the export environment in the Americas operations, operating income improved due to strong performance at Ege-Tav in Turkey and Australian operations entering a recovery trend.

### Factor Analysis: Changes in operating income (¥ billion)

	FY2018/3		
	1Q forecasts	1Q results	Variance
Australia Operations Division	(0.1)	0.3	0.5
Americas Operations Division	(0.3)	(0.2)	0.1
Asia & Europe Operations Division	0.2	(0.1)	(0.2)
Other factors	(0.1)	(0.1)	0.0
<b>Total</b>	<b>(0.3)</b>	<b>0.1</b>	<b>0.4</b>

### Factor Analysis Graph: Changes in operating income results (1Q)



\* Due to rounding, item tallies in each division may not match totals. (¥ billion)

### ● Forecasts Variation Factor Analysis (2018/3 1Q)

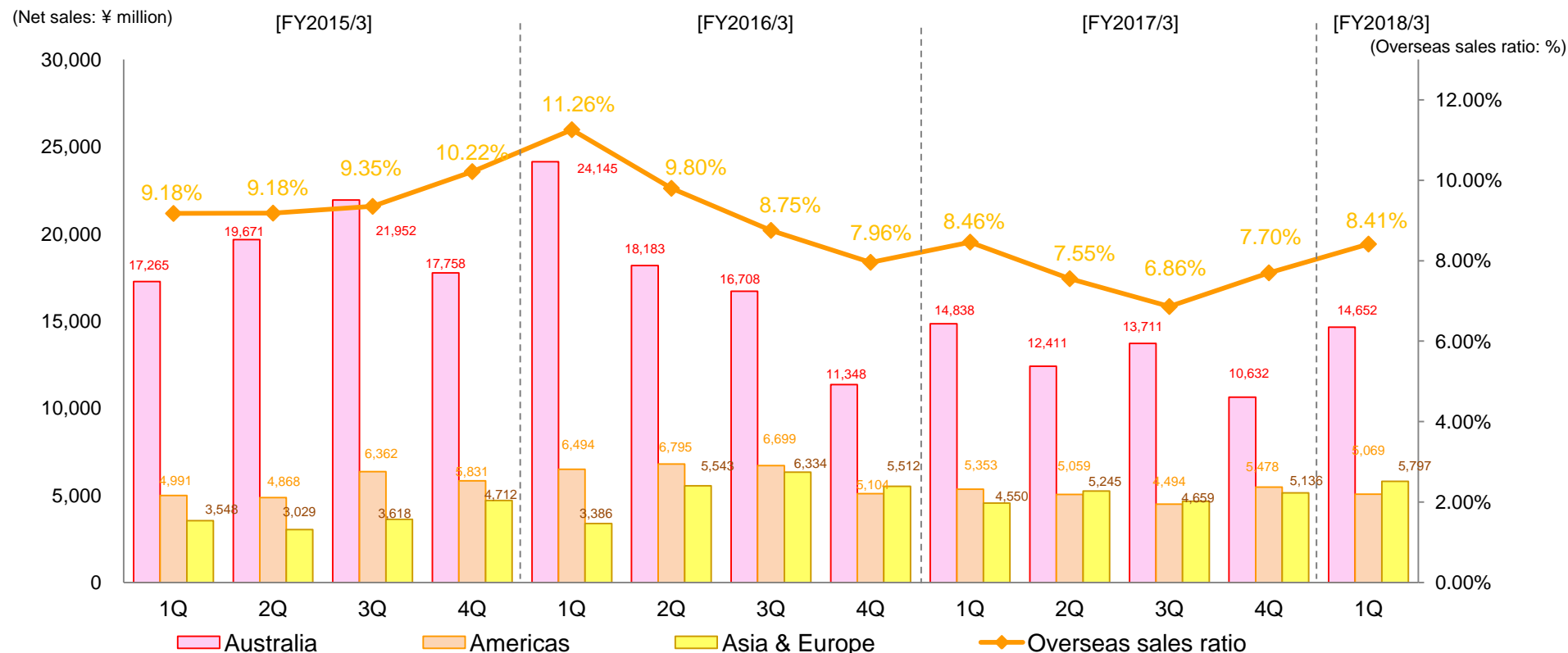
- Australia operations: Operating income exceeded the forecast due to further declines in livestock prices.
- Americas operations: Despite a deterioration in the foreign exchange and procurement environment for fresh meat exports toward Japan, operating income exceeded the forecast.
- Asia & Europe operations: Although conditions at Ege-Tav in Turkey improved, operating income fell short of the forecast due to a worsening environment for fresh meat exports from Europe.

## 6. External Customer Net Sales Results in Major Overseas Geographical Areas

(¥ million)

	FY2015/3	FY2016/3	FY2017/3					FY2018/3
	Full year	Full year	1Q	2Q	3Q	4Q	Full year	1Q
Australia	76,646	70,384	14,838	12,411	13,711	10,632	51,592	14,652
Americas	22,052	25,092	5,353	5,059	4,494	5,478	20,384	5,069
Asia & Europe	14,907	20,775	4,550	5,245	4,659	5,136	19,590	5,797
Overseas total	113,605	116,250	24,742	22,713	22,866	21,245	91,566	25,518
Overseas sales ratio	9.47%	9.46%	8.46%	7.55%	6.86%	7.70%	7.62%	8.41%

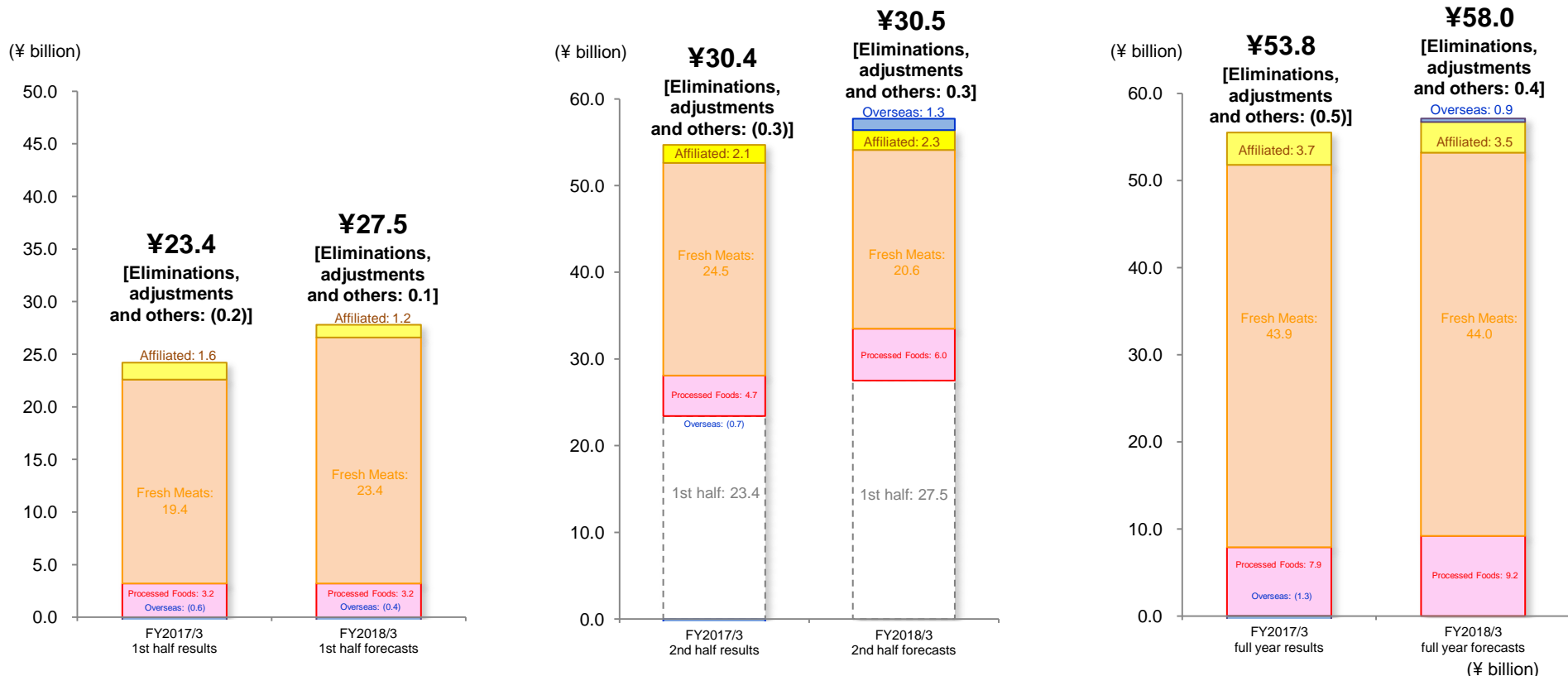
\*Net sales figures represent net sales to external customers.



## **II. Outlook for FY2018/3**

- 1. FY2018/3 Operating Income Forecasts**
- 2. Processed Foods Business Division: Outlook**
- 3. Fresh Meats Business Division: Outlook**
- 4. Affiliated Business Division: Outlook**
- 5. Overseas Business Division: Outlook**

# 1. FY2018/3 Operating Income Forecasts (1)



	FY2018/3 1st half			FY2018/3 2nd half			FY2018/3 full year		
	FY2017/3 1st half results	Forecasts	Variance	FY2017/3 2nd half results	Forecasts	Variance	FY2017/3 full year results	Forecasts	Variance
Processed Foods Business Division	3.2	<b>3.2</b>	(0.0)	4.7	<b>6.0</b>	1.3	7.9	<b>9.2</b>	1.3
Fresh Meats Business Division	19.4	<b>23.4</b>	4.0	24.5	<b>20.6</b>	(3.9)	43.9	<b>44.0</b>	0.1
Affiliated Business Division	1.6	<b>1.2</b>	(0.4)	2.1	<b>2.3</b>	0.2	3.7	<b>3.5</b>	(0.2)
Overseas Business Division	(0.6)	<b>(0.4)</b>	0.2	(0.7)	<b>1.3</b>	2.0	(1.3)	<b>0.9</b>	2.2
Eliminations, adjustments and others	(0.2)	<b>0.1</b>	0.3	(0.3)	<b>0.3</b>	0.6	(0.5)	<b>0.4</b>	0.9
<b>Total</b>	<b>23.4</b>	<b>27.5</b>	<b>4.1</b>	<b>30.4</b>	<b>30.5</b>	<b>0.1</b>	<b>53.8</b>	<b>58.0</b>	<b>4.2</b>

# 1. FY2018/3 Operating Income Forecasts (2)

## Variance from initial forecasts

\* Forecasts for the 2Q, 1st half, and full year are the forecasts revised in the 1Q.  
 (¥ billion)

	FY2018/3 2Q			FY2018/3 1st half			FY2018/3 full year		
	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance
Processed Foods Business Division	2.8	<b>2.3</b>	(0.5)	4.5	<b>3.2</b>	(1.3)	10.5	<b>9.2</b>	(1.3)
Fresh Meats Business Division	10.2	<b>10.5</b>	0.3	19.4	<b>23.4</b>	4.0	40.0	<b>44.0</b>	4.0
Affiliated Business Division	1.1	<b>0.7</b>	(0.4)	1.7	<b>1.2</b>	(0.5)	4.0	<b>3.5</b>	(0.5)
Overseas Business Division	0.6	<b>0.1</b>	(0.5)	(0.3)	<b>(0.4)</b>	(0.1)	1.0	<b>0.9</b>	(0.1)
Eliminations, adjustments and others	0.0	<b>(0.1)</b>	(0.1)	0.2	<b>0.1</b>	(0.1)	0.5	<b>0.4</b>	(0.1)
Total	14.7	<b>13.6</b>	(1.1)	25.5	<b>27.5</b>	2.0	56.0	<b>58.0</b>	2.0

\* Due to rounding, item tallies in each division may not match totals.

(¥ billion)

Processed Foods Business Division	Variance from initial forecasts								
	2Q			1st half			Full year		
	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance
Volume expansion	<b>0.3</b>	<b>0.2</b>	<b>(0.1)</b>	<b>0.7</b>	<b>0.5</b>	<b>(0.2)</b>	<b>1.1</b>	<b>0.9</b>	<b>(0.2)</b>
Profit margin improvement	<b>0.4</b>	<b>0.0</b>	<b>(0.4)</b>	<b>0.6</b>	<b>(0.5)</b>	<b>(1.1)</b>	<b>1.5</b>	<b>0.4</b>	<b>(1.1)</b>
External factors	(0.5)	(0.4)	0.1	(0.6)	(0.4)	0.2	(2.7)	(2.5)	0.2
Principal raw material price	(0.4)	(0.3)	0.1	(0.6)	(0.4)	0.2	(2.3)	(2.1)	0.2
Other materials/fuels	(0.1)	(0.1)	0.0	(0.0)	0.0	0.0	(0.4)	(0.4)	0.0
Internal factors	0.8	0.4	(0.4)	1.2	(0.1)	(1.3)	4.2	2.9	(1.3)
Product mix (product renewal)	0.3	(0.1)	(0.4)	0.2	(0.5)	(0.7)	1.5	0.8	(0.7)
Improvement of production and sales operations	0.6	0.5	(0.1)	1.0	0.5	(0.5)	2.7	2.1	(0.6)
Other factors	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Total	<b>0.7</b>	<b>0.2</b>	<b>(0.5)</b>	<b>1.3</b>	<b>0.0</b>	<b>(1.3)</b>	<b>2.6</b>	<b>1.3</b>	<b>(1.3)</b>

\*Due to rounding, item tallies in each division may not match totals.

(¥ billion)

Fresh Meats Business Division	Variance from initial forecasts								
	2Q			1st half			Full year		
	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance	Initial forecasts	Forecasts	Variance
Imported fresh meat market	(0.1)	(0.4)	(0.4)	0.0	1.0	1.0	(0.0)	0.9	1.0
Domestic fresh meat market	0.0	0.1	0.1	0.1	0.6	0.6	(0.5)	0.1	0.6
Changes in farming operations in Japan	0.0	0.6	0.6	0.1	2.0	1.9	(2.0)	(0.1)	1.9
Growth in Nippon Food Group	0.0	0.0	(0.0)	0.0	0.1	0.1	0.0	0.1	0.1
Other factors	(0.9)	(0.9)	(0.0)	(0.2)	0.3	0.5	(1.4)	(1.0)	0.4
Total	(0.9)	(0.6)	0.3	(0.0)	4.0	4.0	(3.9)	0.1	4.0

## 2. Processed Foods Business Division: Outlook

### ● Measures to expand sales of gift products

- Target 106% year-on-year sales in summer and year-end gifts combined.
- Target 108% year-on-year sales for *Utsukushi-no-Kuni*. (\*25% for sales ratio)
- Strengthen products that utilize our own branded fresh meats and products to respond to home-use demand.

(Unit: thousands)

		FY2017/3 results		FY2018/3 forecasts	
		Units	Variance	Units	Variance
Summer gift-giving season	Overall unit sales	1,997	97%	2,116	106%
	<i>(Utsukushi-no-Kuni)</i>	514	101%	555	108%
Year-end gift-giving season	Overall unit sales	4,189	108%	4,442	106%
	<i>(Utsukushi-no-Kuni)</i>	998	115%	1,078	108%
Total	Overall unit sales	6,186	104%	6,558	106%
	<i>(Utsukushi-no-Kuni)</i>	1,512	110%	1,633	108%
	(Sales ratio)	24%	-	25%	-

### ● Measures to expand sales of major brands

- 1) In hams and sausages, continue to promote *SCHAU ESSEN* and *Hojun coarse-ground wieners* while carrying out sales enhancement and brushing up of the *Irodori Kitchen Series*.
- 2) In deli and processed foods, enrich campaigns and expand items in the core categories of *Chuka Meisai* and *Ishigama Kobo* with the aim of expanding sales.

Reference: Year-on-year sales comparison of major brand products and forecasts

Hams and sausages	FY2018/3 full year forecasts	Deli and processed foods	FY2018/3 full year forecasts
<i>SCHAU ESSEN</i>	103%	<i>Ishigama Kobo</i>	100%
<i>Mori-no-Kaori + Hojun coarse-ground wieners</i>	167%	<i>Chuka Meisai</i>	100%
Loin hams	98%	Prefried	104%
Bacons	101%	Hamburg and meatball	104%
Yakibutas	103%	Curries	106%

### ● Measures to expand sales by channel

- 1) Consumer products
  - Promote our brand strategy by strengthening product development with collaboration within the Group.
  - Expand our point of sales by proposing new concepts for sales floors compiled in perspectives such as dinner and health.
  - Increase sales volume with intensive efforts on *Hojun coarse-ground wieners*.
- 2) Commercial-use products
  - Expand sales with an organization specialized in channel-specific proposal-based marketing.
  - In CVS channels, expand sales by strengthening area sales in line with changes in our customers and refining standard products.
  - In the restaurant channel, cultivate new companies and newly introduce major standard products.

Reference: Year-on-year sales forecasts by channel

FY2018/3 full year forecasts		Amount
Hams and sausages	Consumer	102%
	Commercial-use	102%
	Total	102%
Deli and processed foods	Consumer	100%
	Commercial-use	105%
	Total	102%



### 3. Fresh Meats Business Division: Outlook

#### ● Domestic production business

- While rich harvests are projected worldwide for feedstuff, the outlook is uncertain for feed prices due to concerns over high temperatures and dry weather in the U.S. and a weakening yen.
- Domestic production volume for chicken is expected to stabilize in the second half, and strong demand is forecast to lend support to a robust market. We will continue efforts to expand production volume to meet increased demand through expanding its production capabilities and improving productivity.
- Concerns over disease in domestic hog production appear sporadically, leading to certain uncertainties in production volume. While working to further strengthen disease countermeasures and establish the stable procurement structure, we will further strengthen measures in branded fresh meats.

#### ● Domestic fresh meat market

- Although beef prices are showing signs of settling, a rise in volume is not expected with prices projected to rise when demand is strong at year-end.
- In pork, although carcass prices are high, the situation is uncertain in view of conditions in domestic production and imported refrigerated pork toward the second half.
- The market for chicken is projected to remain at a high level throughout the year, supported by strong demand particularly for breast meat.

#### ● Imported fresh meat market

- Safeguards were activated for frozen beef, which is expected to be a factor for a future price hike in the market.
- Signs of price hike is present for pork for the Japanese market from the EU and North America, which requires vigilance in monitoring future trends.
- Domestic chicken inventories are in stable condition, but the market may rise in anticipation of higher prices on the local level.

#### ● Fresh meat sales (food companies)

- Conduct aggressive sales for branded fresh meats by initiatives such as coordinated sales promotion featuring TV commercials and campaigns for *Mugikomachi*.
- Promote measures tailored to each channel to expand sales volume, including strengthening new customer acquisition and strengthening proposal-based sales to respond to existing customer needs in the restaurant channel.

## 4. Affiliated Business Division: Outlook

### ● Measures to expand sales of marine products business

#### (Marine Foods)

- While working to secure raw materials, accelerate product development and increase the operating rate at our Mie Plant.
- Expand sales of mainstay products such as octopus products by promoting “Hokkaido fairs” featuring Kushiro Marusui Co., Ltd., and develop high value-added products that feature ingredients from Hokkaido.
- Enhance our procurement capability for materials and products through expanding purchase sources and enhancing group collaboration.



*Surf Clam Salad*  
Manufactured in-house as a product of Marine Foods

#### (Hoko)

- Stabilize operations at the Hachinohe Plant by working to expand sales of canned mackerel, which is gaining recognition as a health food rich in nutrients such as DHA.

### ● Measures to expand sales of dairy products business

#### (Cheese)

- Aim to improve productivity and grow sales in consumer products, primarily in the baby cheese and smoked cheese markets which are selling well.

#### (Yogurt)

- While focusing on balance between revenue and expenditure, work to expand sales of mainstay products such as *Vanilla Yogurt*.
- Aim for sales growth in the strong lactic probiotic beverage market through strengthening product promotion.



*Green Smoothie*  
The popular new smoothie series product

### ● Trends in the prices of principal raw materials and other materials

- High price levels persist in key fish for marine products, as the result of reduced catches and an increased demand worldwide.
- Prices for cheese ingredients are projected to remain high due to reduced production in both Europe and Oceania, in addition to a weaker yen.
- Prices of yogurt ingredients (skim milk powder) are estimated to remain high as the shortage of raw milk continues in Japan.

# 5. Overseas Business Division: Outlook

## ● Australia Operations Division

- Stabilize profitability by increasing the ratio of branded beef, which is less volatile to the market condition.
- Closely monitor the foreign exchange and market conditions in each country to optimize sales targets.
- Although taking longer than expected, cattle procurement prices are now declining, and the trend is projected to continue.

## ● Americas Operations Division

- The U.S. domestic fresh meat market is strong, causing the export environment, particularly in areas such as foreign exchange, to remain harsh.
- Sales of the U.S. fresh meat and marine product wholesale market are expanding in line with the increase of sales offices.
- Sales of processed foods is stable, with efforts to be made for expanding sales via active marketing.

Reference: FY2018/3 1Q Australia operations sales results

Major countries for sales	Volume (ratio breakdown)	Volume (Variance year on year)
Japan	28%	90%
United States	14%	65%
South Korea	10%	63%
China	6%	79%
Taiwan	4%	79%
Australia	25%	148%
Others	13%	71%
<b>Total</b>	<b>100%</b>	<b>86%</b>

## ● Asia & Europe Operations Division

- Performance at Ege-Tav in Turkey is solid, owing to heightened demand from the Turkish domestic market, with projections for full year profitability.

FY2018/3 Overseas Business Division: Factors for changes and operating income forecasts

(¥ billion)

	Factor Analysis: Changes in operating income					
	2Q			1st half		
	Initial forecasts		Variance	Initial forecasts	Variance	
Australia Operations Division	0.7	<b>0.7</b>	0.0	0.6	<b>1.0</b>	0.5
Americas Operations Division	0.1	<b>(0.6)</b>	(0.6)	(0.2)	<b>(0.7)</b>	(0.5)
Asia & Europe Operations Division	(0.0)	<b>0.0</b>	0.0	0.1	<b>(0.1)</b>	(0.2)
Other factors	(0.1)	<b>0.0</b>	0.1	(0.2)	<b>(0.1)</b>	0.1
	0.6	<b>0.1</b>	(0.5)	0.3	<b>0.2</b>	(0.1)

(¥ billion)

	Operating income forecasts					
	2Q		1st half		Full year	
	Initial forecasts	Forecasts	Initial forecasts	Forecasts	Initial forecasts	Forecasts
Australia Operations Division	0.2	<b>0.3</b>	(0.4)	<b>0.1</b>	0.4	<b>0.9</b>
Americas Operations Division	0.4	<b>(0.3)</b>	0.2	<b>(0.4)</b>	1.1	<b>0.6</b>
Asia & Europe Operations Division	0.3	<b>0.4</b>	0.5	<b>0.4</b>	0.8	<b>0.7</b>
Other factors	(0.3)	<b>(0.2)</b>	(0.6)	<b>(0.4)</b>	(1.4)	<b>(1.2)</b>
	0.6	<b>0.1</b>	(0.3)	<b>(0.4)</b>	1.0	<b>0.9</b>

\* Due to rounding, item tallies in each division may not match totals.

The results of Breeders & Packers Uruguay S.A. ("BPU") in Uruguay is included in forecasts of Australia Operations Division from 2Q.

### **III. Consolidated Financial Results for FY2018/3 1Q**

- 1. FY2018/3 Business Results at a Glance and Full Year Forecasts**
- 2. Selling, General and Administrative Expenses / Other Operating Costs and Expenses / Other Income**
- 3. Balance Sheets / Capital Expenditures / Depreciation and Amortization**

# 1. FY2018/3 Business Results at a Glance and Full Year Forecasts

(¥ million, %)

	FY2017/3 results			FY2018/3 results and forecasts						
	1Q results	1st half results	Full year results	1Q results	Variance	Volume growth rate	1st half forecasts	Variance	Full year forecasts	Variance
Net sales	292,387	593,092	1,202,293	303,297	3.7	-	620,000	4.5	1,260,000	4.8
Hams and sausages	32,591	68,301	141,362	32,513	(0.2)	2.5	69,300	1.5	144,500	2.2
Processed foods	54,994	113,331	228,904	56,465	2.7	3.5	116,600	2.9	236,800	3.4
Fresh meats	168,172	335,458	673,871	175,526	4.4	1.5	359,300	7.1	718,900	6.7
Beef	68,727	136,202	267,219	68,591	(0.2)	(3.4)	147,700	8.4	300,100	12.3
Pork	55,050	109,436	221,598	56,356	2.4	1.8	111,300	1.7	221,500	(0.0)
Chicken	38,417	77,297	159,128	44,051	14.7	3.7	87,400	13.1	170,000	6.8
Other fresh meats	5,978	12,523	25,926	6,528	9.2	9.3	12,900	3.0	27,300	5.3
Marine products	20,619	43,527	91,637	21,221	2.9	(0.7)	46,800	7.5	100,600	9.8
Dairy products	8,194	16,473	33,380	9,002	9.9	11.8	18,000	9.3	34,900	4.6
Others	7,817	16,002	33,139	8,570	9.6	-	10,000	(37.5)	24,300	(26.7)
Cost of goods sold	238,770	481,159	968,995	243,898	2.1					
Gross profit	53,617	111,933	233,298	59,399	10.8					
Gross profit ratio	18.3%	18.9%	19.4%	19.6%	-					
SG&A expenses	43,938	88,501	179,496	45,483	3.5					
Operating income	9,679	23,432	53,802	13,916	43.8		27,500	17.4	58,000	7.8
Income before income taxes	8,661	21,870	49,112	13,241	52.9		24,500	12.0	53,000	7.9
Income taxes	2,521	7,231	14,530	3,990	58.3		6,000	(17.0)	14,700	1.2
Tax rate		33.1%	29.6%		-		24.5%	-	27.7%	-
Profit or loss from discontinued operations	(250)	(12)	(12)	-	-		-	-	-	-
Net income attributable to NH Foods Ltd.	5,919	14,749	35,004	9,368	58.3		18,500	25.4	38,500	10.0

\* Reclassified amounts were originally calculated in accordance with U.S. accounting standards.

\* Variance and volume growth rate: Year-on-year comparisons are expressed as % increases/decreases.

## 2. Selling, General and Administrative Expenses / Other Operating Costs and Expenses / Other Income

(¥ million, %)

SG&A expenses	FY2017/3 1Q results	FY2018/3		
		1Q results	Variance (%)	Variance
★(1) Selling, general and administrative expenses	43,938	45,483	3.5	1,545
Personnel	17,584	17,722	0.8	138
Advertising	2,852	2,674	(6.2)	(178)
★(2) Logistics	12,839	13,631	6.2	792
Others	10,663	11,456	7.4	793

Major reasons for increase/decrease

★(1) **SG&A expenses:** Although SG&A expenses increased by ¥1.5 billion overall, net sales also increased, causing the ratio of SG&A expenses to net sales to remain on par with last year at 15.0%.

★(2) **Logistics:** Higher transportation costs caused logistics expenses to rise by approximately ¥0.8 billion.

(¥ million)

	FY2017/3 1Q results	FY2018/3		FY2017/3 Full year results
		1Q results	Variance	
★(1) Other operating costs and expenses (income) - net	790	215	(575)	5,320
Fixed assets	703	215	(488)	2,427
Special retirement expenses	87	-	(87)	2,895
Others	-	-	-	(2)
Other income (expenses) - net	106	(156)	(262)	1,770
Interest and dividends income	368	453	85	1,162
Foreign exchange gains (losses)	(194)	(487)	(293)	106
Others	(68)	(122)	(54)	502
Interest expense	334	304	(30)	1,140

Major reasons for increase/decrease

★(1) **Other operating costs and expenses (income) – net:** Decreased by approximately ¥0.5 billion due to factors including a decrease in fixed assets.

### 3. Balance Sheets / Capital Expenditures / Depreciation and Amortization

(¥ million, %)

Consolidated balance sheets		FY2017/3 Year-end results	FY2018/3 1Q results	Variance (%)	Variance
★(1)	Total assets	720,276	741,079	2.9	20,803
	Cash and cash equivalents	82,639	69,098	(16.4)	(13,541)
	Trade notes and accounts receivable	128,579	133,313	3.7	4,734
★(2)	Inventories	132,697	149,608	12.7	16,911
	Property, plant and equipment - at cost, less accumulated depreciation	283,364	290,854	2.6	7,490
	Investments and other assets	45,172	47,107	4.3	1,935
	Deferred income taxes - non-current	7,627	15,506	103.3	7,879
	Total liabilities	311,920	332,177	6.5	20,257
★(3)	Trade notes and accounts payable	101,857	112,831	10.8	10,974
★(4)	Interest-bearing debt	138,284	144,850	4.7	6,566
	Liability under retirement and severance program	13,268	13,550	2.1	282
	Total NH Foods Ltd. Shareholders' equity	404,126	404,120	(0.0)	(6)
	Noncontrolling interests	4,230	4,782	13.0	552

Major reasons for increase/decrease

- ★(1) Total assets: Increased approximately ¥20.8 billion due to an increase in inventories.
- ★(2) Inventories: Increased approximately ¥17.0 billion due to a rise in the fresh meats market.
- ★(3) Trade notes and accounts payable: Increased approximately ¥11.0 billion due to an increase in procurement.
- ★(4) Interest-bearing debt: Increased approximately ¥6.6 billion due to an increase in short-term bank loans.

(¥ million, %)

Capital expenditures, depreciation and amortization	FY2017/3 1Q results	FY2018/3			FY2018/3 Full year forecasts
		1Q results	Variance (%)	Variance	
Capital expenditures	5,686	5,289	(7.0)	(397)	66,400
Production facilities	2,632	2,476	(5.9)	(156)	24,500
Marketing and logistics facilities	792	720	(9.1)	(72)	8,500
Farms and processing facilities	696	1,241	78.3	545	12,400
Overseas business facilities	794	600	(24.4)	(194)	17,000
Other facilities	772	252	(67.4)	(520)	4,000
Depreciation and amortization	4,914	5,067	3.1	153	20,500

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### Forward-looking statements

This presentation includes forecasts regarding targets, strategies and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as economic environment, market trends and exchange rates.

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