

# Business Results

## for the First Quarter of FY2019/3

August 2, 2018 (Thu.)  
NH Foods Ltd.

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\* Regarding notation:

“US” notation means US GAAP.

# **I. Consolidated Business Results for FY2019/3 1Q**

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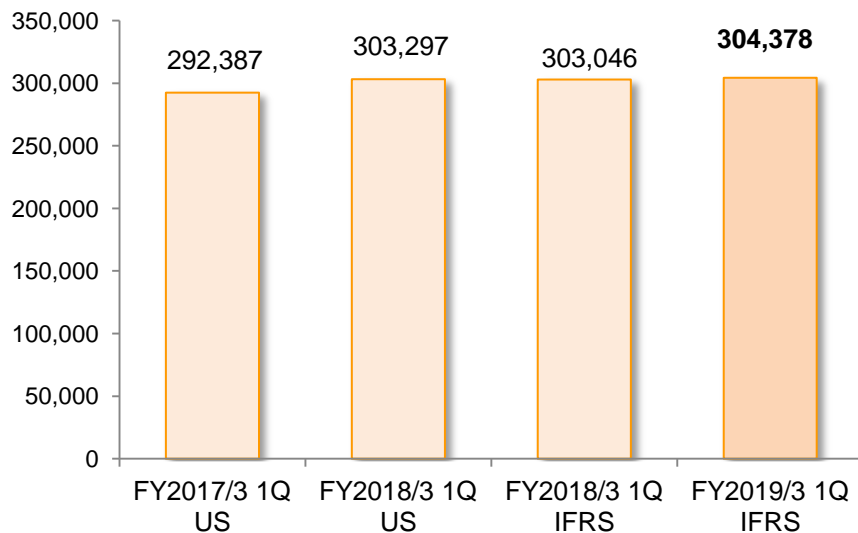
# 1. Segment Data: 1Q (Apr.-Jun.)

(¥ million)

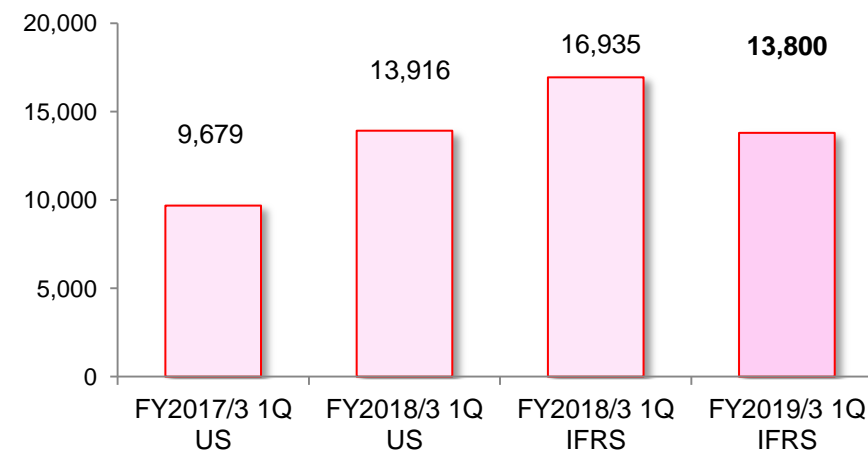
|   |                  | FY2017/3 1Q<br>(US) | FY2018/3 1Q<br>(US) | FY2018/3 1Q<br>(IFRS) | FY2019/3 1Q<br>(IFRS) | Variance | Variance (%) |
|---|------------------|---------------------|---------------------|-----------------------|-----------------------|----------|--------------|
| Processed Foods<br>Business Division    | Net sales        | 81,388              | <b>83,228</b>       | <b>83,228</b>         | <b>84,332</b>         | 1,104    | 1.3          |
|   | Operating income | 1,111               | <b>908</b>          | <b>1,332</b>          | <b>1,333</b>          | 1        | 0.1          |
| Fresh Meats<br>Business Division        | Net sales        | 184,293             | <b>193,091</b>      | <b>193,101</b>        | <b>189,228</b>        | (3,873)  | (2.0)        |
|   | Operating income | 8,329               | <b>12,874</b>       | <b>13,690</b>         | <b>9,757</b>          | (3,933)  | (28.7)       |
| Affiliated Business<br>Division         | Net sales        | 37,709              | <b>38,283</b>       | <b>38,282</b>         | <b>36,544</b>         | (1,738)  | (4.5)        |
|   | Operating income | 586                 | <b>489</b>          | <b>670</b>            | <b>18</b>             | (652)    | (97.3)       |
| Overseas Business<br>Division           | Net sales        | 55,281              | <b>55,832</b>       | <b>57,010</b>         | <b>64,158</b>         | 7,148    | 12.5         |
|   | Operating income | (574)               | <b>(515)</b>        | <b>(167)</b>          | <b>(57)</b>           | 110      | -            |
| Eliminations,<br>adjustments and others | Net sales        | (66,284)            | <b>(67,137)</b>     | <b>(68,575)</b>       | <b>(69,884)</b>       | (1,309)  | -            |
|   | Operating income | 227                 | <b>160</b>          | <b>1,410</b>          | <b>2,749</b>          | 1,339    | -            |
| Consolidated                            | Net sales        | 292,387             | <b>303,297</b>      | <b>303,046</b>        | <b>304,378</b>        | 1,332    | 0.4          |
|   | Operating income | 9,679               | <b>13,916</b>       | <b>16,935</b>         | <b>13,800</b>         | (3,135)  | (18.5)       |

 (¥ million)  
 (consolidated)

## Net Sales


 (¥ million)  
 (consolidated)

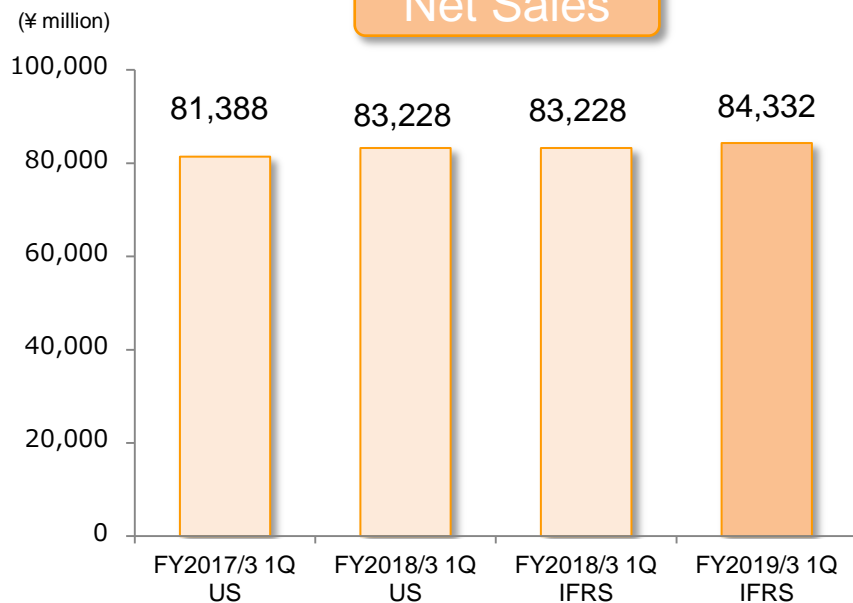
## Operating Income



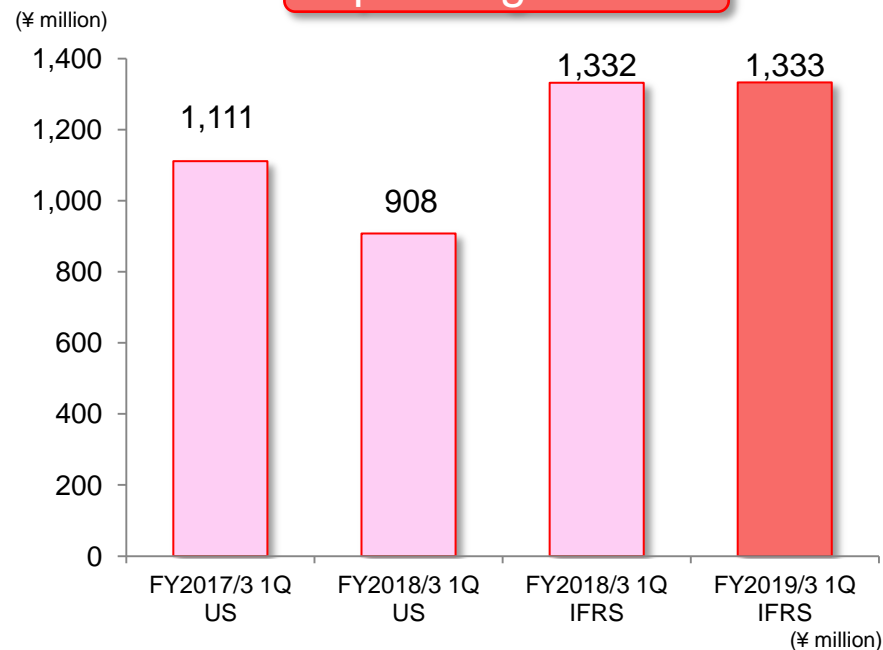
- Net sales by segment and net sales (by category) on page 22 of this presentation do not necessarily correspond (due to intersegment transactions).  
 - Net sales for each segment include intersegment sales.

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

### Net Sales



### Operating Income



|           | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|-----------|-------------|-------------|----------|--------------|
| Net sales | 83,228      | 84,332      | 1,104    | 1.3          |

|                        | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|------------------------|-------------|-------------|----------|--------------|
| Operating income       | 1,332       | 1,333       | 1        | 0.1          |
| Operating income ratio | 1.6%        | 1.6%        | -        | -            |

#### Net Sales in FY2019/3 1Q (Apr.-Jun.)

- Existing businesses (hams, sausages, and deli and processed foods)  
Sales of consumer products exceeded the previous year as a result of television commercials, expanded items, and brushed-up products.  
Sales of commercial-use products fell short of the previous year due to the reduction of unprofitable products.  
Existing businesses overall were on par with the previous year because of the growth of consumer products.
- Developing businesses (vendor, consumer frozen foods, and logistics businesses)  
Sales exceeded the previous year due to the introduction of new products and capturing new customers.

For these reasons, net sales increased slightly from the previous year in consolidated Processed Foods Business.

#### Operating Income in FY2019/3 1Q (Apr.-Jun.)

- Existing businesses (hams, sausages, and deli and processed foods)  
Although electricity and fuel costs rose sharply and logistics costs increased, operating income increased by improving productivity through improvement activities as well as product consolidation.
- Developing businesses (vendor, consumer frozen foods, and logistics businesses)  
While net sales increased, operating income fell short of the previous year due to rising logistics costs and soaring personnel expenses caused by labor shortages.
- For these reasons, operating income was on par with the previous year in the consolidated Processed Foods Business.

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

### Factor Analysis: Changes in operating income

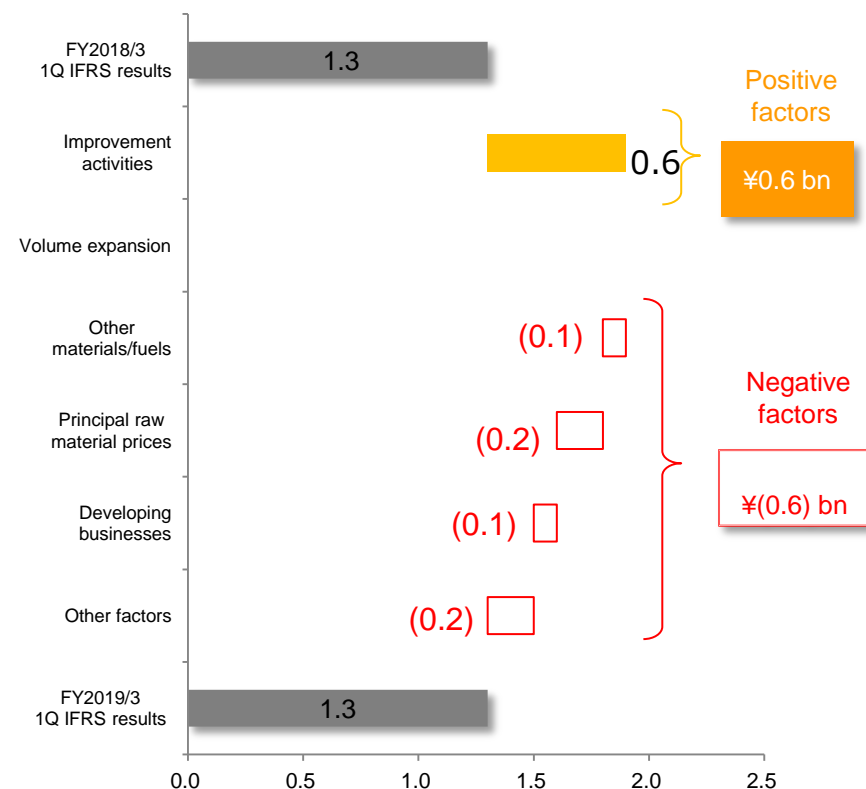
(¥ billion)

|                              | FY2019/3     |            |          |
|------------------------------|--------------|------------|----------|
|                              | 1Q forecasts | 1Q results | Variance |
| <b>Existing businesses</b>   | 0.5          | 0.3        | (0.2)    |
| <i>External factors</i>      | (0.4)        | (0.4)      | 0.0      |
| Principal raw material price | (0.2)        | (0.2)      | 0.0      |
| Other materials/fuels        | (0.1)        | (0.1)      | 0.0      |
| <i>Internal factors</i>      | 0.9          | 0.7        | (0.2)    |
| Volume expansion             | 0.1          | 0.0        | (0.1)    |
| Improvement activities       | 0.8          | 0.6        | (0.1)    |
| <b>Developing businesses</b> | 0.1          | (0.1)      | (0.2)    |
| <b>Others</b>                | (0.4)        | (0.2)      | 0.2      |
| <b>Total</b>                 | 0.2          | 0.0        | (0.2)    |

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

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

(¥ billion)



### ● Forecasts Variation Factor Analysis (FY2019/3 1Q)

- Existing businesses: Volume expansion  
Remained at the level of the previous year, and fell short of the forecast.
- Improvement activities  
Product mix changed for the better due the growth of consumer products, but improvement activities fell short of the forecast.
- Developing businesses:  
Businesses fell short of forecasts as logistics costs and personnel expenses increased sharply beyond expectations.
- Others:  
Due to allocation differences of company-wide expenses.

## 2. Segment Data: Processed Foods Business Division (3)

### ● Major consumer products sales results



Performance has been steady for *Hojun*® coarse-ground wieners



*Chuka Meisai*® performed well thanks to campaigns, etc.

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

| Hams and sausages       | FY2019/3<br>1Q results | Deli and processed foods | FY2019/3<br>1Q results |
|-------------------------|------------------------|--------------------------|------------------------|
| Wieners                 | 101%                   | Chilled bakery           | 100%                   |
| Loin hams and bacons    | 106%                   | Chilled dish             | 110%                   |
| Yakibutas               | 101%                   | Fried chicken            | 99%                    |
| Consumer products total | 100%                   | Hamburg and meatball     | 100%                   |
|                         |                        | Consumer products total  | 104%                   |

\* The total of major products is written for the wieners, loin hams and bacons.

### ● Sales results by channel

#### 1) Consumer products

- Hams and sausages performed steadily, including mainly the core products *SCHAU ESSEN*, *Hojun coarse-ground wieners*, and *Entier*. Net sales of loin hams and bacons also grew.
- Deli and processed foods performed strongly, centering on our core product *Chuka Meisai*, owing to expanded items and enhanced sales promotions.

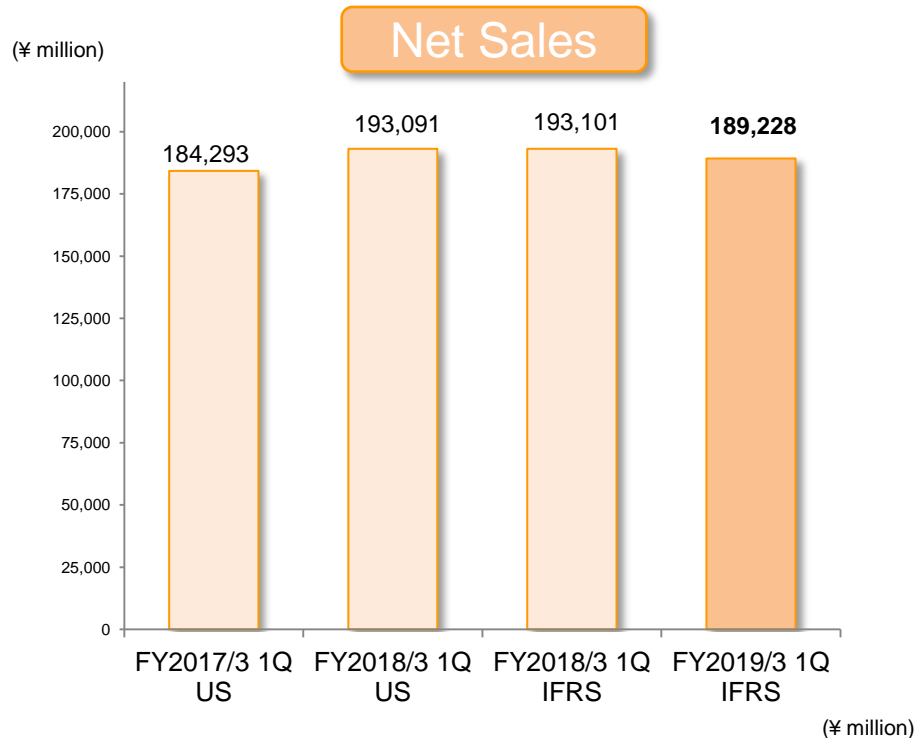
#### 2) Commercial-use products

- Hams and sausages fell short of the previous year due to the reduction of unprofitable products.
- Deli and processed foods fell short of the previous year because of fierce competition.

Reference: FY2019/3 1Q year-on-year growth in sales by channel

|                          |                | Volume | Amount |
|--------------------------|----------------|--------|--------|
| Hams and sausages        | Consumer       | 101%   | 100%   |
|                          | Commercial-use | 99%    | 99%    |
|                          | Total          | 100%   | 99%    |
| Deli and processed foods | Consumer       | 105%   | 104%   |
|                          | Commercial-use | 98%    | 97%    |
|                          | Total          | 101%   | 101%   |

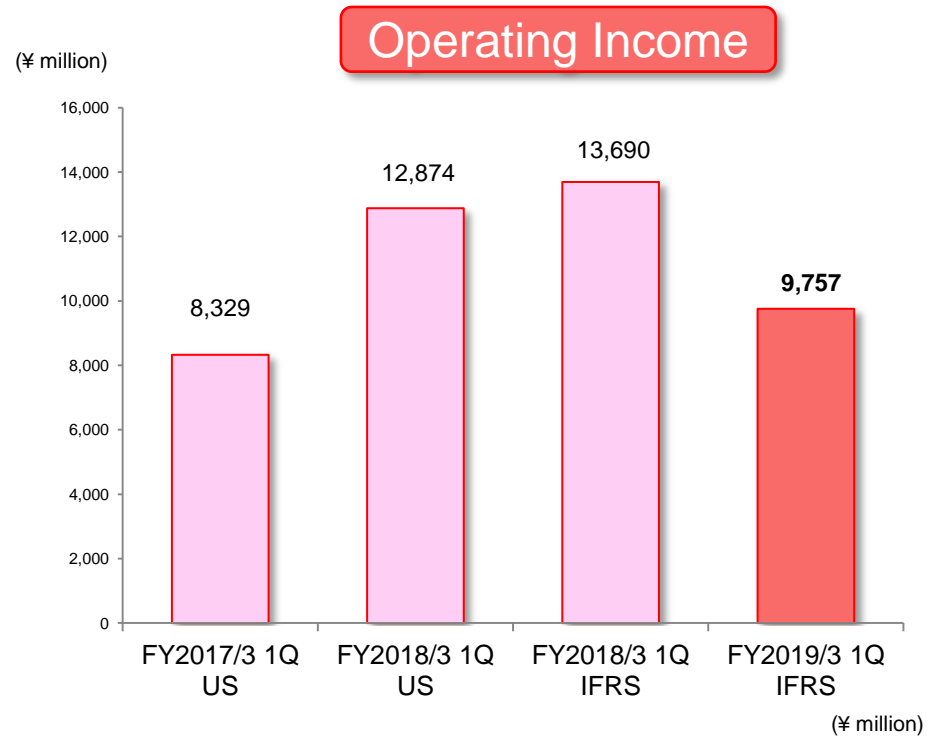
### 3. Segment Data: Fresh Meats Business Division (1)



|           | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|-----------|-------------|-------------|----------|--------------|
| Net sales | 193,101     | 189,228     | (3,873)  | (2.0)        |

#### Net Sales in FY2019/3 1Q (Apr.-Jun.)

While sales volume grew owing to our efforts in expanding sales of domestic pork and chicken including our branded fresh meats, such as *Mugikomachi* and *Sakurahime*, revenue fell short of the previous year due to low market prices of both meats.



|                        | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|------------------------|-------------|-------------|----------|--------------|
| Operating income       | 13,690      | 9,757       | (3,933)  | (28.7)       |
| Operating income ratio | 7.1%        | 5.2%        | -        | -            |

#### Operating Income in FY2019/3 1Q (Apr.-Jun.)

In the production operations, falling market prices of domestic chicken pushed down profit. The sales operations also suffered reduced income due to violent fluctuations in the market price of domestic pork and the decline in sales of imported chicken in reaction to the high prices of last year.



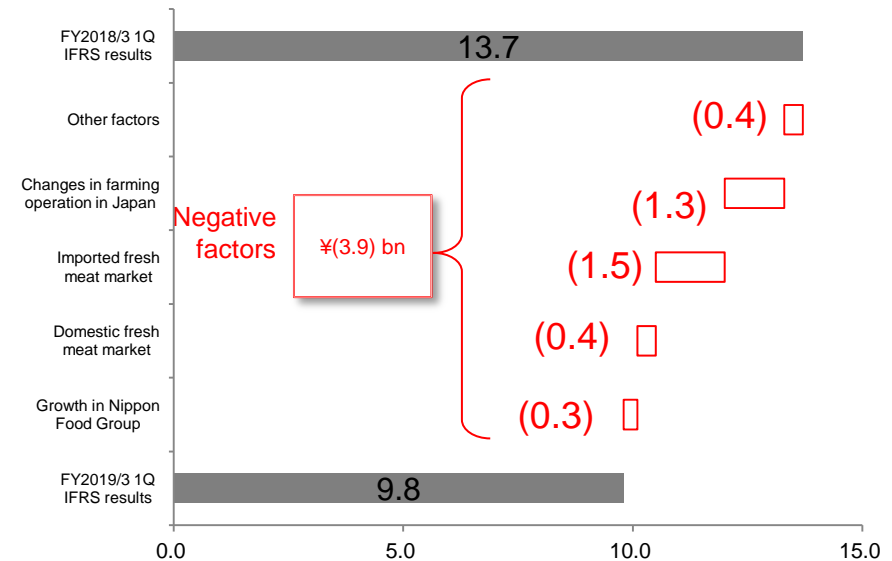
#### Factor Analysis: Changes in operating income

(¥ billion)

|                                       | FY2019/3     |              |            |
|---------------------------------------|--------------|--------------|------------|
|                                       | 1Q forecasts | 1Q results   | Variance   |
| Imported fresh meat market            | (1.7)        | (1.5)        | 0.2        |
| Domestic fresh meat market            | (0.3)        | (0.4)        | (0.1)      |
| Changes in farming operation in Japan | (0.8)        | (1.3)        | (0.5)      |
| Growth in Nippon Food Group           | (0.4)        | (0.3)        | 0.0        |
| Other factors                         | (1.0)        | (0.4)        | 0.6        |
| <b>Total</b>                          | <b>(4.2)</b> | <b>(3.9)</b> | <b>0.3</b> |

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

(¥ billion)



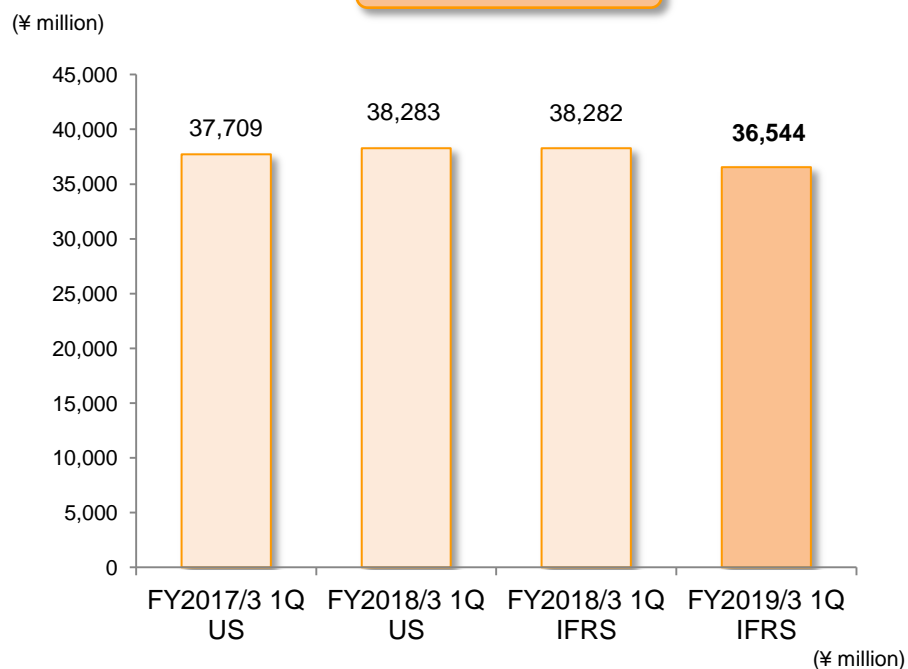
\* Due to rounding, item tallies in each division may not match totals.

#### ● Forecasts Variation Factor Analysis (FY2019/3 1Q)

- Imported fresh meat market: Operating income exceeded forecasts overall due to strong sales of refrigerated pork, despite weak domestic market price of chicken owing to the excess inventory on the market.
- Changes in farming operations in Japan: Operating income fell short of forecasts because chicken market prices remained lower than last year.
- Growth in Nippon Food Group: In the midst of a harsh sales environment, operating income remained in line with forecasts with a growth in sales volume.
- Others: Due to allocation differences of company-wide expenses.

## 4. Segment Data: Affiliated Business Division

### Net Sales



|           | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|-----------|-------------|-------------|----------|--------------|
| Net sales | 38,282      | 36,544      | (1,738)  | (4.5)        |

#### Net Sales in FY2019/3 1Q (Apr.-Jun.)

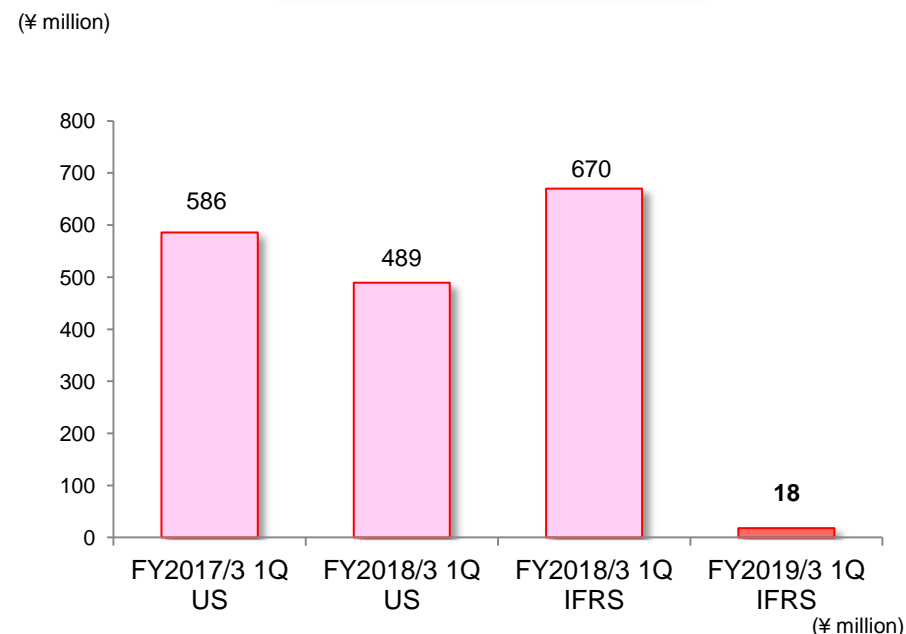
(Marine products business)

Soaring raw materials costs and intensified price competition caused sales of eel and salmon to struggle, and sales volume decreased due to item reduction of low profit products, resulting in decreased income.

(Dairy products business)

Sales of yogurt and probiotic beverages fell short of the previous year due to smoothies struggling, despite vanilla yogurt and yogurt drink performing strongly. Revenue was up for cheese due to growth in sales centering on consumer products.

### Operating Income



|                        | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|------------------------|-------------|-------------|----------|--------------|
| Operating income       | 670         | 18          | (652)    | (97.3)       |
| Operating income ratio | 1.8%        | 0.0%        | -        | -            |

#### Operating Income in FY2019/3 1Q (Apr.-Jun.)

(Marine products business)

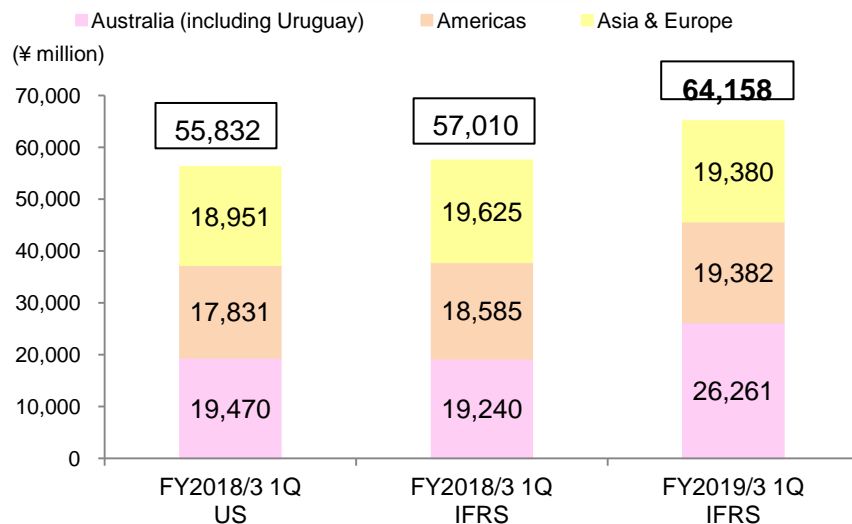
Gross profit margin improved due to price revision caused by soaring raw materials costs and item reduction of low profit products, but the effect of decreased net sales caused income to fall.

(Dairy products business)

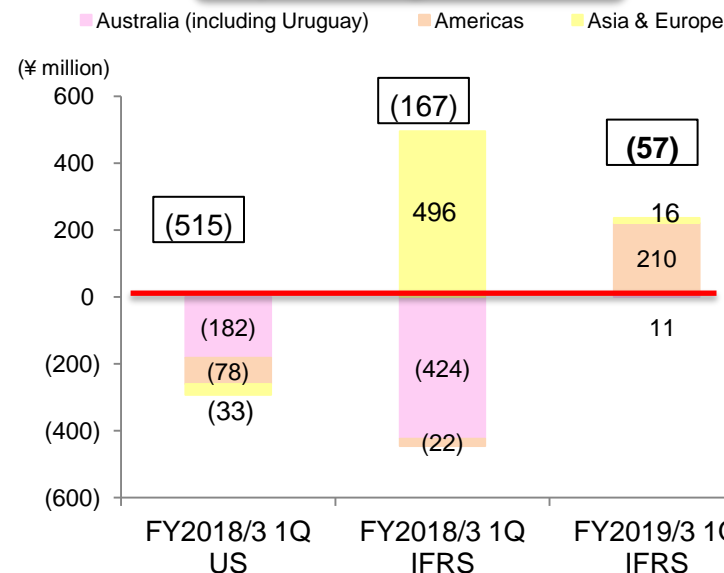
Operating income decreased, because in addition to slow price revisions of commercial-use cheeses, it became impossible to cover the rising costs, including raw materials, personnel, and transportation.

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

## Net Sales



## Operating Income



\* Net sales and operating income amounts are prior to consolidation adjustments.  
 (The figures for all overseas segments do not match the overseas total, due to elimination of intersegment transactions.)

(¥ million)

|           | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|-----------|-------------|-------------|----------|--------------|
| Net sales | 57,010      | 64,158      | 7,148    | 12.5         |

(¥ million)

|                        | FY2018/3 1Q | FY2019/3 1Q | Variance | Variance (%) |
|------------------------|-------------|-------------|----------|--------------|
| Operating income       | (167)       | (57)        | 110      | -            |
| Operating income ratio | (0.3)%      | (0.1)%      | -        | -            |

### Net Sales in FY2019/3 1Q (Apr.-Jun.)

Revenue increased in Australia due to the stabilization of sales prices and the increased number of cattle processed.  
 Revenue in Americas increased because of expanded domestic sales and the strong performance of fresh meat exports to Japan.

Revenue decreased in Asia & Europe due to lower sales prices compared to last year, despite increased sales volume at Ege-Tav in Turkey.

### Operating Income in FY2019/3 1Q (Apr.-Jun.)

In Australia, deficit was eliminated due to decreased livestock procurement costs and strong sales.

In Americas, profitability was achieved thanks to improvements in the export environment owing to stable fresh meat procurement prices.

In Asia & Europe, Ege-Tav in Turkey struggled due to falling sales prices, as well as rising feed costs caused by the weak lira.

## 5. Segment Data: Overseas Business Division (2)

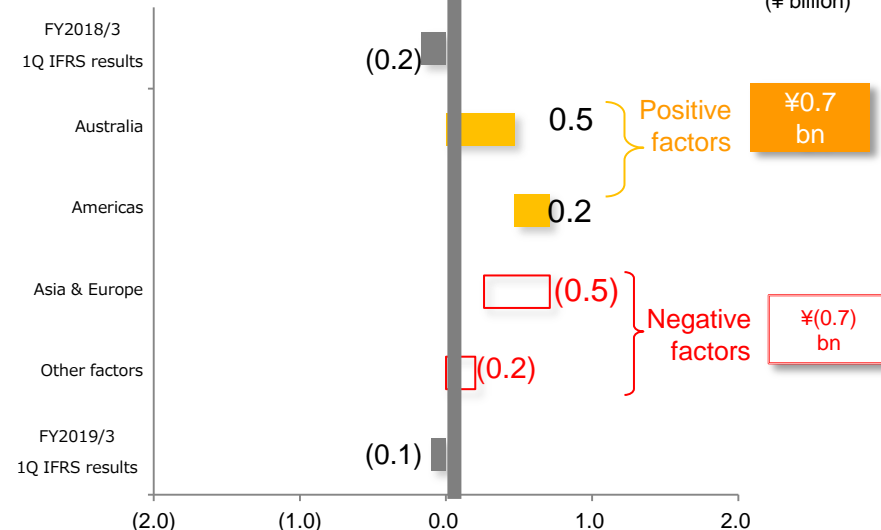
### Factor Analysis: Changes in operating income

(¥ billion)

|               | FY2019/3     |            |            |
|---------------|--------------|------------|------------|
|               | 1Q forecasts | 1Q results | Variance   |
| Australia     | 0.1          | 0.5        | 0.3        |
| Americas      | 0.2          | 0.2        | 0.1        |
| Asia & Europe | (0.1)        | (0.5)      | (0.4)      |
| Other factors | (0.4)        | (0.2)      | 0.2        |
| <b>Total</b>  | <b>(0.1)</b> | <b>0.1</b> | <b>0.3</b> |

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

(¥ billion)



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

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

#### ● Forecasts Variation Factor Analysis (FY2019/3 1Q)

- Australia operations: Operating income exceeded forecasts owing to livestock procurement costs falling more than expected due to a drought and sales prices performing strongly.
- Americas operations: Operating income were almost in line with forecasts due to low fresh meat procurement prices and the favorable fresh meat export environment including foreign exchange rates.
- Asia & Europe operations: Operating income fell short of forecasts due to higher-than-expected fresh meat procurement prices in Europe and struggles in export volume of chicken processed foods in Thailand.

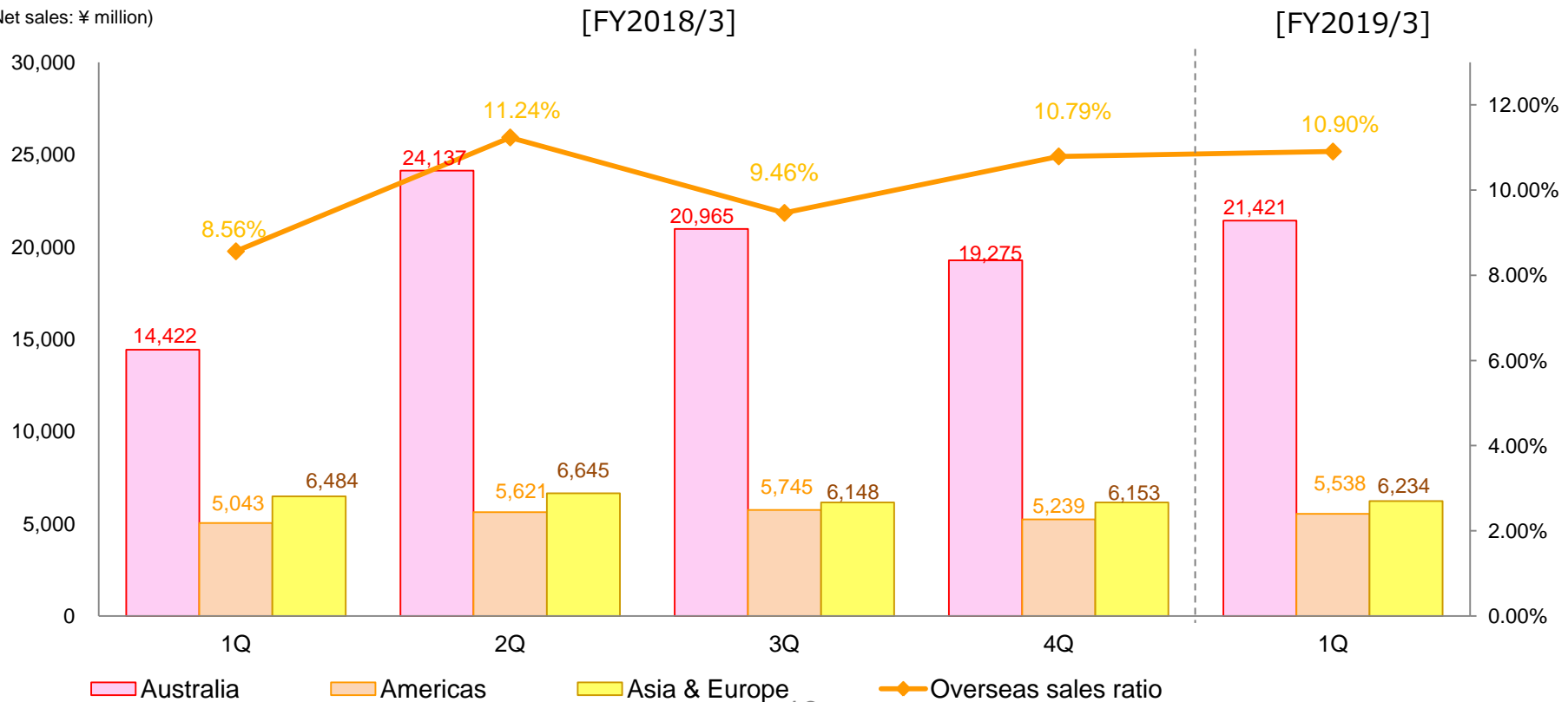
# 6. External Customer Net Sales Results in Major Overseas Geographical Areas

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

|                      | FY2018/3 (IFRS) |        |        |        |           | FY2019/3 (IFRS) |
|----------------------|-----------------|--------|--------|--------|-----------|-----------------|
|                      | 1Q              | 2Q     | 3Q     | 4Q     | Full year | 1Q              |
| Australia            | 14,422          | 24,137 | 20,965 | 19,275 | 78,799    | 21,421          |
| Americas             | 5,043           | 5,621  | 5,745  | 5,239  | 21,648    | 5,538           |
| Asia & Europe        | 6,484           | 6,645  | 6,148  | 6,153  | 25,430    | 6,234           |
| Overseas total       | 25,949          | 36,403 | 32,857 | 30,668 | 125,877   | 33,192          |
| Overseas sales ratio | 8.56%           | 11.24% | 9.46%  | 10.79% | 10.00%    | 10.90%          |

(Overseas sales ratio: %)

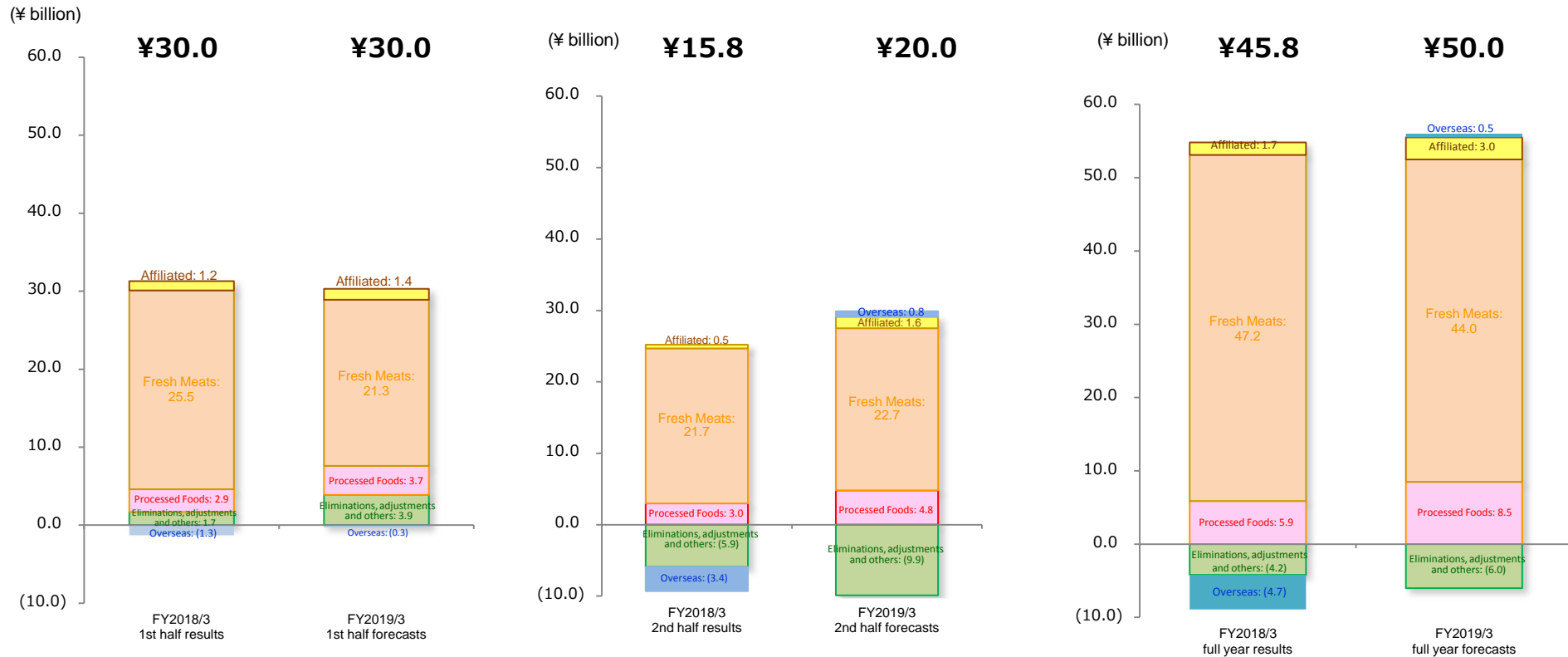
(Net sales: ¥ million)



## **II. Outlook for FY2019/3**

- 1. FY2019/3 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. FY2019/3 Operating Income Forecasts (1)



|                                      | FY2019/3 1st half         |              |            | FY2019/3 2nd half         |              |            | FY2019/3 full year         |              |            |
|--------------------------------------|---------------------------|--------------|------------|---------------------------|--------------|------------|----------------------------|--------------|------------|
|                                      | FY2018/3 1st half results | Forecasts    | Variance   | FY2018/3 2nd half results | Forecasts    | Variance   | FY2018/3 full year results | Forecasts    | Variance   |
| Processed Foods Business Division    | 2.9                       | <b>3.7</b>   | 0.8        | 3.0                       | <b>4.8</b>   | 1.8        | 5.9                        | <b>8.5</b>   | 2.6        |
| Fresh Meats Business Division        | 25.5                      | <b>21.3</b>  | (4.2)      | 21.7                      | <b>22.7</b>  | 1.0        | 47.2                       | <b>44.0</b>  | (3.2)      |
| Affiliated Business Division         | 1.2                       | <b>1.4</b>   | 0.2        | 0.5                       | <b>1.6</b>   | 1.1        | 1.7                        | <b>3.0</b>   | 1.4        |
| Overseas Business Division           | (1.3)                     | <b>(0.3)</b> | 1.0        | (3.4)                     | <b>0.8</b>   | 4.2        | (4.7)                      | <b>0.5</b>   | 5.2        |
| Eliminations, adjustments and others | 1.7                       | <b>3.9</b>   | 2.2        | (5.9)                     | <b>(9.9)</b> | (4.0)      | (4.2)                      | <b>(6.0)</b> | (1.8)      |
| <b>Total</b>                         | <b>30.0</b>               | <b>30.0</b>  | <b>0.0</b> | <b>15.8</b>               | <b>20.0</b>  | <b>4.2</b> | <b>45.8</b>                | <b>50.0</b>  | <b>4.2</b> |

# 1. FY2019/3 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)

|                                      | FY2019/3 2Q       |              |              | FY2019/3 1st half |             |            | FY2019/3 full year |             |            |
|--------------------------------------|-------------------|--------------|--------------|-------------------|-------------|------------|--------------------|-------------|------------|
|                                      | Initial forecasts | Forecasts    | Variance     | Initial forecasts | Forecasts   | Variance   | Initial forecasts  | Forecasts   | Variance   |
| Processed Foods Business Division    | 2.2               | <b>2.4</b>   | 0.2          | 3.7               | 3.7         | 0.0        | 8.5                | 8.5         | 0.0        |
| Fresh Meats Business Division        | 11.8              | <b>11.5</b>  | (0.3)        | 21.3              | 21.3        | 0.0        | 44.0               | 44.0        | 0.0        |
| Affiliated Business Division         | 1.0               | <b>1.4</b>   | 0.4          | 1.4               | 1.4         | 0.0        | 3.0                | 3.0         | 0.0        |
| Overseas Business Division           | 0.0               | <b>(0.2)</b> | (0.2)        | (0.3)             | (0.3)       | 0.0        | 0.5                | 0.5         | 0.0        |
| Eliminations, adjustments and others | 2.0               | <b>1.2</b>   | (0.9)        | 3.9               | 3.9         | 0.0        | (6.0)              | (6.0)       | 0.0        |
| <b>Total</b>                         | <b>17.0</b>       | <b>16.2</b>  | <b>(0.8)</b> | <b>30.0</b>       | <b>30.0</b> | <b>0.0</b> | <b>50.0</b>        | <b>50.0</b> | <b>0.0</b> |

(¥ billion)

\* 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   |
| <b>Total existing businesses</b>  | <b>0.8</b>                      | <b>1.3</b> | <b>0.6</b> | <b>1.3</b>        | <b>1.7</b> | <b>0.4</b> | <b>2.1</b>        | <b>2.5</b> | <b>0.4</b> |
| External factors                  | (0.6)                           | (0.1)      | 0.5        | (0.9)             | (0.4)      | 0.5        | (1.7)             | (1.2)      | 0.5        |
| Principal raw material price      | (0.2)                           | 0.3        | 0.6        | (0.5)             | 0.1        | 0.6        | (0.1)             | 0.5        | 0.6        |
| Other materials/fuels             | (0.3)                           | (0.4)      | (0.1)      | (0.4)             | (0.6)      | (0.1)      | (1.6)             | (1.7)      | (0.1)      |
| Internal factors                  | 1.3                             | 1.4        | 0.1        | 2.2               | 2.1        | (0.1)      | 3.8               | 3.7        | (0.1)      |
| Volume expansion                  | 0.1                             | 0.0        | (0.1)      | 0.2               | 0.1        | (0.2)      | 0.5               | 0.3        | (0.2)      |
| Improvement activities            | 1.2                             | 1.4        | 0.2        | 2.0               | 2.0        | 0.1        | 3.4               | 3.5        | 0.1        |
| Developing businesses             | 0.1                             | 0.1        | 0.0        | 0.2               | 0.0        | (0.2)      | 0.5               | 0.3        | (0.2)      |
| Others                            | (0.3)                           | (0.6)      | (0.4)      | (0.7)             | (0.8)      | (0.2)      | 0.0               | (0.2)      | (0.2)      |
| <b>Total</b>                      | <b>0.7</b>                      | <b>0.8</b> | <b>0.2</b> | <b>0.8</b>        | <b>0.8</b> | <b>0.0</b> | <b>2.6</b>        | <b>2.6</b> | <b>0.0</b> |

| Fresh Meats Business Division          | 2Q                |              |              | 1st half          |              |            | Full year         |              |            |
|--|-------------------|--------------|--------------|-------------------|--------------|------------|-------------------|--------------|------------|
|  | Initial forecasts | Forecasts    | Variance     | Initial forecasts | Forecasts    | Variance   | Initial forecasts | Forecasts    | Variance   |
| Imported fresh meat market             | 0.3               | 0.8          | 0.6          | (1.5)             | (0.7)        | 0.8        | 0.6               | 1.4          | 0.8        |
| Domestic fresh meat market             | 0.1               | 0.1          | 0.0          | (0.2)             | (0.3)        | (0.1)      | (0.4)             | (0.5)        | (0.1)      |
| Changes in farming operations in Japan | (0.4)             | (1.2)        | (0.8)        | (1.2)             | (2.5)        | (1.3)      | (1.3)             | (2.6)        | (1.3)      |
| Growth in Nippon Food Group            | 0.2               | 0.3          | 0.1          | (0.2)             | 0.0          | 0.1        | (0.8)             | (0.7)        | 0.1        |
| Other factors                          | (0.2)             | (0.3)        | (0.1)        | (1.2)             | (0.7)        | 0.5        | (1.2)             | (0.7)        | 0.5        |
| <b>Total</b>                           | <b>0.0</b>        | <b>(0.3)</b> | <b>(0.3)</b> | <b>(4.2)</b>      | <b>(4.2)</b> | <b>0.0</b> | <b>(3.2)</b>      | <b>(3.2)</b> | <b>0.0</b> |

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



## 2. Processed Foods Business Division: Outlook

### ● Sales promotion measures for gift products

- Make maximum use of winning the Japan Gift Awards “Premium Gift Award” for the second year in a row.
- Further improve satisfaction of both the givers and receivers of gifts by introducing special gift box specifications for *Utsukushi-no-Kuni*.
- Enhance sales promotion of side dish gift products such as *Shisen Meisai* and *Premium Kobo*.

Reference: Net sales results and forecasts of gift products (year-on-year comparison)

|                             |   | FY2018/3 results | FY2019/3 forecasts |
|-----------------------------|---|------------------|--------------------|
|                             |   | Variance         | Variance           |
| Summer gift-giving season   | Overall unit sales                      | 98%              | 103%               |
|                             | ( <i>Utsukushi-no-Kuni</i> )            | 105%             | 106%               |
| Year-end gift-giving season | Overall unit sales                      | 93%              | -                  |
|                             | ( <i>Utsukushi-no-Kuni</i> )            | 100%             | -                  |
| Total                       | Overall unit sales                      | 95%              | -                  |
|                             | ( <i>Utsukushi-no-Kuni</i> )            | 102%             | -                  |
|                             | Sales ratio of <i>Utsukushi-no-Kuni</i> | 32%              | -                  |

### ● Sales promotion measures for major consumer products

- 1) In hams and sausages, win new fans by television commercials and increased volume, and secure stable profits by expanding regular products.
- 2) In deli and processed foods, further expand core products and enhance the product lineup to increase profits.

Reference: Net sales and forecasts of major consumer products (year-on-year comparison)

| Hams and sausages       | FY2019/3 full year forecasts | Deli and processed foods | FY2019/3 full year forecasts |
|-------------------------|------------------------------|--------------------------|------------------------------|
| Wieners                 | 101%                         | Chilled bakery           | 100%                         |
| Loin hams and bacons    | 104%                         | Chilled dish             | 104%                         |
| Yakibutas               | 102%                         | Fried chicken            | 100%                         |
| Total consumer products | 100%                         | Hamburg and meatball     | 100%                         |
|                         |                              | Total consumer products  | 102%                         |

### ● Sales promotion measures by channel

- 1) Consumer products
  - Enhance store sales promotions to increase sales.
  - Increase brand recognition and win fans by expanding local area plans.
- 2) Commercial-use products
  - Seize a considerable share in large products and introduce new products.
  - Increase profit in core categories by improving line operation with enhanced coordination between manufacturing and sales.

Reference: Net sales forecasts by channel (year-on-year comparison)

| FY2019/3 full year forecasts (1Q revision) |                | Amount |
|--|----------------|--------|
| Hams and sausages                          | Consumer       | 100%   |
|  | Commercial-use | 102%   |
|  | Total          | 100%   |
| Deli and processed foods                   | Consumer       | 102%   |
|  | Commercial-use | 102%   |
|  | Total          | 102%   |

### 3. Fresh Meats Business Division: Outlook

#### ● Domestic production business

- Feed prices increased due to the production conditions and the weak yen, but are expected to level off from the second half due to stabilized production.  
Although production of corn and soybeans has stabilized, attention must be given to the weak yen and movements in the US-China trade friction.
- Stable supply of chicken is expected due to increased production by companies. We also plan to improve breeding productivity for stable production.
- Productivity for pork is expected to worsen mainly in western Japan due to the extreme heat, so the supply conditions nationwide from the second half onwards remain uncertain.

#### ● Domestic fresh meat market

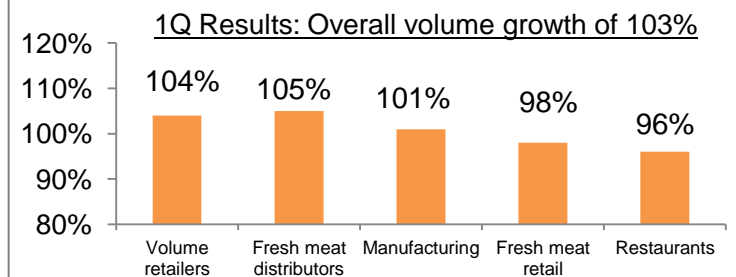
- Beef prices are increasing due to the impact of supply shortages. Prices may rise towards the end of the year during the high-demand season.
- Pork prices are subject to violent fluctuations caused by sporadic illness and unstable supply, and this trend is expected to continue.
- Chicken prices are expected to perform weakly compared to the previous year amid stable supply.

#### ● Imported fresh meat market

- Beef prices are expected to remain high because of strong demand especially in Asia.
- Pork prices are expected to remain stable due to increased production in North America and stable demand.
- Market conditions for chicken are expected to settle as the impact of decreased production in Brazil diminishes through the second half.

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

- Further expand share by new and greater sales at volume retailers and enhanced negotiations with restaurants in Tokyo.
- Planning promotions of branded fresh meats in various areas through the second half. Link this with sales promotions at volume retailers to make actual sales.



## 4. Affiliated Business Division: Outlook

### ● Sales promotion measures for marine products business

#### (Marine Foods)

- Promote securing proprietary procurement routes in Japan and overseas to enhance raw materials procurement capacity.
- Enhance profitability with enhanced sales of high value-added products and expanded sales to new channels, as well as optimization of product mix.

#### (Hoko)

- Revise production lines and product mix to enhance profitability.

### ● Sales promotion measures for dairy products business

#### (Cheese)

- Continue price revision due to soaring raw materials costs.
- Build a structure to increase production in our two plants in the east and west to enhance sales of consumer products.

#### (Yogurt)

- Enhance promotions for the 25th anniversary of *Vanilla Yogurt*.
- Work to expand sales of new products for Greek yogurt and *Vanilla Yogurt* including new flavors.

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

- Marine products prices remain high due to the impact of decreased supply volume caused by shrinking catches and growing global demand.
- Prices of cheese raw materials are expected to remain high because of increased global demand.
- The principal raw material of skim milk powder also remains at a high price.



*Saba Mizuni*  
(Water boiled mackerel)  
made with mackerel  
caught in Japan



*Vanilla Yogurt*, celebrating  
the 25th anniversary of its  
launch

# 5. Overseas Business Division: Outlook

## ● Australia

- Fattening: Cattle procurement prices are expected to bottom out and costs such as grain prices are expected to rise.
  - Slaughter: Livestock procurement costs are expected to rise due to the deteriorating collection environment.
  - Sales: While sales prices have stabilized, attention must still be paid to trends in beef in the United States.
- Although more cattle are being processed, collection of livestock is moving ahead of schedule, leading to uncertainty about supply in the future.

## ● Americas

- Fresh meat exports are expected to have more stable profit as procurement prices remain low.
- Processed food products are expected to struggle in securing profit as sales competition remains intense.

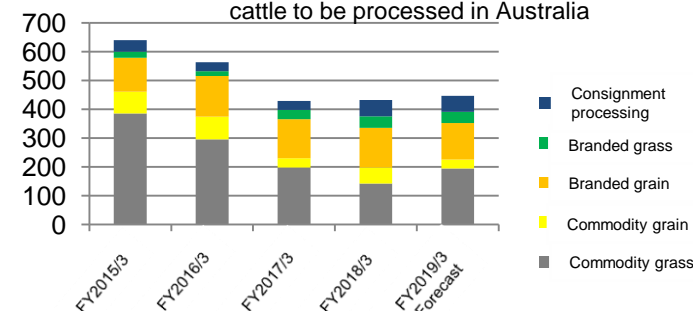
## ● Asia & Europe

- Ege-Tav in Turkey is improving its productivity and is promoting a product differentiation strategy, but feed costs are expected to remain high due to the weak lira.
- Europe is expected to continue struggling in securing profits due to continued high fresh meat procurement prices.

Reference: FY2019/3 1Q Australia sales results

| Major countries for sales | Volume (ratio breakdown) | Volume (variance year on year) |
|---------------------------|--------------------------|--------------------------------|
| Japan                     | 24%                      | 97%                            |
| United States             | 14%                      | 116%                           |
| South Korea               | 10%                      | 120%                           |
| China                     | 12%                      | 232%                           |
| Taiwan                    | 3%                       | 93%                            |
| Australia                 | 24%                      | 106%                           |
| Others                    | 13%                      | 109%                           |
| <b>Total</b>              | <b>100%</b>              | <b>113%</b>                    |

(thousand heads) Reference: FY2019/3 Forecast of the number of cattle to be processed in Australia



FY2019/3 Overseas Business Division: Factors for changes in operating income and operating income forecasts

|               | Factors for changes in operating income |              |          |                   |              |          |
|---------------|---|--------------|----------|-------------------|--------------|----------|
|               | 2Q                                      |              |          | 1st half          |              |          |
|               | Initial forecasts                       | Forecasts    | Variance | Initial forecasts | Forecasts    | Variance |
| Australia     | 1.7                                     | <b>0.8</b>   | (0.9)    | 1.8               | <b>1.2</b>   | (0.6)    |
| Americas      | 0.5                                     | <b>0.0</b>   | (0.5)    | 0.7               | <b>0.2</b>   | (0.4)    |
| Asia & Europe | (0.1)                                   | <b>0.3</b>   | 0.4      | (0.2)             | <b>(0.2)</b> | 0.1      |
| Other factors | (0.9)                                   | <b>(0.2)</b> | 0.8      | (1.3)             | <b>(0.3)</b> | 1.0      |
| <b>Total</b>  | <b>1.1</b>                              | <b>0.9</b>   | (0.2)    | <b>1.0</b>        | <b>1.0</b>   | 0.0      |

|               | Operating income (¥ billion) |              |                   |              |                   |              |
|---------------|------------------------------|--------------|-------------------|--------------|-------------------|--------------|
|               | 2Q                           |              | 1st half          |              | Full year         |              |
|               | Initial forecasts            | Forecasts    | Initial forecasts | Forecasts    | Initial forecasts | Forecasts    |
| Australia     | (0.1)                        | <b>0.0</b>   | (0.2)             | <b>0.2</b>   | 0.2               | <b>0.2</b>   |
| Americas      | 0.1                          | <b>(0.2)</b> | 0.2               | <b>0.2</b>   | 0.6               | <b>0.6</b>   |
| Asia & Europe | 0.2                          | <b>0.3</b>   | 0.1               | <b>0.5</b>   | 0.6               | <b>0.6</b>   |
| Other factors | (0.3)                        | <b>(0.4)</b> | (0.5)             | <b>(1.1)</b> | (0.9)             | <b>(0.9)</b> |
| <b>Total</b>  | <b>0.0</b>                   | <b>(0.2)</b> | (0.3)             | <b>(0.3)</b> | 0.5               | <b>0.5</b>   |

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

## **III. Consolidated Financial Results for FY2019/3 1Q**

- 1. FY2019/3 Business Results at a Glance and Full Year Forecasts**
- 2. Balance Sheets / Capital Expenditures / Depreciation and Amortization**

# 1. FY2019/3 Business Results at a Glance and Full Year Forecasts

(¥ million, %)

|   | 1Q<br>results | 1st half<br>results | Full year<br>results | 1Q<br>results | Variance | Volume<br>growth rate | 1st half<br>forecasts | Variance | Full year<br>forecasts | Variance |
|---|---------------|---------------------|----------------------|---------------|----------|-----------------------|-----------------------|----------|------------------------|----------|
| Net sales   | 303,046       | 627,060             | 1,258,463            | 304,378       | 0.4      | -                     | 650,000               | 3.7      | 1,310,000              | 4.1      |
| Hams and sausages                                   | 30,914        | 63,954              | 132,404              | 30,494        | (1.4)    | (0.3)                 | 67,700                | 5.9      | 140,400                | 6.0      |
| Processed foods                                     | 54,759        | 113,064             | 233,089              | 55,533        | 1.4      | (0.4)                 | 118,100               | 4.5      | 243,300                | 4.4      |
| Fresh meats   | 174,425       | 360,220             | 716,343              | 176,197       | 1.0      | 6.3                   | 370,300               | 2.8      | 744,900                | 4.0      |
| Beef  | 67,977        | 146,965             | 293,287              | 75,030        | 10.4     | 32.1                  | 154,200               | 4.9      | 312,500                | 6.6      |
| Pork  | 55,919        | 113,278             | 227,186              | 54,905        | (1.8)    | (0.2)                 | 115,400               | 1.9      | 230,200                | 1.3      |
| Chicken   | 44,104        | 86,757              | 172,501              | 39,575        | (10.3)   | (2.6)                 | 87,800                | 1.2      | 177,800                | 3.1      |
| Other fresh meats                                   | 6,425         | 13,220              | 23,369               | 6,687         | 4.1      | 0.9                   | 12,900                | (2.4)    | 24,400                 | 4.4      |
| Marine products                                     | 20,891        | 45,198              | 93,804               | 19,557        | (6.4)    | (12.0)                | 46,100                | 2.0      | 96,600                 | 3.0      |
| Dairy products                                      | 8,574         | 17,715              | 34,191               | 8,559         | (0.2)    | (1.0)                 | 18,200                | 2.7      | 36,200                 | 5.9      |
| Others  | 13,483        | 27,509              | 48,632               | 14,038        | 4.1      | -                     | 29,600                | 7.6      | 48,600                 | (0.1)    |
| Cost of goods sold                                  | 246,752       | 517,224             | 1,047,478            | 250,029       | 1.3      |                       |                       |          |                        |          |
| Gross profit  | 56,294        | 109,836             | 210,985              | 54,349        | (3.5)    |                       |                       |          |                        |          |
| Gross profit ratio                                  | 18.6%         | 17.5%               | 16.8%                | 17.9%         | -        |                       |                       |          |                        |          |
| SG&A expenses                                       | 39,359        | 79,822              | 165,155              | 40,549        | 3.0      |                       |                       |          |                        |          |
| Operating income                                    | 16,935        | 30,014              | 45,830               | 13,800        | (18.5)   |                       | 30,000                | (0.0)    | 50,000                 | 9.1      |
| Transfer fee for a professional baseball player     | -             | -                   | 2,273                | -             | -        |                       | -                     | -        | -                      | -        |
| Other income and expenses                           | 1,025         | 1,436               | 2,698                | 1,594         | 55.5     |                       | (200)                 | (113.9)  | (1,200)                | -        |
| Finance income and costs                            | (2,493)       | (1,078)             | 928                  | (306)         | (87.7)   |                       | (2,000)               | -        | (3,300)                | -        |
| Equity in earnings (losses) of associated companies | 140           | 544                 | 1,069                | 180           | 28.6     |                       | 200                   | (63.2)   | 500                    | (53.2)   |
| Profit before tax                                   | 15,607        | 30,916              | 52,798               | 15,268        | (2.2)    |                       | 28,000                | (9.4)    | 46,000                 | (12.9)   |
| Income tax expense                                  | 5,040         | 8,783               | 15,074               | 4,223         | (16.2)   |                       | 8,300                 | (5.5)    | 13,700                 | (9.1)    |
| Tax rate  | 32.3%         | 28.4%               | 28.6%                | 27.7%         | -        |                       | 29.6%                 | -        | 29.8%                  | -        |
| Profit  | 10,567        | 22,133              | 37,724               | 11,045        | 4.5      |                       | 19,700                | (11.0)   | 32,300                 | (14.4)   |
| Profit attributable to owners of parent             | 10,319        | 21,766              | 37,552               | 11,105        | 7.6      |                       |                       |          | 32,000                 | (14.8)   |

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

## 2. Balance Sheets / Capital Expenditures / Depreciation and Amortization Nipponham Group 人輝く、食の未来

(¥ million, %)

| Consolidated balance sheets |   | FY2018/3<br>Year-end results | FY2019/3<br>1Q results | Variance (%) | Variance |
|-----------------------------|---|------------------------------|------------------------|--------------|----------|
| ★(1)                        | Total assets                                | 734,528                      | 750,069                | 2.1          | 15,541   |
|                             | Cash and cash equivalents                   | 58,290                       | 48,294                 | (17.1)       | (9,996)  |
|                             | Operating receivables and other receivables | 154,781                      | 155,548                | 0.5          | 767      |
| ★(2)                        | Inventories                                 | 105,422                      | 123,467                | 17.1         | 18,045   |
|                             | Property, plant and equipment               | 269,143                      | 272,957                | 1.4          | 3,814    |
|                             | Other financial assets - non-current        | 40,638                       | 40,773                 | 0.3          | 135      |
|                             | Deferred tax assets                         | 24,772                       | 24,548                 | (0.9)        | (224)    |
|                             | Total liabilities                           | 311,640                      | 327,088                | 5.0          | 15,448   |
|                             | Operating payables and other payables       | 113,984                      | 122,152                | 7.2          | 8,168    |
| ★(3)                        | Interest-bearing debt                       | 111,401                      | 123,015                | 10.4         | 11,614   |
|                             | Equity attributable to owners of parent     | 417,982                      | 418,327                | 0.1          | 345      |
|                             | Noncontrolling interests                    | 4,906                        | 4,654                  | (5.1)        | (252)    |
|                             | Total equity                                | 422,888                      | 422,981                | 0.0          | 93       |

Major reasons for  
increase/decrease

★(1) Total assets: Total assets increased by approximately ¥15.5 billion due mainly to an increase in inventories, despite a decrease in cash and cash equivalents.

★(2) Inventories: Increased mostly in fresh meats.

★(3) Interest-bearing debt: Increased by approximately ¥10.0 billion mainly in short-term bank loans.

(¥ million, %)

| Capital expenditures, depreciation and amortization | FY2018/3<br>1Q results | FY2019/3   |              |          | FY2019/3<br>Full year forecasts |
|---|------------------------|------------|--------------|----------|---------------------------------|
|   |                        | 1Q results | Variance (%) | Variance |                                 |
| Capital expenditures                                | 5,622                  | 9,355      | 66.4         | 3,733    | 89,900                          |
| Processed Foods Business Division                   | 1,337                  | 1,822      | 36.3         | 485      | 19,900                          |
| Fresh Meats Business Division                       | 2,049                  | 3,752      | 83.1         | 1,703    | 38,900                          |
| Affiliated Business Division                        | 1,120                  | 2,502      | 123.4        | 1,382    | 12,100                          |
| Overseas Business Division                          | 602                    | 832        | 38.2         | 230      | 15,300                          |
| Other facilities                                    | 514                    | 447        | (13.0)       | (67)     | 3,700                           |
| Depreciation and amortization                       | 4,922                  | 5,322      | 8.1          | 400      | 24,000                          |

## **IV. Regarding Adoption of IFRS and Changes in Accounting Treatment**

- 1. Applying IFRS**
- 2. Impact on Consolidated Statement of Profit or Loss - FY2018/3 Full Year**
- 3. Impact on Consolidated Statement of Profit or Loss - FY2018/3 First Half**
- 4. Impact on Consolidated Statement of Profit or Loss - FY2018/3 Second Half**
- 5. Impact on Consolidated Statement of Profit or Loss - FY2018/3 1Q**



## ➤ Major impacts on net sales and operating income due to adoption of IFRS and changes in accounting treatment

- IFRS applied from the first quarter of FY2019/3
- IFRS applied retroactively to FY2018/3

| Cause                                  | Items  | Impact   |
|--|--|--|
| Due to adoption of IFRS                | Presentation of foreign exchange gains (losses) in Statement of Profit or Loss | •Not reflected on operating income, but present in other income and expenses   |
|  | Accounting treatment of biological assets                                      | •Fair value measurement gains (losses) of the biological assets held mainly in the fresh meat production business are reflected on operating income.<br><br>(Under US GAAP, valuation loss alone is recorded through lower-of-cost-or-market valuation of inventories) |
|  | Unification of fiscal years  | •The Group companies not closing in March are subjected to provisional settlement, thereby unifying fiscal years for consolidation purpose.  |
| Due to changes in accounting treatment | Accounting treatment for distribution center fees, etc.                        | •Change from recording as SG&A expenses to net sales deduction.  |
|  | Accounting treatment for revenue and expenses of baseball club                 | •Change from recording as SG&A expenses to presenting under profit or loss items.  |
|  | Handling of profit and loss of baseball club in segment information            | •Discontinue allocation of profit and loss of baseball club to each segment and present under eliminations and adjustments from the first FY2019/3 1Q.   |

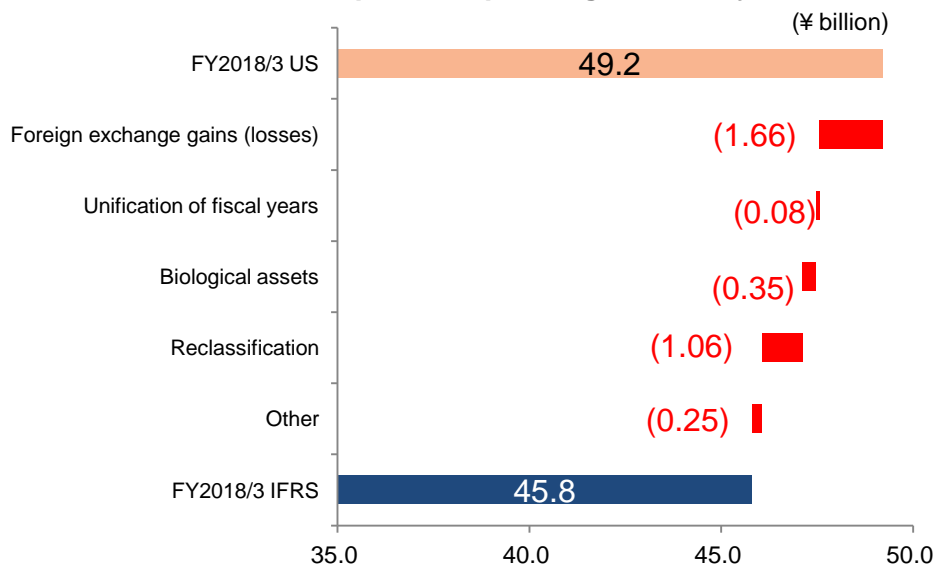
## 2. Impact on Consolidated Statement of Profit or Loss - FY2018/3 Full Year

FY2018/3 full year

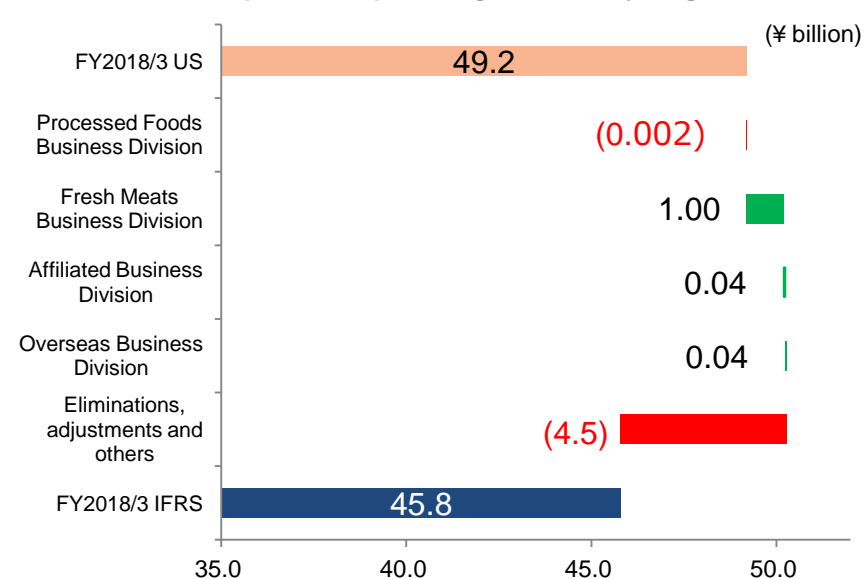
(¥ million)

| US GAAP                                  |           | IFRS                                    |           | Difference | Major items                              |          |
|--|-----------|---|-----------|------------|--|----------|
| Net sales                                | 1,269,201 | Net sales                               | 1,258,463 | (10,738)   | Deduction of logistics center fees, etc. | (23,951) |
|  |           |   |           |            | Net sales of baseball club               | 12,252   |
| Operating income                         | 49,218    | Operating income                        | 45,830    | (3,388)    | Foreign exchange gains (losses)          | (1,657)  |
|  |           |   |           |            | Biological assets                        | (345)    |
|  |           |   |           |            | Unification of fiscal years              | (80)     |
|  |           |   |           |            | Reclassification                         | (1,058)  |
|  |           |   |           |            | Other                                    | (248)    |
| Income before income taxes               | 50,455    | Profit before tax                       | 52,798    | 2,343      | -  | -        |
| Net income attributable to NH Foods Ltd. | 37,147    | Profit attributable to owners of parent | 37,552    | 405        | -  | -        |

**Impact on operating income by item**



**Impact on operating income by segment**



● Impact on segment operating income due to adoption of IFRS  
Eliminations, adjustments and others are mostly foreign exchange gains (losses) and reclassification.

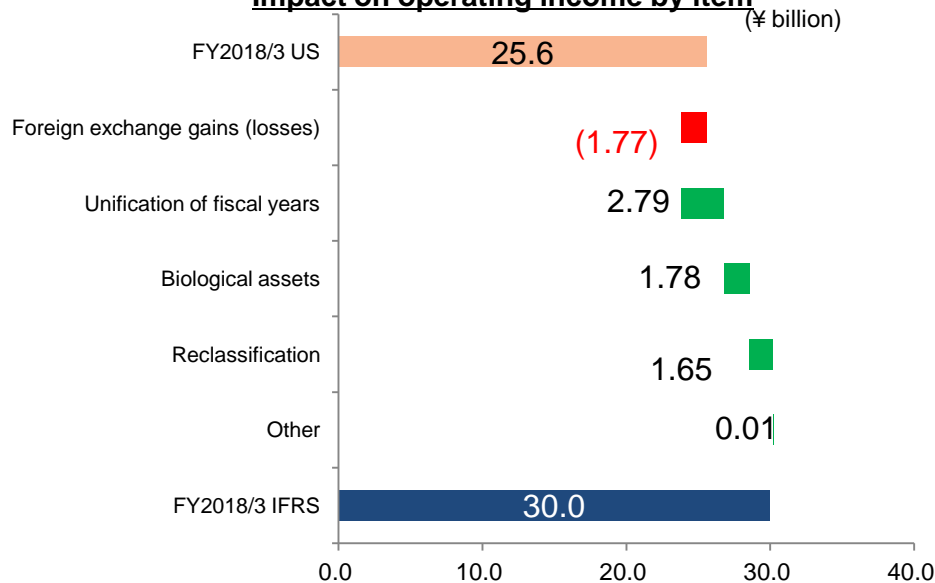
### 3. Impact on Consolidated Statement of Profit or Loss - FY2018/3 First Half

FY2018/3 first half

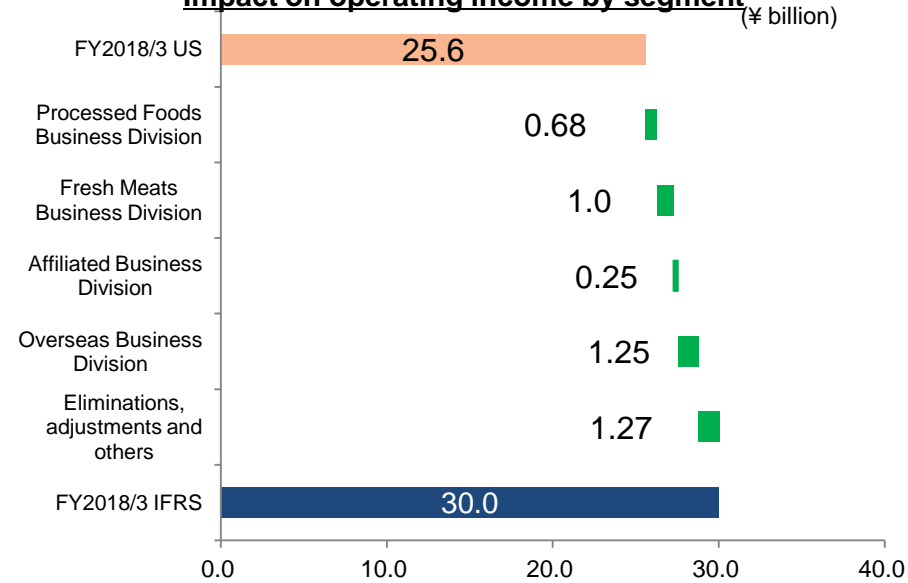
(¥ million)

| US GAAP                                  |         | IFRS                                    |         | Difference | Major items                     |  |
|--|---------|---|---------|------------|---------------------------------|--|
| Net sales                                | 627,880 | Net sales                               | 627,060 |            | (820)                           | Deduction of logistics center fees, etc. |
| Operating income                         | 25,559  | Operating income                        | 30,014  | 4,455      | Net sales of baseball club      | 9,988                                    |
|  |         |   |         |            | Foreign exchange gains (losses) | (1,769)                                  |
|  |         |   |         |            | Biological assets               | 1,778                                    |
|  |         |   |         |            | Unification of fiscal years     | 2,791                                    |
|  |         |   |         |            | Reclassification                | 1,648                                    |
| Income before income taxes               | 22,326  | Profit before tax                       | 30,916  | 8,590      | -                               | -  |
| Net income attributable to NH Foods Ltd. | 17,377  | Profit attributable to owners of parent | 21,766  | 4,389      | -                               | -  |
|  |         |   |         |            | Other                           | 7  |

**Impact on operating income by item**



**Impact on operating income by segment**



● Impact on segment operating income due to adoption of IFRS

- In the Overseas Business Division, reversal of the lower-of-cost-or-market valuation method in the previous fiscal year made an impact. In eliminations, adjustments and others, reclassification made an impact.

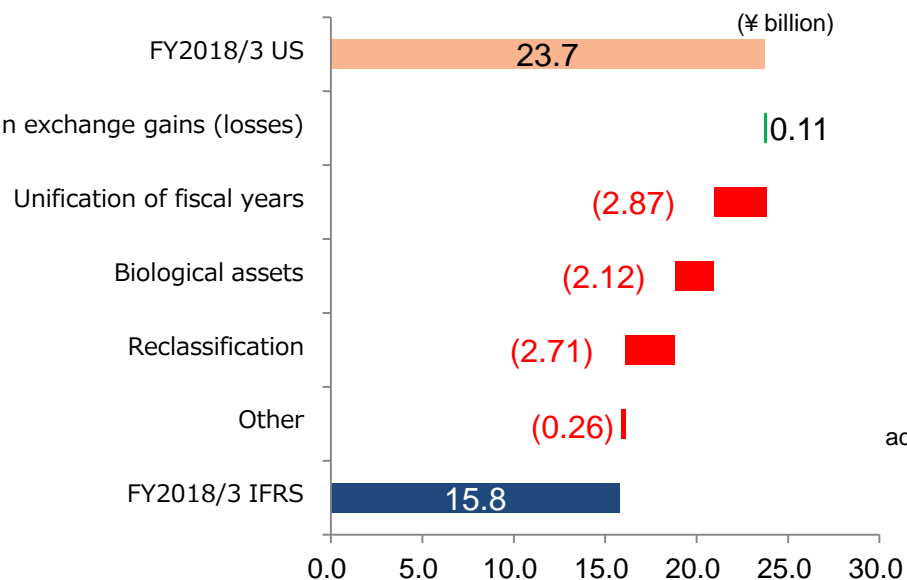
# 4. Impact on Consolidated Statement of Profit or Loss - FY2018/3 Second Half

FY2018/3 second half

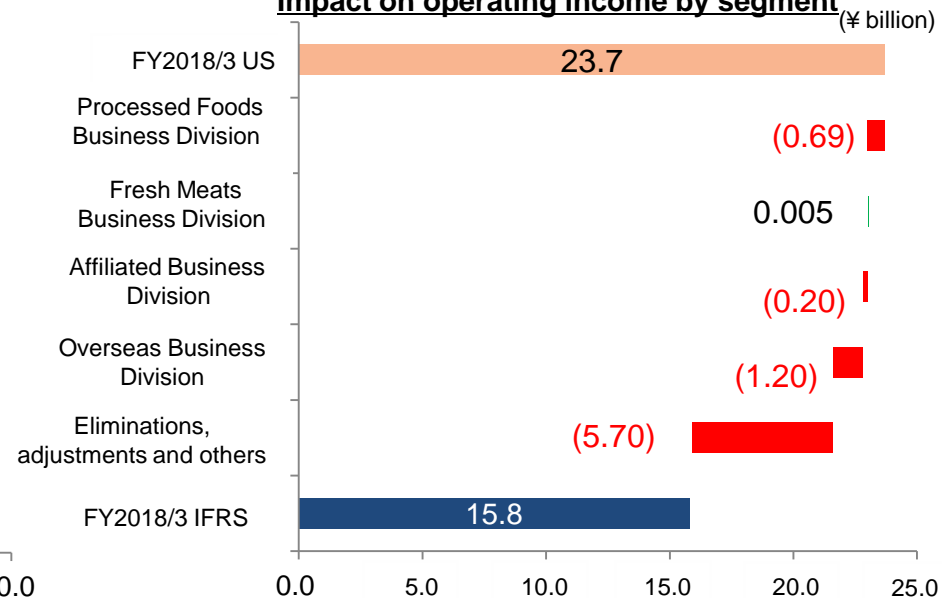
(¥ million)

| US GAAP                                  |         | IFRS                                    |         | Difference | Major items                              |          |
|--|---------|---|---------|------------|--|----------|
| Net sales                                | 641,321 | Net sales                               | 631,403 | (9,918)    | Deduction of logistics center fees, etc. | (12,505) |
|  |         |   |         |            | Net sales of baseball club               | 2,264    |
| Operating income                         | 23,659  | Operating income                        | 15,816  | (7,843)    | Foreign exchange gains (losses)          | 112      |
|  |         |   |         |            | Biological assets                        | (2,123)  |
|  |         |   |         |            | Unification of fiscal years              | (2,871)  |
|  |         |   |         |            | Reclassification                         | (2,706)  |
|  |         |   |         |            | Other                                    | (255)    |
| Income before income taxes               | 28,129  | Profit before tax                       | 21,882  | (6,247)    | -  | -        |
| Net income attributable to NH Foods Ltd. | 19,770  | Profit attributable to owners of parent | 15,786  | (3,984)    | -  | -        |

**Impact on operating income by item**



**Impact on operating income by segment**



● Impact on segment operating income due to adoption of IFRS

• Eliminations, adjustments and others, are mostly reclassification and biological assets.

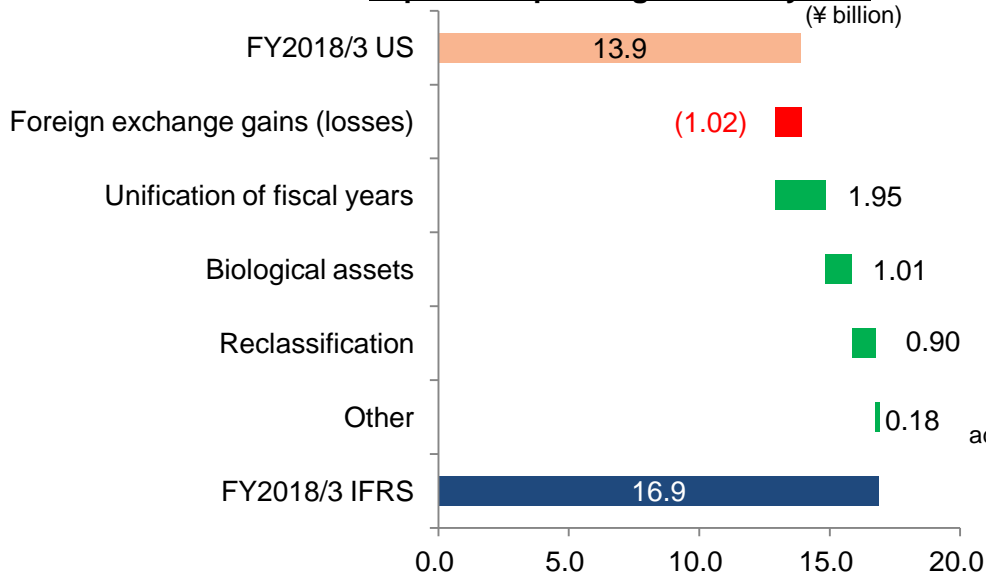
# 5. Impact on Consolidated Statement of Profit or Loss - FY2018/3 1Q

(¥ million)

| US GAAP                                  |         | IFRS                                    |         | Difference | Major items                              |         |
|--|---------|---|---------|------------|--|---------|
| Net sales                                | 303,297 | Net sales                               | 303,046 | (251)      | Deduction of logistics center fees, etc. | (5,442) |
|  |         |   |         |            | Net sales of baseball club               | 4,928   |
| Operating income                         | 13,916  | Operating income                        | 16,935  | 3,019      | Foreign exchange gains (losses)          | (1,023) |
|  |         |   |         |            | Biological assets                        | 1,010   |
|  |         |   |         |            | Unification of fiscal years              | 1,951   |
|  |         |   |         |            | Reclassification                         | 904     |
|  |         |   |         |            | Other                                    | 177     |
| Income before income taxes               | 13,241  | Profit before tax                       | 15,607  | 2,366      | -  | -       |
| Net income attributable to NH Foods Ltd. | 9,368   | Profit attributable to owners of parent | 10,319  | 951        | -  | -       |

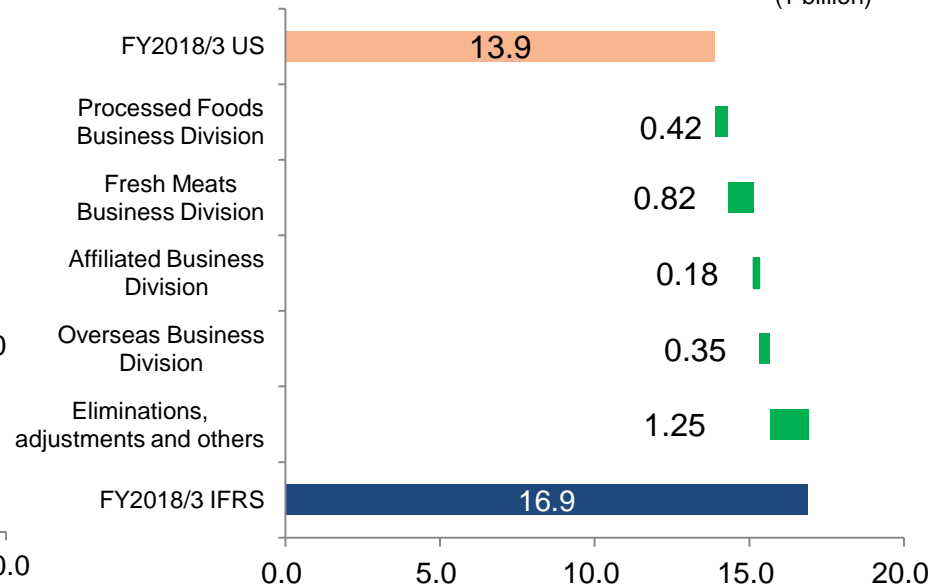
**Impact on operating income by item**

(¥ billion)



**Impact on operating income by segment**

(¥ billion)



● Impact on segment operating income due to adoption of IFRS

- The amount affected by segment was mostly due to allocation of company-wide expenses. Eliminations, adjustments and others are mostly biological assets.

Contact  
Public & Investor Relations Office  
NH Foods Ltd.  
ThinkParkTower  
2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6014  
Tel: +81-3-4555-8024 Fax: +81-3-4555-8189

#### 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.