

Annual Report 2007

Full of Smiles
ITO HAM FOODS INC.



Five-Year Consolidated Financial Highlights

ITOHAM FOODS INC. and Consolidated Subsidiaries

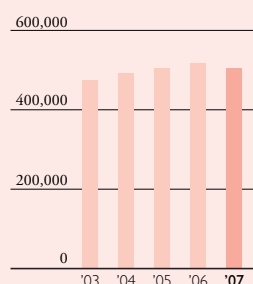
Years ended or as of March 31	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2006	2007	2007
Net sales	¥473,891	¥492,661	¥505,461	¥517,275	¥504,349	\$4,272,334
Cost of sales	374,200	386,664	402,429	420,571	404,803	3,429,081
Selling, general and administrative expenses	95,923	98,682	98,431	100,641	96,602	818,314
Operating income (loss)	3,768	7,315	4,601	(3,937)	2,944	24,939
Other income (expenses)	(2,441)	(539)	3,108	(371)	(1,995)	(16,900)
Income (loss) before income taxes and minority interests	1,327	6,776	7,709	(4,308)	949	8,039
Provision for income taxes						
Current	1,539	2,425	1,034	1,151	1,274	10,792
Deferred	(563)	587	1,748	2,859	1,028	8,708
Minority interests	(38)	(67)	(55)	(53)	(33)	(280)
Net income (loss)	313	3,697	4,872	(8,371)	(1,386)	(11,741)
Net income (loss) per share (in yen and U.S. dollars)	1.49	17.59	23.38	(40.17)	(6.65)	(0.056)
Total assets	219,383	229,400	237,866	243,050	244,804	2,073,731
Net assets (Note 3)	117,771	122,930	125,844	121,148	118,575	1,004,447
Ratio of equity to total assets (Note 3)	53.68%	53.59%	52.91%	49.84 %	48.16 %	
Net assets per share (in yen and U.S. dollars, Note 3)	559.71	589.86	603.93	581.45	565.87	4.79
Return on assets (Note 2)	2.2%	3.7%	2.8%	(1.1)%	1.6 %	
Return on equity (Note 3)	0.3%	3.1%	3.9%	(6.8)%	(1.2)%	
Cash flows from operating activities	22,783	9,108	3,804	(2,821)	17,746	150,326
Cash flows from investing activities	(3,390)	(4,853)	(5,354)	(12,833)	(2,271)	(19,238)
Cash flows from financing activities	(11,423)	(2,281)	(2,950)	5,670	(2,619)	(22,185)
Cash and cash equivalents at end of year	26,708	28,619	24,098	14,342	27,288	231,156

Notes 1: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥118.05=US\$1.00, the rate prevailing on March 31, 2007.

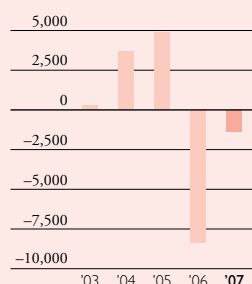
2: Return on assets is calculated by dividing ordinary income (loss), as recorded in the Japanese-language Consolidated Statements of Operations, by the average of total assets at the start and end of the fiscal year.

3: Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No. 5" issued by the Accounting Standards Board of Japan on December 9, 2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8" issued by the Accounting Standards Board of Japan on December 9, 2005).

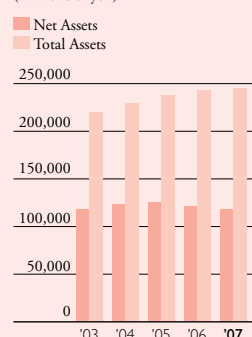
Net Sales
(Millions of yen)



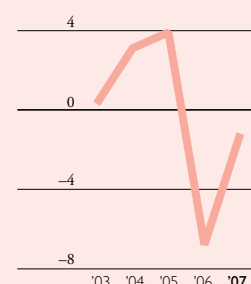
Net Income (Loss)
(Millions of yen)



Net Assets and Total Assets
(Millions of yen)



Return on Equity
(%)



Company Policy and Corporate Philosophy

Company Policy

“Service to Society Through Business”

Corporate Philosophy

Winning the confidence and trust of customers engenders belief in the safety and reliability of our products. The Itoham brand is founded on this reliability.

By continually strengthening our brand and enhancing corporate value, we can make a meaningful contribution to society. This is our corporate mission.

Corporate Stance 3-C

Creative in our continuing production of food culture

Communication with customers that is from the heart.

And a desire to take on new *challenges*.



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Message from the President



Chikara Kasai President

Fiscal 2007 Business Results

Exports increased during fiscal 2007 on the back of economic growth overseas, while improving corporate profits boosted capital investment, supporting continued moderate growth. Since personal consumption was weak, however, business conditions in the domestic economy were not entirely favorable

The situation in our industry remained severe. Amid intensifying sales competition, prices remained high for imported pork, the main raw material for products such as ham and sausages. Soaring crude oil prices added further pressure, inflating the cost of packing materials and distribution. Consequently, we struggled to achieve profitability for the second year in a row.

In this climate, we focused on improving profitability by implementing the Itoham Group Revitalization Plan, at the same time introducing price increases of between 7% to 12% (10% on average) in Ham and Sausage, and in Processed Foods, beginning July 1, 2006. Through measures such as reinforcing cost reduction-oriented management, reducing the number of product items available, and centralizing the pizza production framework by closing the Chubu plant in August 2006, we improved profitability in these two businesses. Furthermore, as part of a move to eliminate non-core and unprofitable operations, we ceased our operations in the internet-related business by the end of September 2006 and by the end of January 2007 had also closed 10 restaurants.

However, fresh meat operations continued to struggle. Sales of imported meat declined amid severe market conditions, as our livestock operations in Australia suffered from surging prices for breeding cattle.

As a result, net sales fell 2.5% to ¥504,349 million, a decrease of ¥12,926 million compared with the previous fiscal year. With respect to earnings, steady implementation of the

Full of Smiles

This year's cover message is also Itoham's corporate message, reflecting our desire to become an energetic and forward-looking company that not only supplies safe and reliable products, but also puts great importance on family fun, comfort and happiness.

With respect to earnings, steady implementation of the Revitalization Plan resulted in improved profits in the Ham and Sausage and Processed Food divisions.

As a result, gross profit increased ¥2,842 million, or 2.9%, to ¥99,546 million.

Revitalization Plan resulted in improved profits in the Ham and Sausage and Processed Food divisions. As a result, gross profit increased ¥2,842 million, or 2.9%, to ¥99,546 million. A ¥4,039 million reduction in selling, general and administrative (SG&A) expenses caused operating income to increase by ¥6,881 million to ¥2,944 million (following a loss of ¥3,937 million the previous year). In other expenses, Itoham recorded ¥2,121 million in restructuring expenses, which included ¥1,540 million due to impairment losses on fixed assets following the closure and reorganization of production facilities as part of the Revitalization Plan. As a result, income before income taxes and minority interests was ¥949 million (following a loss of ¥4,308 million the previous year). After the reversal of deferred tax assets at certain subsidiaries, Itoham recorded a net loss of ¥1,386 million (following a net loss of ¥8,371 million the previous fiscal year).

Outlook for Fiscal 2008

The outlook regarding raw materials for production is expected to remain severe. Drought in Australia and soaring costs of feed due to a sudden rise in demand for ethanol—which was in turn prompted by high crude oil prices—are expected to have a major effect on the meat production industry. The operating environment for Itoham Group is therefore expected to remain harsh.

In light of these conditions, we are engaged in cost reduction and gross profit margin improvement measures throughout all divisions to ensure the success of the Itoham Group Revitalization Plan. In addition, we are aiming to bolster core businesses by striving to provide even safer and more reliable products, while also working to develop value-added products which customers will truly enjoy.

Ham and Sausage Division

In the Ham and Sausage Division, the circumstances surrounding raw materials continue to be harsh, but we have initiated intensive sales activities, focusing on existing

We are aiming to bolster core businesses by striving to provide even safer and more reliable products, while also working to develop value-added products which customers will truly enjoy.

core products such as *Alt Bayern* wieners and our *Morning Fresh* series. Through these measures we are seeking to achieve the top shares in all product categories. We will also develop our products after their introduction, implementing concrete follow-up and promotion measures in order to enhance their profit-earning potential. We will continue to reduce the number of product items and establish a low cost framework for our business locations.

In production, we will further reinforce cost reduction-oriented management based on the Revitalization Plan to drive the strict implementation of cost-saving measures throughout our organization. In addition, we will reevaluate the raw materials we use, and strive to improve quality by boosting our technological capabilities.

Fresh Meat Division

In the Fresh Meat Division, we will strive to distinguish Itoham products on the market through brand strategies for products such as Japanese regional beef and *Kagoshima Berkshire Pork Kuro no Takumi* in domestic meat, and the *Grain Fed Beef* series overseas. We will also strengthen alliances with domestic livestock farmers to expand sales. However, conditions in the meat production industry are expected to be as severe as before, and there is little prospect of a major increase in sales volume. In parallel with efforts to achieve an upturn in sales, we are also working to curtail expenses by improving our distribution system, as well as working to cut costs by boosting efficiency. This will enable us to secure profit margins and increase profitability.

Processed Foods and Other Products Division

In the Processed Foods and Other Products Division, we have concentrated on three product brands—*i-Meal*, *i-Casual*, and *i-Fresh*—in addition to making concerted efforts to promote the Itoham brand. To develop a product lineup in which the various categories are more clearly defined, we are taking initiatives to reinforce our product brands according to category.

In production, we will follow the Revitalization Plan, driving cost reductions by closing and reorganizing production bases, while reexamining unprofitable categories and reducing product items. Through such initiatives, we aim to improve profitability.

In Other Products, we will step up efforts to withdraw from and reduce non-core businesses.

The financial targets for the fiscal year ending March 31, 2008 have already been published in the Itoham Group Revitalization Plan announced in September 2006. Taking into account factors such as the present operating environment, the progress of the Revitalization Plan and the division strategies mentioned above, we are revising the forecasts as follows.

The revised forecasts are: net sales of ¥507.0 billion (up 0.5% year on year); operating income of ¥4.0 billion (up 35.9% year on year); and net income of ¥3.2 billion (reversing the previous year's loss of ¥1,386 million).

Chikara Kasai President

河 西 力

Cautionary Note: Forward-Looking Statements

The forecasts in this annual report are based on management's assumptions and beliefs in light of information currently available and contain a number of risks and uncertainties. Readers are therefore cautioned that actual results could differ materially from forecasts due to a number of factors outside the control of the Itoham Group that include, but are not limited to, economic conditions in the Group's operating environment, market trends, exchange rate fluctuations and outbreaks of animal infection.

The Itoham Group Revitalization Plan

Surging raw material costs and other rapid changes in the business environment presented the Itoham Group with difficulties in achieving the targets outlined in its medium-term plan covering the three-year period from fiscal 2005 to fiscal 2007. In light of this, the Itoham Group formulated the Itoham Group Revitalization Plan, the aim of which is to rapidly pull the Company out of this predicament and make management more robust to ensure that it recovers its former strength. The Revitalization Plan, which continues until March 2008, was announced on September 4, 2006 and is progressing steadily.

Summary of the Revitalization Plan

Strategy and Priority Policies

Progress as of March 31, 2007

Reduce costs:

Reduce fixed costs (close or integrate operating bases, reduce personnel costs); strictly implement cost reduction-oriented management; reduce distribution costs

Approx.¥4.7 billion cost saving due to reduced manufacturing costs and SG&A expenses, etc.
(final target: approx. ¥6.5 billion cost saving)

Improve profitability of the ham and sausage and the processed foods business:

Enact price revisions from July 1, 2006; raise production efficiency by reducing the number of product items

¥1.5 billion approx. improvement in profitability due to price revisions from July 1, 2006, etc. (final target: approx. ¥2.0 billion improvement)

Concentrate on core businesses:

Sell off, withdraw from, or scale down non-core and unprofitable businesses

¥0.4 billion approx. improvement in profits following withdrawal from Hong Kong Garden, wine business, etc. (final target: approx. ¥0.6 billion improvement)

Improve earnings in the fresh meat business:

Improve earnings in overseas beef production operations

Improvement measures in progress

Secure free cash flow:

Increase operating income; reduce inventories; sell off operations, real estate and other assets

¥15.5 billion approx. generated

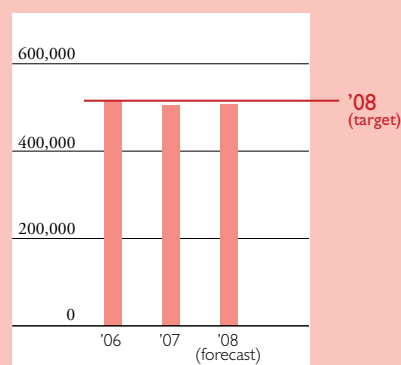
Financial data: Targets for fiscal year ending March 2008 and Progress

(Millions of yen)

	2008 target	2006	2007	2008 forecast
Net sales	510,000	517,275	504,349	507,000
Operating income (loss)	3,500	(3,937)	2,944	4,000
Net income (loss)	2,500	(8,371)	(1,386)	3,200

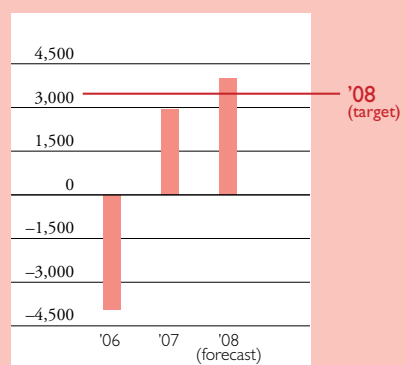
Net sales

(Millions of yen)



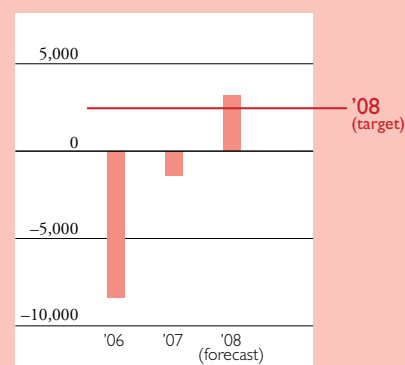
Operating income (loss)

(Millions of yen)



Net income (loss)

(Millions of yen)



Future issues

Ham and Sausage, processed foods businesses: Develop added-value products; secure gross profit; reduce the number of product items

Fresh meat business: Improve earnings at Rockdale Beef; reinforce domestic fresh meat operations

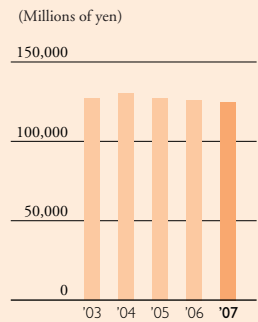
Other: Reduce distribution costs throughout Group; build internal control system; advance food awareness activities

At a Glance

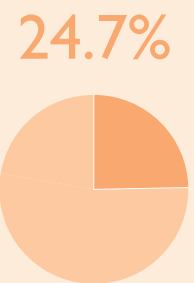
Ham and Sausage Division



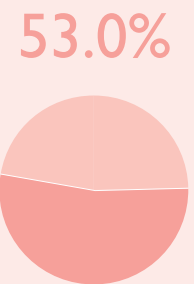
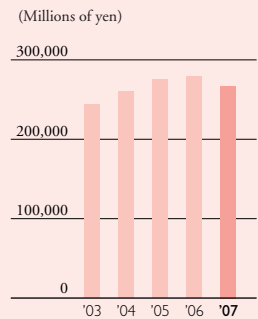
Net Sales



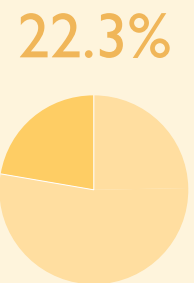
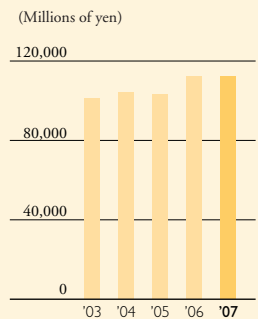
Sales Composition



Fresh Meat Division



Processed Foods and Other Products Division



Business Overview

This division produces and sells ham, sausages and bacon. Backed by sophisticated technology, it consistently turns out safe, high-quality products. In production activities, the division employs a high-level quality assurance system underpinned by strict hygiene control standards. On the sales front, the Ham and Sausage Division is aiming to capture the leading market share in all its product categories by rolling out a sales strategy that focuses on core products. Itoham also offers a lineup of gift products that have won strong support from customers.

Itoham owns directly managed and contract feedlots in Japan and overseas. These facilities employ strict hygiene management standards across all areas of operations—from the transport of livestock through to the final product. With its abundant lineup of value-added products, Itoham uses a brand strategy to achieve product differentiation while strengthening alliances with domestic livestock farmers and thereby expanding sales. In order to ensure its meat products are safe and reliable, this division is also working to upgrade its traceability framework.

A higher percentage of working women, a growing elderly population, and more diverse household schedules are among the changes that have radically transformed consumer lifestyles in Japan. In this context, the Processed Foods component of this division strives to develop safe and healthy food products that are conveniently easy to prepare and high in quality. In the “ready-to-eat meals” and restaurant markets, two areas with particularly strong growth potential, Itoham offers a lineup including such prepared dishes as pork cutlets and hamburgers, as well as pizzas and similar products. Other businesses in which the division is involved include the dairy and pharmaceutical businesses.

Five-Year Review and Business Results

As the market matures and sales competition intensifies, the division has remained focused on boosting sales of core products such as *Alt Bayern* and the *Morning Fresh* series. At the same time we have been working to boost sales of foodservice products for the “ready-to-eat meals” and restaurant markets, which have been growing in recent years. In view of the persistently high raw material costs, we introduced price increases in July 2006 of between 7% to 12% (10% on average). While this had a positive effect on profitability, net sales are declining slightly.

The fresh meat market has been harsh due to outbreaks of BSE and associated bans on the import of U.S. beef, cases of avian flu and the imposition of import safeguards. In this operating environment, the division has boosted turnover by actively expanding sales, concentrating on *Berkshire Pork*, for which it boasts one of the highest production volumes in Japan. With regard to imported fresh meats, in fiscal 2007 sales volumes for both beef and chicken declined. For beef, tight global supply and demand inflated purchase costs for Australian beef, causing market competition with domestic beef to intensify. Meanwhile, chicken products were affected by a fall in market prices due to increased market supply. As a result, net sales, which had been on an upward trend, decreased during the year.

In the Processed Foods component of this division, sales of charcoal-roasted beef, chicken and other products declined due to outbreaks of avian flu and BSE in Japan and overseas, and have continued to lag over the past few years. Meanwhile, Itoham’s *La Pizza* series of chilled pizzas demonstrated sales growth in fiscal 2006, leading to increased sales in the Processed Foods component of this division, but overall the division again faced continued severe competition in fiscal 2007. Including the contribution from Other Products, primarily comprising Itoham’s dairy products and pharmaceutical products, overall division sales had achieved an upturn in fiscal 2006, but this upward trend leveled off in fiscal 2007.

Review of Operations

Our objective is to capture the leading share in the ham and sausage product categories centering on **Alt Bayern** and **Morning Fresh**. We will achieve this by maximizing Itoham's proven technologies and proprietary product development capabilities, and by selling products carefully developed to satisfy customer needs.

Ham and Sausage Division





ALT BAYERN



MORNING FRESH SERIES OF LOIN HAM



DENSHO NO AJI

A Strong Lineup Centered on Alt Bayern and Morning Fresh

Itoham's flagship *Alt Bayern* wieners, certified to Specific Japanese Agricultural Standard (JAS) regulations, are made from top-quality pork cured for over 72 hours using traditional techniques. The result is juicy and aromatic wieners that preserve the full flavor of the original pork. *Alt Bayern* wieners are delivered to customers free of preservatives thanks to strict temperature and quality control. They are complemented by a range of other sausage products including *Pork Bits*, popular for children's lunchboxes as they take only a minute to heat through, *Cheese-In*, which was awarded the Minister of Education, Culture, Sports,

Science and Technology Prize in 2001, the 42nd time this prize was awarded, and *Pole Wiener*, which was awarded the 22nd Long Seller Prize in 2003 by the Japan Food Journal. Additionally, in autumn 2005, Itoham introduced and expanded sales of *Majiuma Arabiki*, which combines the goodness of "skinless" and "coarsely minced pork" wieners, and *Kokuuma Arabiki Pork Wiener*, which offers a thin-skin texture and draws out the deliciousness of pork. In sliced packaged products, which contribute to a good breakfast on busy mornings, products such as the *Morning Fresh* series of loin ham and bacon have proven popular with customers. For some years now, Itoham has responded to

rising concerns about food safety, as well as the special needs of customers with food allergies and the growing number of elderly in Japan. In the fiscal year ahead, we will work to ensure that we offer products with an even higher level of safety and reliability.

Gift Products

Despite a difficult business environment characterized by a contracting market, we offered a lineup of products trusted by customers, including *Roast Beef*, which commands the leading share of this category with its excellent standards of food safety and quality, as well as core brands such as *Densho* and *Houjyun*.

Highlight

New Launch of Sausages with 40% Less Calories, 40-OFF Arabiki Pork

Itoham released a new sausage product in February 2007 which offers "all the juicy flavour with 40% less calories."

Health benefits have become a main priority for a greater number of consumers when choosing products. The abundance of information and products which emphasize the importance of healthy eating reflects this recent trend. Through our market research of housewives, we discovered that a reason often cited for less frequent consumption of wieners was a concern for health, particularly in relation to fat and the calories it contains. To meet the demands of these customers who, although concerned for their health, want to eat delicious sausages, Itoham has developed *40-OFF Arabiki Pork* which retains all the familiar juicy flavor of Itoham sausages while benefiting health with a 40% calorie reduction. Our market research test subjects praised the product, reporting that the sausages were just as delicious as regular ones.



Itoham enforces strict hygiene management standards across all areas of its operations—from the raising of livestock in its proprietary and contract feedlots at home and abroad through to retailing channels. These measures support our brand strategy, which is designed to win the trust of customers by focusing on product safety and reliability.

Fresh Meat Division





GRAIN FED BEEF
(Five Star Beef in New Zealand)



ARIAKE PLANT
(Sankyo Meat Co., Ltd.)



ISO 22000 CERTIFICATE

Establishing and Strengthening Itoham Brands: Delivering Meat that is Safe, Reliable and Delicious

Through consistent management of its products, Itoham aims to provide safe, reliable and delicious meat: We offer flavorsome and high-quality *Berkshire Pork* produced in Kagoshima Prefecture with our *Kagoshima Berkshire Pork Kuro no Takumi* brand; and at Itoham's proprietary feedlots overseas—Rockdale Beef in Australia and Five Star Beef in New Zealand—we employ cattle raising techniques cultivated in-house for *wagyu* (Japanese premium beef) to produce long term and medium term grain-fed cattle. This meat is now being marketed under our new brand, *Grain Fed Beef*, which we launched in February 2007. All the above measures contribute to establishing and strengthening Itoham's own brands.

Acquisition of ISO 22000 Certification for Food Safety Management Systems Supports Itoham's Framework for Supplying Safe and Reliable Foods

In this division, Itoham is pursuing ISO 22000 certification, an international standard for food safety management systems. In December 2005, Sankyo Meat Co., Ltd., an Itoham Group company, acquired ISO22000 for the feedlot and the fresh meat cutting center of its Ariake Plant, becoming the first domestic facility to achieve this certification. Sankyo Meat's Kirishima Meat Plant also won ISO 22000 accreditation, as did the Miyagi Meat Center and Tokyo Meat Center of Group company IH Meat Packers, Co., Ltd. All facilities were certified by Nippon Kaiji Kentei Quality Assurance Limited (NKKKQA). Sankyo Meat's Ariake Plant had already received certifications for ISO 9001, ISO

14001, and Specific Japanese Agricultural Standard (JAS), and was a certified processing center for beef exports to the United States, Canada and Hong Kong. With the new acquisition of ISO 22000, the Ariake Plant has gained broader recognition as having one of the nation's most hygienic facilities and one of the best quality control systems for its feedlots and fresh meat cutting center. ISO 22000 was established as an international standard for food safety management systems in September 2005, and is a standard adapted from Hazard Analysis and Critical Control Point (HACCP) methods, which are based on ISO 9001. Itoham intends to pursue ISO 22000 certification for its production bases in the Fresh Meat Division with the aim of further enhancing its capabilities in the supply of safe and reliable products.

Highlight



The Strong Reputation of Kagoshima Berkshire Pork Kuro no Takumi

Itoham is one of the leading volume suppliers of *Berkshire Pork* in Japan. Sankyo Meat Co., Ltd., an Itoham Group company based in Kagoshima Prefecture, plays a central role in raising Berkshire pigs at its dedicated feedlot, a facility that boasts state-of-the-art technologies. *Berkshire Pork* is derived exclusively from purebred Berkshire pigs which are distinctive due to their entirely black bodies, except for white markings in six places: the tip of their snouts, their trotters and their tails. Under strict management, the pigs are given high-grade feed and fattened over a period of around 240 days. Itoham uses these pigs to supply its *Kagoshima Berkshire Pork Kuro no Takumi* brand. Additionally, Itoham uses a feed mixture containing 15% or more of sweet potato, for a period of two months or longer. Adding this high composition of starchy sweet potato to the feed mixture draws out more of the natural taste and richness of Berkshire pork.

In touch with customers' changing lifestyles, Itoham remains committed to the development of healthy and safe products that are conveniently easy to prepare and high in quality.

Processed Foods and Other Products Division





HAMBURGER



LA PIZZA
(Margherita)



LA PIZZA
(Alt Bayern)

Developing Products That Address Changing Markets

A variety of social changes have gathered momentum in Japan, from the higher percentage of working women and a growing elderly population, to increasingly more diverse household schedules. These changes have also radically transformed the markets for “ready-to-eat meals,” restaurant dining, and meals made at home. Similarly, customer preferences have become more varied, with an emphasis on healthy and safe food, easier preparation, smaller portions, and an insistence on more authentic taste among the emerging trends. To meet these needs, the Processed Foods division

strives to develop safe and healthy food products that are conveniently easy to prepare and high in quality. To this end, in the “ready-to-eat meals” and restaurant markets, two areas with particularly strong growth potential, Itoham is focusing on the development of such prepared dishes as pork cutlets and hamburgers.

Authentic La Pizza Series of Chilled Pizzas Enjoys Strong Reputation

Since its launch in 2003, the authentic *La Pizza* series of chilled pizzas has gained popularity with our customers. When we set out to offer our customers real Napoli pizzas to enjoy easily at home, we paid

close attention to ingredients and methods, and insisted on achieving the right mix of flour and yeast to create the best possible pizza dough. We slowly raised the dough at low temperature, then heated it under a high flame to achieve our signature crust that is crunchy on the outside but soft in the middle. As evidence of their immense popularity, in 2005, Itoham’s *La Pizza* series won the Outstanding Product Prize in the chilled and frozen foods category at the 23rd Hit Food Product Awards, sponsored by the Japan Food Journal. Itoham plans to further increase the enjoyment of its customers by enriching its lineup with new seasonal products.

Highlight

Vegetables with Regular Meals Every Day: New Launch of Yasai o Oishiku Series

In response to customers’ concerns about a lack of vegetables in their diet and their resulting desire to eat more vegetables with regular meals, in February 2007, Itoham launched *Yasai o Oishiku*—a new series of eight products based on the concept of enabling customers to really enjoy eating a greater variety of vegetables.

The *Yasai o Oishiku* series allows customers to prepare a dish easily, by simply adding one or two seasonal vegetables. Each item makes use of vegetables that are in season, remaining on sale for between three and six months, while of the total eight products, two are available throughout the year. The packaging clearly displays the product’s calorie count after cooking and potential allergens, thereby meeting customers’ demands for safety and reliability. While the progress of agricultural technology has made it possible to acquire most vegetables throughout the year, Itoham hopes that by encouraging customers to enjoy Japan’s seasonal vegetables, we can convey to them something which tends to be neglected: the importance and pleasure of good eating.



Citizenship and Environmental Protection Activities

The Itoham Group's Efforts to Promote Food Awareness

These days, the importance of eating properly is often overlooked. But at the Itoham Group, food is our business, and we believe it our mission to convey the happiness and enjoyment of eating, as well as the importance of families eating meals together.

The Itoham Group has adopted these ideas as its basic philosophy, and part of the main message we are communicating to our customers.

We believe that through putting the themes of our food awareness activities into practice, we can make our corporate message, "Full of Smiles," a reality.



Basic Approach to Food Awareness

Philosophy

Itoham will convey the enjoyment of food, and its importance as the basis of a healthy lifestyle. We will emphasize the need for families to eat together as a way of sharing conversation and nurturing family relationships.

Main Message

Spreading the word about food enjoyment

Policy

- We offer safe, reliable and high quality sources of protein
- We support correct eating habits
- We value precious food resources
- We promote a culture of food enjoyment

Corporate Message

Full of Smiles

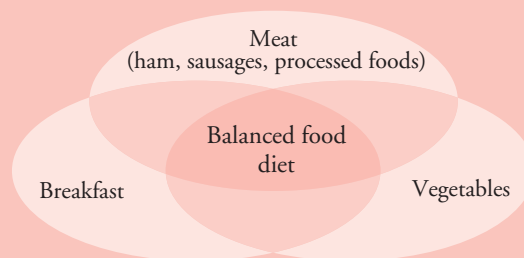
Central Themes of Food Awareness Activities

We suggest:

- eating meat and meat products as a source of high quality protein in a balanced diet
- eating meat and meat products for breakfast, the source of energy for a day's activities
- using meat and meat products to bring out the flavor of vegetables

Suggestions for combining meat products into a balanced food diet.

Meat products are an ideal compliment to breakfast and to vegetables



The important points for advancing our food awareness activities are: "eating meat in the right way;" "eating a good breakfast;" and "eating vegetables." We will conduct business in line with our basic approach, based on our belief that balanced promotion of these three themes will lead to an increase in meat demand.

Citizenship Activities

The Itoham Group as a whole is strongly committed to a range of social contribution activities. These include: promoting environmental conservation efforts including cleanups and forest conservation; supporting the work of UNICEF, mainly through collecting donations; organizing activities to support volunteer work by employees, such as seminars and an award system; and community-oriented initiatives such as contributing funds to areas afflicted by natural disasters both within Japan and overseas. Environmental conservation activities carried out in fiscal 2007 are outlined below.

- Each of Itoham's main operating bases across the country participated in cleanup and environmental conservation activities along coasts, rivers and lake areas as well as in the vicinity of their premises and along main roads. Cleanup projects included: Hokkaido, Tohoku, Kanto, Chubu, Kansai, Kyushu.



- Itoham contributed funds to support conservation activities by Kobe Forest School as part of the conservation project Mount Rokko Forest—The Century Ahead, held in cooperation between local residents, businesses and government. Staff volunteers participated in tree thinning and planting. On April 15, 2007, a log house constructed using lumber from tree thinning was completed. The log house will be used as a base for local residents' forest conservation activities.



- Itoham takes particular care to communicate the importance of food, the environment and nature to children. As part of efforts in this regard, in spring and fall we conducted an event called the Exciting Expedition in Food and Ecology. The event took place at the foot of Mount Kabuto in the Kabutoyama Nature Environment Center run by Nishinomiya City in Hyogo Prefecture.

Environmental Protection Activities

ISO 14001 Certification

Itoham has achieved ISO 14001 certification, the international standard for environmental management, in recognition of its efforts to reduce the environmental impact of its operations and contribute to environmental protection. In Japan, the certification has been awarded to six of Itoham's production plants and four subsidiaries, while two of our production locations abroad have attained the certification.

Social and Environmental Report

Itoham has published a Social and Environmental Report annually since 2000. The report relates our citizenship and environmental protection activities and achievements. The report is available on request at our website (<http://www.itoham.co.jp>).

ISO 14001 Certification Status as of March 2007

ISO 14001 Certified Sites	Registration Date
Nishinomiya Plant	February 2000
Tokyo Plant	September 2000
Toyohashi Plant	November 2000
Rokko Plant	October 2001
Kyushu Plant	February 2002
Funabashi Plant	May 2003
Sankyo Meat Co., Ltd.	March 2002
Itoham Distribution Co., Ltd.	March 2004
Itoham Daily Inc.	
(Tohoku Plant)	May 2004
(Otaru Plant)	April 2006
Itoham Shokuhin Inc.	
(Oyabe Plant)	August 2006
Rockdale Beef Pty. Ltd.	March 2000
Five Star Beef Ltd.	January 2001

Corporate Governance

Itoham aims to be a company that continually strengthens its corporate brand. To wholly fulfill its corporate social responsibility (CSR) and to secure the trust of all its stakeholders, Itoham has enhanced its management structure by strengthening internal control functions, including oversight and supervision, as part of an overall effort to ensure that management carries out accurate decision-making and speedy business policy execution.

Additionally, Itoham is dedicated to the continual enhancement of its comprehensive corporate governance framework. As part of these efforts, the Company intends to upgrade its training and employee education programs to foster greater awareness of compliance. It also plans to increase management transparency through the proactive disclosure of corporate information.

Management System

(1) Board of Directors

The Board of Directors consists of 9 members as of June 28, 2007. In addition to its regular monthly meeting, the Board of Directors convenes special meetings on a timely basis when necessary. The Board of Directors makes decisions on important matters pertaining to the business and affairs of the company and determines business policy.

(2) Management Executive Committee

Itoham has 18 executive officers as of June 28, 2007, including seven that serve concurrently on the Board of Directors. In addition to its regular monthly meeting, the Management Executive Committee convenes special meetings on a timely basis when necessary. The committee assesses the status of the execution of the business and affairs of the company and carries out decision-making.

(3) Corporate Auditors and the Board of Auditors

Itoham has four auditors as of June 28, 2007, comprising two outside auditors and two standing auditors. In addition to attending meetings of the Board of Directors and other important internal meetings, the auditors conduct rigorous audits of the Company, including direct discussions with board members, executive officers, and other key personnel regarding the execution of the business and affairs of the company. In addition, the auditors conduct their audits in close consultation with accounting auditors, receiving timely reports and exchanging opinions regarding audit plans and results.

(4) Internal Auditing

Itoham has established an Internal Auditing Section as an organization under the direct jurisdiction of the president, as well as a Quality Assurance Department within the CSR Department. The Internal Auditing Section conducts internal audits with a broad scope that includes Group companies based on the audit plan. The section also conducts internal audits separate from the plan as necessary. In addition, the Internal Auditing Section reports on audit results and on the status of the internal control system, based on discussion of the audit plan with the auditors. The Quality Assurance Department provides guidance and monitors quality control and hygiene management systems, including those at Group companies, and checks for compliance with all relevant laws and regulations.

(5) Relationship with Outside Auditors

There are no relationships, personal, equity, business or otherwise between Itoham and its outside auditors which are in need of special mention here.

(6) Accounting Audits

Itoham has concluded an auditing contract with the accounting auditor KPMG AZSA & Co. to ensure that impartial and appropriate audits are conducted with respect to compliance with the Japanese Corporate Law and the Japanese Securities and Exchange Law.

(7) Compliance System

Itoham carries out activities, led by the Compliance Promotion Section in the CSR Department, aimed at increasing compliance awareness among all directors and regular employees of the Group, and ensuring that related practices become firmly entrenched in its corporate culture. Information on these activities is posted on the Itoham corporate website. The CSR Committee, chaired by a leading individual from outside the company, conducts checks of Itoham's CSR system from a third-party perspective, and makes recommendations to the Board of Directors based on the results. Additionally, Itoham has formulated Corporate Ethics, a manual which it distributes to all employees as a compliance handbook, and conducts training with regard to compliance with all relevant laws and regulations. Itoham has also taken other steps to enhance its compliance framework, including the establishment of an

internal contact for Compliance Promotion Section, Human Resources Department and external legal counsel for compliance-related advice and consultation.

(8) Disclosure

Itoham fundamentally believes in heightening the overall transparency of management through the proactive disclosure of information to shareholders and all other investors. As such, the Company pursues timely and impartial disclosure through investor relations (IR) activities and publications. Specific steps include posting information on the corporate website, holding briefings, and issuing press releases related to its business activities and business results.

Corporate Ethics

1. Fair and Honest Conduct

Aware of the responsibilities inherent in its role as a member of society, the Itoham Group will always conduct itself in a fair and honest manner in accordance with social norms.

2. Awareness of Ethics and Compliance

Anchored by a law-abiding spirit and a firm commitment to corporate ethics, the Itoham Group will always conduct its business activities with integrity.

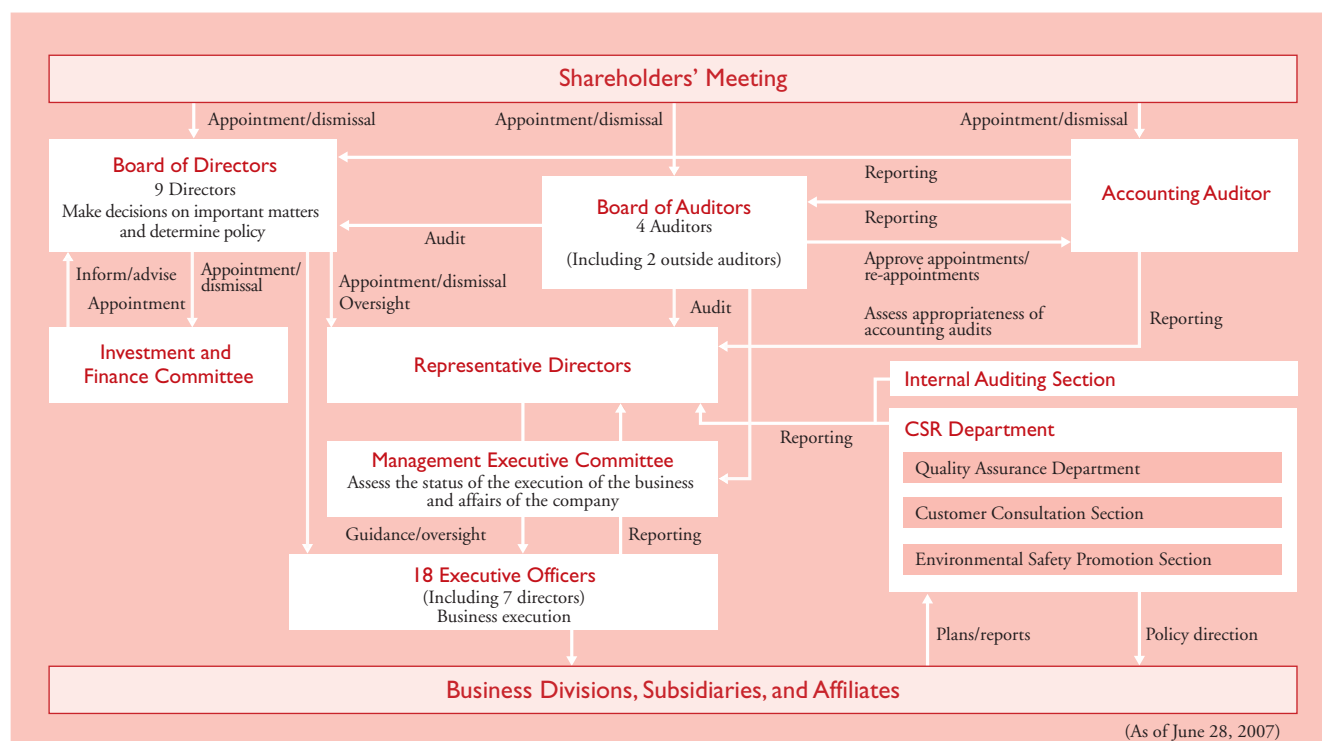
3. Strict Enforcement of Related Laws and Regulations

Based on a commitment to identifying and fully understanding laws and regulations related to its business activities, the Itoham Group will work to ensure compliance with these regulations through strict enforcement using internal regulations, related training and announcements to promote awareness.

4. Rapid Remedial Action and Firm Disciplinary Response to Offenses

In the event that laws, regulations or social norms are contravened during the course of its business activities, the Itoham Group will rapidly take remedial action to correct the offense, work to prevent reoccurrence, and implement a firm disciplinary response.

Corporate Governance Framework



Financial Review

Net Sales

Exports increased during fiscal 2007 on the back of economic growth overseas, while improving corporate profits boosted capital investment, supporting continued moderate growth. Since personal consumption was weak, however, business conditions in the domestic economy were not entirely favorable.

The situation in our industry remained severe. Amid intensifying sales competition, prices remained high for imported pork, the main raw material for products such as ham and sausages. Soaring crude oil prices added further pressure, inflating the cost of packing materials and distribution. Consequently, we struggled to achieve profitability for the second year in a row.

In this climate, we focused on improving profitability by implementing the Itoham Group Revitalization Plan, at the same time introducing price increases of between 7% to 12% (10% on average) in Ham and Sausage and Processed Foods, beginning July 1, 2006. Through measures such as reinforcing cost reduction-oriented management, reducing the number of product items available, and centralizing the pizza production framework by closing the Chubu plant in August 2006, we improved profitability in these two businesses. Furthermore, as part of a move to eliminate non-core and unprofitable operations, we ceased our operations in the internet-related business by the end of September 2006 and by the end of January 2007 had also closed 10 restaurants.

However, fresh meat operations continued to struggle. Sales of imported meat declined amid severe market conditions, as our livestock operations in Australia suffered from surging prices for breeding cattle.

As a result of the foregoing, net sales fell 2.5% to ¥504.3 billion.

In the Ham and Sausage Division, Itoham carried out focused sales activities for core products while working to expand sales of foodservice products for the growing “ready-to-eat meals” and restaurant markets. In Gift Products, we also worked to strengthen promotion of our market-leading *Roast Beef* gift product, as well as of core brands. However,

division sales declined by 1.3% to ¥124.8 billion.

In the Fresh Meat Division, Itoham achieved strong sales for domestically produced meat products. This was a result of efforts to expand sales of *Berkshire Pork* as one of the leading volume suppliers of this brand in Japan, as well as efforts to boost sales of Japanese regional beef produced using an expanded traceability system. However, in imported meat, Australian suppliers’ prices increased due to the tight global supply and demand, which intensified competition with domestic beef, causing a decrease in sales volume. There was also a decline in sales volume for chicken, which was affected by a fall in market prices due to increased market supply. As a result, division sales fell 4.0% to ¥267.3 billion.

In the Processed Foods and Other Products Division, we targeted the growing “ready-to-eat meals” and restaurant markets by working to expand sales. Efforts focused on such priority products as prepared dishes including pork cutlets and hamburgers, and pizza products such as *La Pizza*. Despite these initiatives however, net sales decreased by 0.3% to ¥75.0 billion. Sales by the dairy products, pharmaceutical, restaurant and other businesses rose 0.6% to ¥37.3 billion; overall, division sales remained level with the previous fiscal year, at ¥112.3 billion.

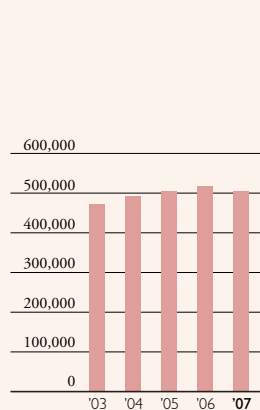
Costs, Expenses and Earnings

Cost of sales decreased ¥15.8 billion to ¥404.8 billion, largely as a result of improved profitability in Ham and Sausage and Processed Foods reflecting steady implementation of the Revitalization Plan. Gross profit increased 2.9% to ¥99.5 billion and the gross profit margin rose one percentage point to 19.7%. Selling, general and administrative (SG&A) expenses decreased 4.0% to ¥96.6 billion, while the ratio of SG&A expenses improved by 0.3 percentage points to 19.2%. As a result, operating income increased ¥6.9 billion to ¥2.9 billion.

In non-operating items, net financial expenses amounted to ¥0.6 billion, slightly above the level of the previous year. Key positive factors in other income and expenses included a gain on sales of property,

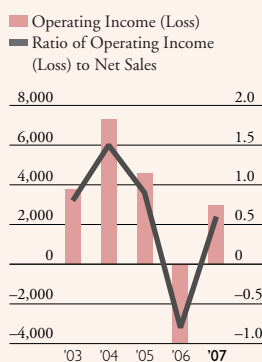
Net Sales

(Millions of yen)



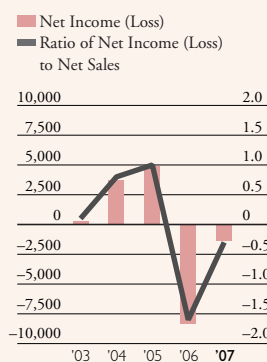
Operating Income (Loss), Ratio of Operating Income (Loss) to Net Sales

(Millions of yen, %)



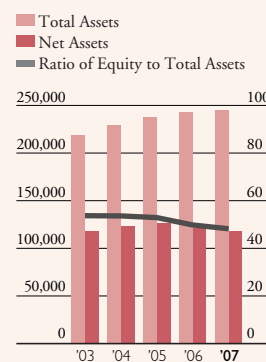
Net Income (Loss), Ratio of Net Income (Loss) to Net Sales

(Millions of yen, %)



Total Assets, Net Assets*2, Ratio of Equity to Total Assets*2

(Millions of yen, %)



plant and equipment, representing an increase of ¥0.8 billion compared to the previous year's loss, and a ¥1.4 billion decline in the loss on impairment of fixed assets. Major negative factors included a decline of ¥0.6 billion in equity in earnings of affiliates, ¥2.1 billion incurred for restructuring expenses, and a ¥0.7 billion reduction in income due to the absence of the previous fiscal year's gain on transfer of the substitutional portion of the social welfare pension insurance scheme. Consequently, the company recorded other expenses, net, of ¥2.0 billion, representing a deterioration of ¥1.6 billion from the previous year.

Income before income taxes and minority interests increased ¥5.3 billion to a ¥0.9 billion. Net loss decreased ¥7.0 billion to a loss of ¥1.4 billion. As a result, the company recorded a net loss per share of ¥6.65.

Financial Condition

Total assets as of March 31, 2007 totaled ¥244.8 billion, ¥1.8 billion higher than at the end of the previous year.

Current assets increased ¥11.1 billion to ¥134.3 billion. This was chiefly attributable to a ¥13.1 billion rise in cash and time deposits, as well as a ¥5.3 billion increase in trade notes and accounts receivable. Inventories decreased by ¥7.5 billion.

Capital investments totaled ¥3.1 billion, primarily reflecting investments to improve production capacity at existing plants. Property, plant and equipment at the fiscal year-end totaled ¥62.7 billion, a decrease of ¥6.1 billion from a year earlier.

Investments and other assets decreased ¥3.0 billion to ¥46.6 billion. This primarily reflected lower stock prices compared with the previous fiscal year-end, which caused investments in securities to decline by ¥2.3 billion, as well as a ¥1.1 billion decrease in deferred tax assets.

Under liabilities and net assets, current liabilities increased ¥17.2 billion to ¥89.3 billion. The major factors were a ¥10.0 billion increase in long-term debt due within one year due to the transfer of bonds maturing within one year from long-term liabilities, and a ¥6.9 billion

increase in notes and accounts payable.

Long-term liabilities declined ¥12.2 billion to ¥36.9 billion, mainly reflecting a ¥10.7 billion decrease in long-term debt due after one year following the transfer of bonds maturing within one year to current liabilities, and a ¥1.2 billion decrease in deferred tax liabilities.

Net assets declined ¥3.2 billion to ¥118.6 billion. The primary factors were a ¥2.2 billion reduction in retained earnings due mainly to the posting of a net loss for the year and a ¥1.4 billion decrease in net unrealized holding gains on securities. The ratio of equity to total assets was 48.2% and the current ratio was 1.50.

Cash Flows

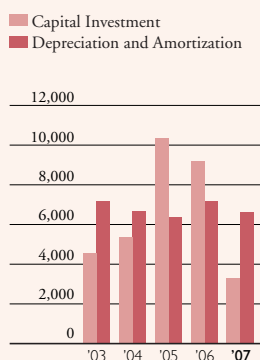
Cash and cash equivalents at the end of the year stood at ¥27.3 billion, ¥12.9 billion higher than a year earlier. While notes and accounts receivable increased, this was outweighed by an increase in notes and accounts payable and a decrease in inventories.

Net cash provided by operating activities was ¥17.7 billion, compared with ¥2.8 billion used in the previous period. The main positive factors were depreciation and amortization of ¥6.7 billion, a non-cash item, a decrease in inventories of ¥7.9 billion and an increase in notes and accounts payable of ¥4.1 billion. The major negative factor was an increase of ¥4.6 billion in notes and accounts receivable.

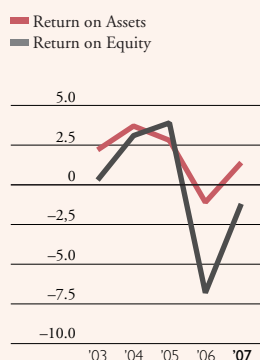
Net cash used in investing activities was ¥2.3 billion, against ¥12.8 billion used in the previous period. Major contributory factors were ¥2.0 billion in proceeds from sale of property, plant and equipment, offsetting cash outflows of ¥3.4 billion for acquisitions of property, plant and equipment to expand production at existing factories.

Net cash used in financing activities was ¥2.6 billion, against net cash provided of ¥5.7 billion in the previous period. The major factors were a net decrease in short-term borrowings and long-term debt of ¥1.7 billion, and dividends paid of ¥0.8 billion.

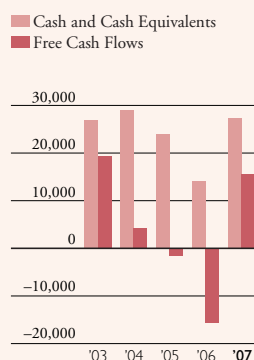
**Capital Investment,
Depreciation and Amortization**
(Millions of yen)



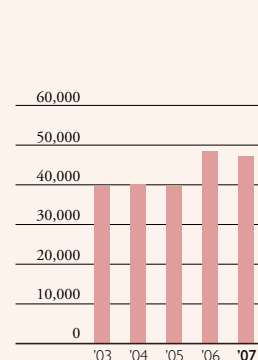
**Return on Assets*¹,
Return on Equity*²**
(%)



**Cash and Cash Equivalents,
Free Cash Flows**
(Millions of yen)



Interest-bearing Debt
(Millions of yen)



*¹ Return on assets is calculated by dividing ordinary income (loss), as recorded in the Japanese-language Consolidated Statements of Operations, by the average of total assets at the start and end of the fiscal year.

*² Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No. 5" issued by the Accounting Standards Board of Japan on December 9, 2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8" issued by the Accounting Standards Board of Japan on December 9, 2005).

Consolidated Balance Sheets

ITOHAM FOODS INC. and Consolidated Subsidiaries—March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and time deposits (Notes 3,9)	¥ 27,545	¥ 14,467	\$ 233,333
Marketable securities (Notes 4,9)	300	—	2,541
Notes and accounts receivables:			
Trade	55,585	50,322	470,860
Other	103	97	873
Allowance for doubtful receivables	(601)	(356)	(5,091)
	55,087	50,063	466,642
Inventories (Note 5)	48,481	55,968	410,682
Deferred tax assets (Note 14)	527	623	4,464
Other current assets	2,357	2,102	19,966
Total current assets	134,297	123,223	1,137,628
Property, plant and equipment:			
Land (Notes 6,9)	20,135	21,196	170,563
Buildings and structures (Notes 6,9)	66,193	68,218	560,720
Machinery and equipment (Note 6)	90,664	94,411	768,014
Livestock	120	181	1,017
Construction in progress	159	95	1,347
	177,271	184,101	1,501,661
Accumulated depreciation	(114,595)	(115,318)	(970,733)
	62,676	68,783	530,928
Intangible assets	1,196	1,433	10,131
Investments and other assets:			
Investments in securities:			
Affiliates	11,110	10,789	94,113
Other (Note 4)	21,269	23,872	180,169
Long-term receivables	3,115	2,834	26,387
Deferred tax assets (Note 14)	1,045	2,130	8,852
Other	11,023	11,632	93,376
Allowance for doubtful receivables	(927)	(1,646)	(7,853)
	46,635	49,611	395,044
	¥ 244,804	¥ 243,050	\$2,073,731

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term borrowings (Note 8)	¥ 8,463	¥ 8,943	\$ 71,690
Long-term debt due within one year (Note 8)	11,136	1,091	94,333
Notes and accounts payable:			
Trade	48,032	43,879	406,878
Construction	892	1,179	7,556
Other	13,651	10,575	115,638
	62,575	55,633	530,072
Accrued expenses	5,035	4,666	42,651
Income taxes payable	858	500	7,268
Deferred tax liabilities (Note 14)	118	8	1,000
Other	1,151	1,304	9,750
Total current liabilities	89,336	72,145	756,764
Long-term liabilities:			
Long-term debt due after one year (Note 8)	27,669	38,387	234,384
Employees' severance and retirement benefits (Note 10)	1,099	1,532	9,310
Directors' and statutory auditors' retirement benefits	782	894	6,624
Deferred tax liabilities (Note 14)	7,054	8,229	59,754
Other long-term liabilities	289	52	2,448
Total long-term liabilities	36,893	49,094	312,520
Contingent liabilities (Note 11)			
Net assets (Notes 2,15):			
Shareholders' equity:			
Common stock:	22,415	22,415	189,877
Authorized—342,013,000			
Issued—210,482,533			
Capital surplus	24,021	24,021	203,481
Retained earnings	63,253	65,473	535,815
Treasury stock, at cost, 2,142,790 shares in 2007 (2,126,823 shares in 2006)	(795)	(787)	(6,734)
Total shareholders' equity	108,894	111,122	922,439
Valuation and translation adjustments:			
Net unrealized holding gains on securities	7,599	9,047	64,371
Net unrealized holding gains on derivative instruments	165	—	1,398
Foreign currency translation adjustments	1,236	979	10,470
Total valuation and translation adjustments	9,000	10,026	76,239
Minority interests	681	663	5,769
Total net assets	118,575	121,811	1,004,447
	¥244,804	¥243,050	\$2,073,731

Consolidated Statements of Operations

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales	¥504,349	¥517,275	\$4,272,334
Cost and expenses:			
Cost of sales	404,803	420,571	3,429,081
Selling, general and administrative expenses	96,602	100,641	818,314
Operating income (loss)	2,944	(3,937)	24,939
Other income (expenses):			
Interest and dividend income	419	325	3,549
Interest expense	(1,005)	(916)	(8,513)
Gain on sales of investments in securities, net	5	45	42
Gain (loss) on sales of property, plant and equipment	766	(26)	6,489
Loss on disposals of property, plant and equipment	(576)	(592)	(4,879)
Gain on transfer of substitutional portion of social welfare pension insurance scheme (Note 10)	—	679	—
Write-down of investment securities	(57)	(31)	(483)
Equity in earnings of affiliates	399	1,032	3,380
Provision for doubtful receivables	(79)	(22)	(669)
Impairment losses on fixed assets (Note 6)	(362)	(1,792)	(3,067)
Restructuring expenses (Note 7)	(2,121)	—	(17,967)
Other, net	616	927	5,218
	(1,995)	(371)	(16,900)
Income (loss) before income taxes and minority interests	949	(4,308)	8,039
Provision for income taxes (Note 14):			
Current	1,274	1,151	10,792
Deferred	1,028	2,859	8,708
Minority interests	(33)	(53)	(280)
Net loss	¥ (1,386)	¥ (8,371)	\$ (11,741)
	Yen		U.S. dollars
Net loss per share	¥ (6.65)	¥ (40.17)	\$ (0.056)
Dividends per share	4.00	4.00	0.034

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$189,877
Balance at end of year	¥22,415	¥22,415	\$189,877
Capital surplus:			
Balance at beginning of year	¥24,021	¥24,021	\$203,481
Balance at end of year	¥24,021	¥24,021	\$203,481
Retained earnings:			
Balance at beginning of year	¥65,473	¥75,511	\$554,621
Net loss for the year	(1,386)	(8,371)	(11,741)
Cash dividends paid	(834)	(1,667)	(7,065)
Balance at end of year	¥63,253	¥65,473	\$535,815
Treasury stock, at cost:			
Balance at beginning of year	¥ (787)	¥ (778)	\$ (6,666)
Purchase of treasury stock	(8)	(9)	(68)
Balance at end of year	¥ (795)	¥ (787)	\$ (6,734)
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 9,047	¥ 5,149	\$ 76,637
Increase (decrease) for the year	(1,448)	3,898	(12,266)
Balance at end of year	¥ 7,599	¥ 9,047	\$ 64,371
Net unrealized holding gains on derivative instruments:			
Balance at beginning of year	¥ —	¥ —	\$ —
Increase for the year	165	—	1,398
Balance at end of year	¥ 165	¥ —	\$ 1,398
Foreign currency translation adjustments:			
Balance at beginning of year	¥ 979	¥ (474)	\$ 8,293
Net increase	257	1,453	2,177
Balance at end of year	¥ 1,236	¥ 979	\$ 10,470
Minority interests:			
Balance at beginning of year	¥ 663	¥ 475	\$ 5,616
Net increase	18	188	153
Balance at end of year	¥ 681	¥ 663	\$ 5,769
Number of shares of common stock issued:		2007	2006
At beginning of year		210,482,533	210,482,533
At end of year		210,482,533	210,482,533

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 949	¥ (4,308)	\$ 8,039
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,728	7,166	56,993
Impairment losses on fixed assets	362	1,792	3,067
Restructuring expenses	1,946	—	16,484
Decrease in employees' severance and retirement benefits	(434)	(524)	(3,676)
Increase (decrease) in allowance for doubtful receivables	(473)	439	(4,007)
Interest and dividend income	(419)	(325)	(3,549)
Interest expense	1,005	916	8,513
Equity in earnings of affiliates	(399)	(1,032)	(3,380)
Write-down of investments in securities	57	31	483
Loss (gain) on sales of property, plant and equipment	(766)	26	(6,489)
Loss on disposals of property, plant and equipment	450	394	3,812
Decrease (increase) in notes and accounts receivable	(4,620)	1,345	(39,136)
Decrease (increase) in inventories	7,922	(6,517)	67,107
Increase in notes and accounts payable	4,124	1,187	34,934
Increase (decrease) in accrued consumption taxes	1,437	(22)	12,173
Other, net	1,392	(1,237)	11,792
	19,261	(669)	163,160
Interest and dividends received	720	690	6,099
Interest paid	(1,014)	(919)	(8,590)
Income taxes paid	(1,509)	(2,174)	(12,783)
Income taxes refunded	288	251	2,440
Net cash provided by (used in) operating activities	17,746	(2,821)	150,326
Cash flows from investing activities:			
Investments in time deposits	(251)	(120)	(2,126)
Proceeds from time deposits	120	205	1,016
Acquisitions of property, plant and equipment	(3,435)	(12,740)	(29,098)
Proceeds from sale of property, plant and equipment	1,982	573	16,789
Acquisitions of intangible assets	(192)	(337)	(1,626)
Payments for purchase of investment securities	(321)	(93)	(2,719)
Proceeds from sale of investment securities	30	194	254
Payment for purchase of investments in subsidiaries	—	(331)	—
Disbursement of loans receivable	(2,049)	(1,825)	(17,357)
Collection of loans receivable	1,721	1,618	14,579
Other, net	124	23	1,050
Net cash used in investing activities	(2,271)	(12,833)	(19,238)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(1,079)	(1,269)	(9,140)
Proceeds from long-term debt	457	9,780	3,871
Repayments of long-term debt	(1,124)	(1,381)	(9,521)
Proceeds from issuance of bonds	—	10,100	—
Redemption of bonds	(20)	(10,010)	(169)
Proceeds from minority shareholders of consolidated subsidiaries	—	135	—
Payments for purchase of treasury stock	(8)	(9)	(68)
Dividends paid	(834)	(1,668)	(7,065)
Dividends paid to minority shareholders of consolidated subsidiaries	(11)	(8)	(93)
Net cash provided by (used in) financing activities	(2,619)	5,670	(22,185)
Effect of exchange rate changes on cash and cash equivalents	90	228	762
Net increase (decrease) in cash and cash equivalents	12,946	(9,756)	109,665
Cash and cash equivalents at beginning of year	14,342	24,098	121,491
Cash and cash equivalents at end of year (Note 3)	¥27,288	¥14,342	\$231,156

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity from the consolidated financial statements of ITOHAM FOODS INC. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant subsidiaries (28 domestic and 9 overseas subsidiaries for 2007, 34 domestic and 8 overseas subsidiaries for 2006) over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates (8 domestic and 5 overseas subsidiaries for 2007, 7 domestic and 5 overseas subsidiaries for 2006) over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for by the equity method.

Nine of the Company's subsidiaries are consolidated using a fiscal period ending December 31. Significant transactions occurring during the January 1 to March 31 period are adjusted in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

All significant intercompany transactions and accounts have been eliminated. The difference between the cost of investments and the equity in the net assets at date of acquisition is amortized over five years.

(2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investment with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value because of changes in interest rates.

(3) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on management's estimate of the bad debt ratio based on past experience plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(4) Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sales of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

Held-to-maturity debt securities and available-for-sale securities maturing within one year from the fiscal year end and highly liquid investment funds are included in marketable securities or cash equivalents in current assets.

If the market value of held-to-maturity debt securities, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of operations in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(5) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost. Cost is determined by the first-in, first-out method for finished products and resale inventories, (except meat), the specific identification method for real estate for sale and breeding cattle, and the moving average method for the remaining inventories.

Inventories of overseas subsidiaries are stated at the lower of cost or market.

(6) Derivatives and hedge accounting

Derivative financial instruments, except those used for hedging purposes, are stated at fair market value. Gains and losses realized on maturity or disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(7) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is mainly provided on a declining balance method over estimated useful life of the asset. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Overseas subsidiaries depreciate their property, plant and equipment using the declining balance method and the straight-line method.

Estimated useful lives of the assets are as follows:

Buildings and structures	15 – 50 years
Machinery and equipment	4 – 9 years

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted “Accounting standards for impairment of fixed assets” (“Opinion on Establishment of Accounting Standards for Impairment of Fixed Assets” issued by the Business Accounting Council Deliberation of Japan on August 9, 2002) and the guidance on accounting standards for impairment of fixed assets (the “Financial Accounting Standard Guidance No. 6” issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the accounting standards and the guidance, loss before income taxes and minority interests for the year ended March 31, 2006 was ¥1,792 million more than what would have been reported under the previous accounting standards.

Accumulated impairment losses are deducted from book values of related fixed assets.

(8) Employees’ severance and retirement benefits

The Company and its consolidated domestic subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and a funded non-contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its consolidated subsidiaries provide for employees’ severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

(9) Directors’ and statutory auditors’ retirement benefits

The liability for directors’ and statutory auditors’ retirement benefits of the Company and certain subsidiaries is provided in the amount which would be required if they retired at the balance sheet date.

(10) Research and development expenses

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, which were ¥1,037 million (\$8,784 thousand) and ¥1,265 million for the years ended March 31, 2007 and 2006, respectively, are charged to income in the period incurred.

(11) Finance leases

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases under Japanese GAAP.

(12) Income taxes

Deferred income taxes are recorded to reflect tax effects of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences.

(13) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except that shareholders’ equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

(14) Amounts per share

The computations of net income (loss) per share of common stock shown on the consolidated statements of operations are based on the weighted average number of shares outstanding during each fiscal year.

Cash dividends per share shown in the consolidated statements of operations are the amounts applicable to the respective years.

Diluted net income is not disclosed because the Company has nothing which might dilute the per share amounts for the years ended March 31, 2007 and 2006.

(15) Accounting standard for presentation of net assets in the balance sheet

Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (“Statement No. 5” issued by the Accounting Standards Board of Japan on December 9, 2005), and “the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet” (the Financial Accounting Standard Implementation Guidance No. 8” issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the “New Accounting Standards”).

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets section. Previously, the balance sheet comprised the assets, liabilities, minority interests and the shareholders’ equity section.

The net assets section comprises three subsections, which are shareholders’ equity, valuation and translation adjustments and minority interests, as applicable.

The net assets section includes items which were not included in the previously presented shareholders’ equity section. The valuation and translation adjustments section included unrealized holding gains on derivative instruments. Minority interests were presented between long-term liabilities and the previously presented shareholders’ equity.

The previously presented shareholders’ equity and certain other balance sheet items for 2006 have been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥663 million are included in the net assets section as of March 31, 2006.

If the New Accounting Standards had not been adopted and the previous presentation method for the shareholders’ equity had been applied, the shareholders’ equity at March 31, 2007 and 2006, which comprised common stock, capital surplus, retained earnings, net unrealized holding gains on securities, foreign currency translation adjustments and treasury stock, at cost, would have been ¥117,729 million (\$997,281 thousand) and ¥121,148 million, respectively.

3. STATEMENTS OF CASH FLOWS

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits on the consolidated balance sheets	¥27,545	¥14,467	\$233,333
Marketable securities on the consolidated balance sheets	300	—	2,541
Time deposits with maturities exceeding 3 months	(257)	(125)	(2,177)
Marketable securities with maturities exceeding 3 months	(300)	—	(2,541)
Cash and cash equivalents on the consolidated statements of cash flows	¥27,288	¥14,342	\$231,156

(b) Available-for-sale securities with available market values

Securities with book values (market values) exceeding acquisition cost

March 31, 2007	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥6,478	¥19,435	¥12,957	\$54,875	\$164,633	\$109,758

Securities with book values (market values) not exceeding acquisition cost

March 31, 2007	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 499	¥ 378	¥ (121)	\$ 4,227	\$ 3,202	\$ (1,025)

Securities with book values (market values) exceeding acquisition cost

March 31, 2006	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥6,611	¥21,962	¥15,351

Securities with book values (market values) not exceeding acquisition cost

March 31, 2006	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 267	¥ 227	¥ (40)

B. The following tables summarize book values of securities with no available market values as of March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Available-for-sale securities			
Non-listed equity securities	¥1,271	¥1,190	\$10,767
Other	185	193	1,567

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2007 and 2006:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Book value	¥—	¥100	\$—
Fair value	—	100	—
Difference	¥—	¥ 0	\$—

Securities with available market values not exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Book value	¥300	¥200	\$2,541
Fair value	300	199	2,541
Difference	¥ (0)	¥ (1)	\$ (0)

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2007 and 2006 mature as follows:

	Within one year	Within five years
March 31, 2007	Millions of yen	
Government bonds	¥ 300	¥ –
Total	¥ 300	¥ –
March 31, 2007	Thousands of U.S. dollars	
Government bonds	\$2,541	\$ –
Total	\$2,541	\$ –
March 31, 2006	Millions of yen	
Government bonds	¥ –	¥300
Corporate bonds	–	10
Total	¥ –	¥310

D. Total sales of available-for-sale securities in the years ended March 31, 2007 and 2006 amounted to ¥9 million (\$76 thousand) and ¥166 million and the related gains amounted to ¥5 million (\$42 thousand) and ¥45 million, respectively.

5. INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products and resale inventories	¥30,229	¥34,752	\$256,070
Raw materials and cattle	18,252	21,216	154,612
	¥48,481	¥55,968	\$410,682

6. IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries recognized impairment losses for the following groups of fixed assets in the year ended March 31, 2007 and 2006.

March 31, 2007

Location	Use	Type of assets
Hyogo Prefecture	Idle assets	Machinery and equipment, Buildings and structures, Land, Other

March 31, 2006

Location	Use	Type of assets
Tokyo Metropolitan	Restaurant	Buildings and structures, Machinery and equipment, Other
Okayama Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Kagoshima Prefecture	Idle land	Land

For the purpose of identifying fixed assets that are impaired, the Company and its consolidated subsidiaries grouped their fixed assets primarily on a division-by-division basis and put rented and idle assets in an independent category.

The Companies reduced the book values to the recoverable values and recognized the reduction in values as impairment losses for the years ended March 31, 2007 and 2006, which consisted of ¥98 million (\$829 thousand) and ¥452 million in Land, ¥160 million (\$1,356 thousand) and ¥1,117 million in Buildings and structures and ¥104 million (\$881 thousand) and ¥180 million in Machinery and equipment.

The recoverable values of fixed assets were measured on the basis of either the present values of expected future cash flows for the remaining useful life of the asset discounted by 6%, or their net selling price based primarily on the road rating evaluated by the National Tax Agency.

7. RESTRUCTURING EXPENSES

The Company and its consolidated subsidiaries recognized special losses pertaining to the implementation of the Itoham Group Revitalization Plan for the following groups of fixed assets in the year ended March 31, 2007.

	Millions of yen	Thousands of U.S. dollars
Impairment losses on fixed assets with closure of production sites	¥1,258	\$10,656
Transference costs of machinery and equipment with the closing of production sites	283	2,397
Withdrawal from internet-related and restaurant businesses	462	3,914
Withdrawal from wine and other businesses	118	1,000

The details of impairment losses on fixed assets with the closing of production sites are as follows:

Location	Use	Type of assets
Aichi Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Mie Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Saitama Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Chiba Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other

For the purpose of identifying fixed assets that are impaired, the Company and its consolidated subsidiaries grouped their fixed assets primarily on a division-by-division basis and put rented and idle assets in an independent category.

The Companies reduced the book values to the recoverable values and recognized the reduction in values as impairment losses with closure of production sites, which consisted of ¥579 million (\$4,905 thousand) in Land, ¥355 million (\$3,007 thousand) in Buildings and structures and ¥317 million (\$2,685 thousand) in Machinery and equipment.

The recoverable values of fixed assets were measured on the basis of either the present values of expected future cash flows for the remaining useful life of the asset discounted by 6%, or their net selling price based primarily on the road rating evaluated by the National Tax Agency.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are generally represented by unsecured notes, with average interest rates of 5.95% and 5.28% at March 31, 2007 and 2006, respectively. Such borrowings are generally renewable at maturity.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Secured:			
Banks, 0.900% – 3.000%, maturing serially through 2012	¥ 990	¥ 1,175	\$ 8,386
Unsecured:			
Banks, 0.980% – 5.740%, maturing serially through 2015	22,745	23,213	192,673
2.11% bonds due 2008	5,000	5,000	42,355
0.65% bonds due 2010	70	90	593
1.15% bonds due 2012	10,000	10,000	84,710
	38,805	39,478	328,717
Less amounts due within one year	11,136	1,091	94,333
	¥27,669	¥38,387	\$234,384

The aggregate annual maturities of long-term debt outstanding at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
March 31		
2008	¥11,136	\$ 94,333
2009	6,009	50,902
2010	1,059	8,971
2011	9,790	82,931
2012 and thereafter	10,811	91,580
	¥38,805	\$328,717

The Companies have overdraft contracts and credit commitments with seven banks with unused credit available to the Companies at March 31, 2007 of ¥20,960 million (\$177,552 thousand).

9. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings of ¥519 million (\$4,396 thousand) and ¥524 million at March 31, 2007 and 2006 and secured long-term debt due within one year and long-term debt due after one year at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land	¥ 503	¥ 503	\$ 4,261
Buildings and structures net of accumulated depreciation	2,233	2,295	18,916

Time deposits of ¥120 million (\$1,017 thousand) and ¥120 million and marketable securities of ¥300 million (\$2,541 thousand) and investments in securities of ¥300 million were pledged for transaction guarantees of ¥120 million (\$1,017 thousand) and ¥120 million and gift certificates of ¥103 million (\$873 thousand) and ¥101 million at March 31, 2007 and 2006.

10. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ 33,286	¥ 34,819	\$ 281,965
Unrecognized actuarial differences	(3,022)	(5,047)	(25,599)
Unrecognized prior service costs	3,808	4,112	32,258
Fair value of pension assets	(37,155)	(35,697)	(314,740)
Prepaid pension costs	4,182	3,345	35,426
Employees' severance and retirement benefits	¥ 1,099	¥ 1,532	\$ 9,310

Included in the consolidated statements of operations for the years ended March 31, 2007 and 2006 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs – benefits earned during the year	¥2,014	¥1,844	\$17,060
Interest cost on projected benefit obligation	685	659	5,803
Expected return on plan assets	(944)	(795)	(7,997)
Amortization of actuarial differences	607	974	5,142
Amortization of prior service costs	(304)	(295)	(2,575)
Severance and retirement benefit expenses	2,058	2,387	17,433
Gain on transfer of substitutional portion of social welfare pension insurance scheme	–	(679)	–
Total	¥2,058	¥1,708	\$17,433

The discount rates and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries were 2.0% and 4.0%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statement of operations using the straight-line method over 12 to 15 years, and past service costs are recognized in expenses in equal amounts over 12 to 15 years.

•Return of the substitutional portion of Social Welfare Pension Insurance
On March 1, 2005, the Company and certain consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to transfer of the substitutional portion of the benefit obligation and related pension plan assets funded in previous years, and, on July 13, 2005, transferred the related portion of the liability reserve to the Japanese government.

As a result, the Company and certain consolidated subsidiaries recognized a gain of ¥679 million for the year ended March 31, 2006 which was the difference between the estimated amount of transfer and the actual balance transferred.

11. CONTINGENT LIABILITIES

At March 31, 2007 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥1,030	\$ 8,725
Other companies	2,201	18,645
	<u>¥3,231</u>	<u>\$27,370</u>

12. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries enter into forward currency exchange contracts to manage risk relating to market fluctuations affecting its importing activities and interest rate swap contracts to manage risk relating to interest rate changes. It is the Company's general policy not to use derivatives for speculation.

Derivative transactions are entered into by each operational division, and the processing of the transactions are controlled and reviewed by administrative divisions, in accordance with established policies that restrict dealing in derivatives, including limits on authority and amounts.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments: Forward currency exchange contracts
: Interest rate swap contracts

Hedged items: Foreign currency trade payables and future commitments
: Interest on loans payable

Information on the derivative financial instrument contracts utilized by the Company outstanding at March 31, 2007 were not disclosed because all such contracts were effectively hedging the transactions.

Below is a summary of the only derivative contract which does not meet the criteria for hedge accounting under Japanese GAAP. The net changes in market value are recorded in the consolidated statements of operations for the years ended March 31, 2006.

Forward currency exchange transactions

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Purchase U.S. dollars			
Contracted amount	¥—	¥315	\$—
Current market amount	—	349	—
Unrealized gains	<u>¥—</u>	<u>¥ 34</u>	<u>\$—</u>

13. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2007 and 2006 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Machinery and equipment	Other	Total	Total
March 31, 2007				
Original lease obligation (including finance charges)	¥9,584	¥1,301	¥10,885	\$92,207
Payments remaining:				
Payments due within one year			¥ 1,814	\$15,366
Payments due after one year			1,809	15,324
Total			<u>¥ 3,623</u>	<u>\$30,690</u>

	Millions of yen		
	Machinery and equipment	Other	Total
March 31, 2006			
Original lease obligation (including finance charges)	¥9,450	¥1,362	¥10,812
Payments remaining:			
Payments due within one year			¥ 1,807
Payments due after one year			2,584
Total			<u>¥ 4,391</u>

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2007 and 2006 were ¥1,950 million (\$16,518 thousand) and ¥2,014 million, respectively.

14. INCOME TAXES

Significant components of the Company and its consolidated subsidiaries's deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Allowance for doubtful receivables	¥ 798	¥ 548	\$ 6,760
Bonuses accrued	1,151	1,118	9,750
Year-end bonuses	116	—	983
Enterprise taxes	45	115	381
Directors' retirement benefits	325	355	2,753
Write-down of investments in securities	600	688	5,083
Write-down of property, plant and equipment	1,038	1,547	8,793
Employees' severance and retirement benefits	2,381	2,252	20,169
Restructuring expenses	572	—	4,845
Loss carry forwards	2,629	2,028	22,270
Other	775	636	6,565
	10,430	9,287	88,352
Less valuation allowance	(8,822)	(6,492)	(74,731)
Total deferred tax assets	1,608	2,795	13,621
Deferred tax liabilities:			
Deferred gains on property, plant and equipment	(1,803)	(1,955)	(15,273)
Net unrealized holding gains on securities	(5,221)	(6,243)	(44,227)
Other	(184)	(81)	(1,559)
Total deferred tax liabilities	(7,208)	(8,279)	(61,059)
Net deferred tax assets (liabilities)	¥ (5,600)	¥(5,484)	\$(47,438)

A reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2007 is as follows:

No figures are shown for 2006 as a net loss was recorded.

	2007
Statutory tax rate	40.6%
Non-deductible expenses	20.6
Non-taxable dividend income	(8.4)
Inhabitants' per capita taxes	13.6
Valuation allowance	175.2
Other	0.9
Effective income tax rate	242.5%

15. NET ASSETS

As described in Note 2 "Accounting Standard for Presentation of Net Assets in the Balance Sheet," net assets comprise three subsections, which are the shareholders' equity, valuation and translation adjustments and minority interests.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the

excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to the other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

16. SEGMENT INFORMATION

Information by business segment is not disclosed because the Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of foods and sales of this business segment exceeded 90% of consolidated net sales for the years ended March 31, 2007 and 2006.

The Company and its consolidated subsidiaries operate mainly within Japan, so regional segment information is not disclosed.

Overseas sales for the years ended March 31, 2007 and 2006 were less than 10% of consolidated net sales.

17. RELATED PARTY TRANSACTIONS

The Company had transactions with Toei Shoji Co., Inc. owned by a director of the Company and his relatives.

Principle transactions between the Company and Toei Shoji Co., Inc. for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Insurance premium paid	¥248	¥267	\$2,101

18. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 27, 2007, the appropriation of the Company's retained earnings for the year ended March 31, 2007 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥4.00 per share)	¥833	\$7,056

Independent Auditors' Report

To the Board of Directors of
ITOHAM FOODS INC.;

We have audited the accompanying consolidated balance sheets of ITOHAM FOODS INC. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOHAM FOODS INC. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

As discussed in Note 6 to the consolidated financial statements, in the year ended March 31, 2006, ITOHAM FOODS INC. and its consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 27, 2007

Itoham Corporate History

1928	Forerunner of Itoham founded as a private food processing enterprise in Osaka
1934	Develops sausages packaged in cellophane
1946	Food processing company established as a limited partnership in Kobe
1947	Develops and begins mass production of pressed ham
1948	Restructures and becomes a public company
1958	Begins the development of ham and sausage products using mutton Becomes first in the industry to import mutton raw ingredients (3,000 tons)
1959	Establishes the Meguro Plant in Tokyo
1960	Establishes the Nishinomiya Plant in Hyogo Prefecture
1961	Changes company name to Ito Ham Provisions Co., Ltd. Lists on the Second Section of the Tokyo and Osaka stock exchanges, and on the Kobe stock exchange (closed October 1967)
1962	Establishes the Toyohashi Plant in Aichi Prefecture
1967	Itoham shares moved to the First Section of the Tokyo and Osaka stock exchanges Establishes the Kyushu Plant in Saga Prefecture Launches an independent cold chain logistics system with the introduction of refrigerated delivery vehicles
1968	Establishes the Tokyo Plant in Kashiwa, Chiba Prefecture
1970	Participates in the Japan World Exposition
1974	Establishes Ito Cariani Sausage Company, Inc. (now Itoham America, Inc.) in San Francisco Launches <i>Palky</i> , a skinless wiener product
1979	Launches <i>Cheese-In</i> , a wiener product with a cheese center
1981	Establishes the Ito Foundation and the Ito Cultural Foundation
1983	Launches a new corporate symbol
1984	Changes company name to Itoham Foods Inc.
1985	Begins sales of the <i>Bayern</i> brand of wieners Establishes Itoham Foods (Australia) Pty. Ltd.
1988	Launches <i>Pork Bits</i> , a wiener product
1989	<i>Pork Bits</i> win a Nikkei Superior Products and Services Award
1990	Sets up the Itoham Central Research Institute in Ibaraki Prefecture
1993	Launches a roast beef product prepared using <i>Sous Vide</i> vacuum sealing and cooking technology
1994	Brings the Rokko Logistics Center on line in Kobe
1997	Opens the Alt-Ito Building in Tokyo as the company's base in the metropolitan area
1998	Launches the <i>Alt Bayern</i> wiener line, which meets Specific Japanese Agricultural Standard (JAS) regulations for cured meat products
1999	<i>Alt Bayern</i> wins a Nikkei Superior Products and Services Award
2001	Signs a Corporate Marketing Partnership agreement with Universal Studios Japan™ <i>Cheese-In</i> wins the Minister for Education, Culture, Sports, Science and Technology Prize
2003	Launches the <i>La Pizza</i> series of real Napoli pizzas
2004	<i>Pole Wiener</i> wins the Long Seller Prize awarded by the Japan Food Journal
2005	The <i>La Pizza</i> series wins the Japan Food Journal's Outstanding Product Prize Establishes the Kobe Plant in Kobe

Corporate Data

Company Name

ITOHAM FOODS INC.

Address

4-27, Takahata-cho, Nishinomiya City,
Hyogo 663-8586, Japan

Tel

0798-66-1231

Homepage

<http://www.itoham.co.jp>

Common Stock

¥22,415 million

Number of Employees

5,317 (Consolidated)

Consolidated Subsidiaries

37

Equity-method Affiliates

13

Major Office and Plants

Tokyo Office
Nishinomiya Plant
Tokyo Plant
Toyohashi Plant
Kyushu Plant

Major Domestic Subsidiaries

Itoham Daily Inc.
Itoham Food Solutions Co., Ltd.
Itoham Sales Inc.
Itoham Meat Sales East Inc.
Itoham Meat Sales West Inc.

Major Overseas Subsidiaries

Itoham America, Inc.
American Peptide Company, Inc.
Itoham Foods (Australia) Pty. Ltd.

Board of Directors

Chairman

Kenichi Ito

President

Chikara Kasai

Directors

Shinichi Yamada ^{*1}
Toshiyuki Fujiyama ^{*1}
Satoru Hirayama ^{*1}
Ryuuichi Miyagawa ^{*2}
Minoru Nose ^{*3}
Shingo Iwamoto ^{*3}
Kazumi Ihara ^{*3}

^{*1} Managing Executive Officer

^{*2} Senior Executive Officer

^{*3} Executive Officer

Standing Auditors

Ryo Matsuoka
Toshio Fujiwara

Auditors

Kenichiro Kensho
Shinobu Okamoto

Executive Officers (Excluding current directors)

Takashi Takechi
Takashi Ishii
Yoshitaka Tanaka
Shiro Ito
Yoshinobu Nakame
Akinobu Saito
Kouichi Ito
Yutaka Shishido
Shu Kusaka
Hiroaki Ikeuchi
Hiromu Fukuyama

(As of June 28, 2007)

(As of March 31, 2007)

Stock Information

Shares

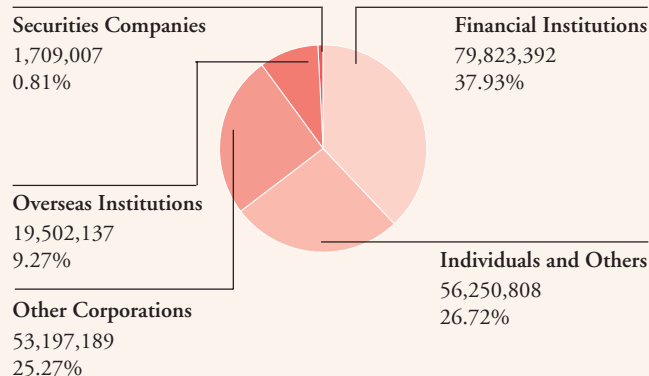
Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533
Number of shareholders	30,248
Shareholder coupon system:	
1. Qualification	Shareholders with 1,000 or more shares
2. Coupon amount	Itoham products worth ¥5,000

Major Shareholders

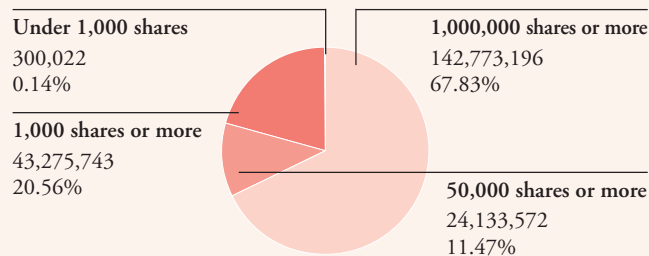
	Number of Shares Held (thousands of shares)	Percentage of Total (%)*
The Master Trust Bank of Japan, Ltd. (Trust Account)	15,283	7.3
The Ito Foundation	12,000	5.7
Japan Trustee Services Bank, Ltd. (Trust Account)	10,423	5.0
Toei Shoji Co., Inc.	10,005	4.8
Kenichi Ito	8,251	3.9
Mitsubishi Corporation	7,656	3.6
Marubeni Corporation	7,099	3.4
Sumitomo Mitsui Banking Corporation	6,303	3.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,303	3.0
The Ito Cultural Foundation	6,200	2.9

* Investment ratio

Breakdown of Shareholders by Type

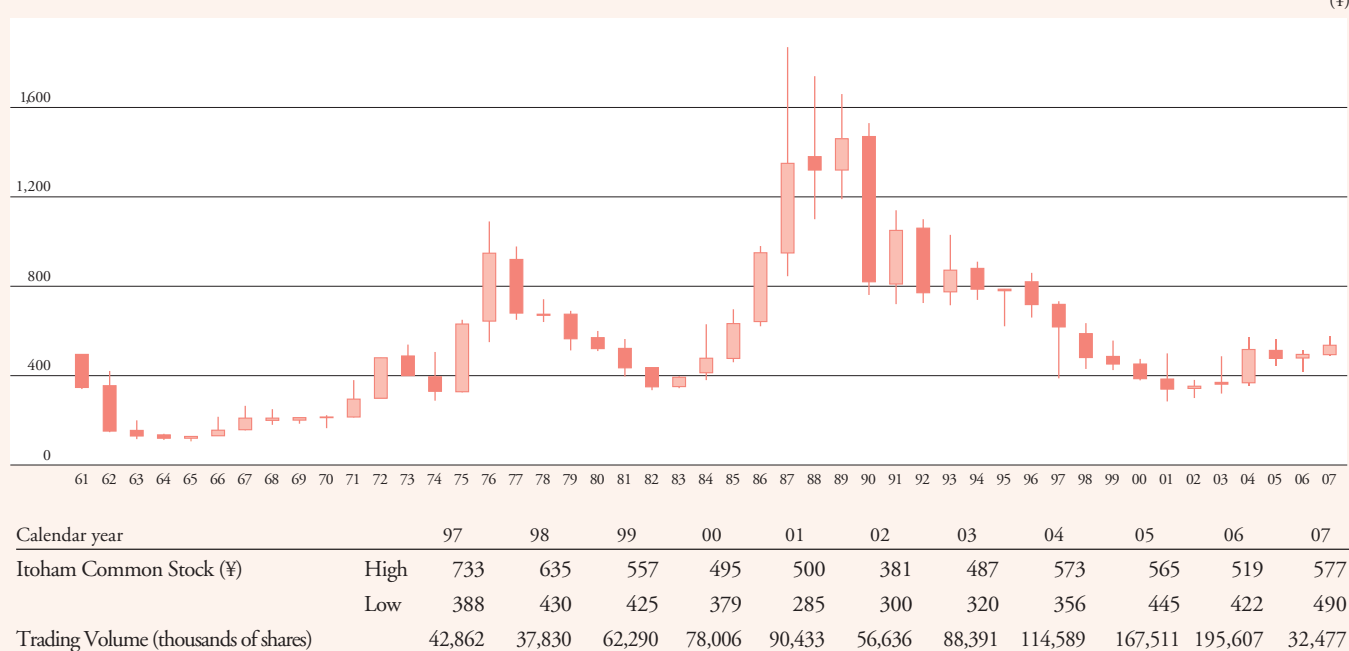


Breakdown of Shareholders by Size of Holding



(As of March 31, 2007)

Common Stock Price Range



Note: The figures for the 2007 calendar year only are for the 3-month period from January 2007 through March 2007.



ITO HAM FOODS INC.

4-27, TAKAHATA-CHO, NISHINOMIYA CITY, HYOGO 663-8586, JAPAN

TEL: 0798-66-1231

[HTTP://WWW.ITOHAM.CO.JP](http://www.itoham.co.jp)



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