ITOHAM FOODS INC.

# Annual Report 2009

Full of Smiles

ITOHAM FOODS INC. Annual Report 2009

# Five-Year Consolidated Financial Highlights

ITOHAM FOODS INC. and Consolidated Subsidiaries

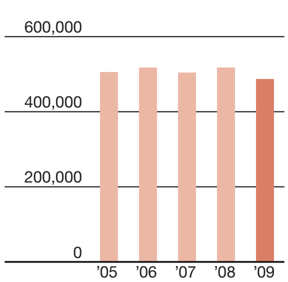
| | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| Years ended or as of March 31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2009 |
| Net sales | ¥505,461 | ¥517,275 | ¥504,349 | ¥517,951 | ¥487,128 | $4,959,055 |
| Cost of sales | 402,429 | 420,571 | 404,803 | 415,427 | 397,263 | 4,044,213 |
| Selling, general and administrative expenses | 98,431 | 100,641 | 96,602 | 96,417 | 92,330 | 939,936 |
| Operating income (loss) | 4,601 | (3,937) | 2,944 | 6,107 | (2,465) | (25,094) |
| Other income (expenses) | 3,108 | (371) | (1,995) | (695) | (2,119) | (21,572) |
| Income (loss) before income taxes and minority interests | 7,709 | (4,308) | 949 | 5,412 | (4,584) | (46,666) |
| Provision for income taxes | | | | | | |
| Current | 1,034 | 1,151 | 1,274 | 2,340 | 1,401 | 14,262 |
| Deferred | 1,748 | 2,859 | 1,028 | (1,388) | 261 | 2,657 |
| Minority interests | (55) | (53) | (33) | (64) | (49) | (499) |
| Net income (loss) | 4,872 | (8,371) | (1,386) | 4,396 | (6,295) | (64,084) |
| Net income (loss) per share (in yen and U.S. dollars) | 23.38 | (40.17) | (6.65) | 21.10 | (30.01) | (0.306) |
| Total assets | 237,866 | 243,050 | 244,804 | 233,667 | 209,885 | 2,136,669 |
| Net assets (Note 3) | 125,844 | 121,148 | 118,575 | 118,556 | 117,437 | 1,195,531 |
| Ratio of equity to total assets (Note 3) | 52.91% | 49.84% | 48.16% | 50.51% | 55.66% | |
| Net assets per share (in yen and U.S. dollars, Note 3) | 603.93 | 581.45 | 565.87 | 566.59 | 476.25 | 4.85 |
| Return on assets (Note 2) | 2.8% | (1.1)% | 1.6% | 2.9% | (0.4)% | |
| Return on equity (Note 3) | 3.9% | (6.8)% | (1.2)% | 3.7% | (5.4)% | |
| Cash dividends | 1,668 | 834 | 834 | 1,042 | 736 | 7,493 |
| Payout ratio | 34.2% | – | – | 23.7% | – | |
| Cash flows from operating activities | 3,804 | (2,821) | 17,746 | 13,221 | (7,728) | (78,672) |
| Cash flows from investing activities | (5,354) | (12,833) | (2,271) | (1,264) | (3,478) | (35,407) |
| Cash flows from financing activities | (2,950) | 5,670 | (2,619) | (7,357) | 5,616 | 57,172 |
| Cash and cash equivalents at end of year | 24,098 | 14,342 | 27,288 | 31,962 | 25,705 | 261,682 |

Notes 1: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥98.23=US$1.00, the rate prevailing on March 31, 2009.

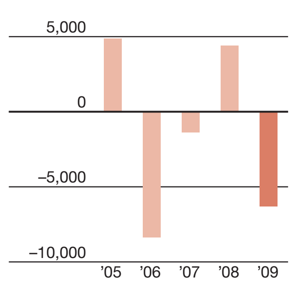
2: Return on assets is calculated by dividing ordinary income (loss), as recorded in the Japanese-language Consolidated Statements of Operations, by the average of total assets at the start and end of the fiscal year.

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).

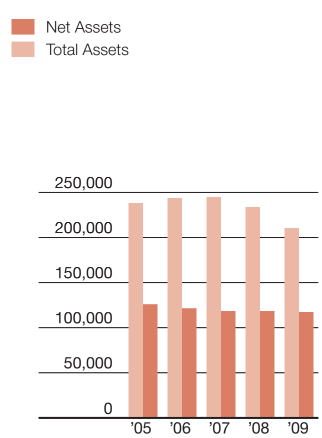
## Net Sales
(Millions of yen)



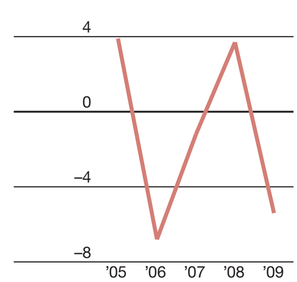

## Net Income (Loss)
(Millions of yen)




## Net Assets and Total Assets
(Millions of yen)




## Return on Equity
(%)



# Itoham's Management Policy

The Itoham Group is aiming to increase corporate value over the long term. To this end, our basic policy is to engage in Company-wide efforts to be a lively and attractive company, one that also contributes to society.

## Company Policy

"Service to Society Through Business"

## Mission

The Itoham Group will communicate the joy, fun and importance of "food" as the foundation of a healthy lifestyle through the provision of products and services imbuing value.

## Management Stance

- We practice rigorous compliance (adherence to corporate ethics) and highly transparent management, aiming to be a company trusted by society.
- We will deliver safe and reliable products to customers.
- We will conduct corporate activities in an environmentally responsible manner.
- We believe that employees are an important asset of a company and therefore aim to create a lively and challenging workplace that emphasizes ability and results.

## Code of Conduct

- We conduct activities in observance with all laws and ordinances and corporate regulations, and with a social conscience.
- We conduct free and vigorous discussions and implement decisions immediately, seeing them through to the end.
- We act voluntarily and constantly embrace new ideas without being constrained by convention.
- We practice the principle of individual responsibility based on an enduring spirit of being strong, ethical and reliable.

## Contents

# Message from the President

Chikara Kasai
President

## Fiscal 2009 Business Results

During the first half of fiscal 2009, the fiscal year ended March 31, 2009, the Japanese economy began to show increasing signs of slowing. Exports and capital investment slackened and personal consumption was weak due to climbing prices for daily living essentials. From September onwards, however, the financial crisis and sudden economic recession originating in the U.S. developed globally. This resulted in an extremely harsh business climate with economic activity including investment, production and consumption stalling and contracting markedly. The business climate in our own industry also became very difficult as the recession began to bite, with consumers becoming even more frugal.

Under these conditions, the Itoham Group embarked on its medium-term management plan for fiscal 2009 through 2011, which is based on the themes of bolstering earnings power and laying the foundations for growth. In doing so we set fresh business performance targets in line with our three key strategies: establishing competitive edges in core businesses, actively developing business in growth fields and enhancing management quality. In the fall of last year, however, we had a problem with contaminated underground water at our Tokyo Plant, which caused great inconvenience not only to consumers, but also to our business partners, shareholders, investors and others. I would like to offer my sincere apologies once again for this incident. Since then, we have taken advice and guidance from the Investigative Committee, comprised of observers from outside the Company, and from regulatory agencies, to clarify the cause, correct deficiencies in our risk management framework, and enhance activities to ensure complete compliance throughout our operations. In this way, we have continued our efforts to prevent any such incident from recurring, to regain trust, and to restore the standing of the Itoham brand.

In the first half of the fiscal year under review, our sales and profits recorded generally steady growth. In the second half, however, the effects of the underground water incident triggered a steep decline in sales, especially of ham and sausages. This was compounded by severe losses associated with the subsequent product recall and halt of operations at the Tokyo Plant, resulting in a rapid deterioration in our profits. In fresh meat, we faced tough challenges in profitability with persistently harsh conditions for our Australian livestock operations and rapid changes in sales environment of poultry when the market price fell heavily after

**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.*

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the summer. As a result, our consolidated net sales for this fiscal year declined overall by 6.0% or ¥30,823 million from the previous fiscal year to ¥487,128 million. This reflected lower sales in all divisions: Ham and Sausage sales fell by 8.5%, Fresh Meat by 5.0%, and Processed Foods and Other Products by 5.5%. Gross profit declined by 12.3% or ¥12,659 million year on year to ¥89,865 million, affected not only by the slump in sales, but by a significant decline in the profitability of our Ham and Sausage operation. Operating income declined ¥8,572 million from the previous fiscal year's ¥6,107 million to a loss of ¥2,465 million. This was despite a ¥4,087 million reduction in selling, general and administrative expenses due to the fall in sales. Other losses include costs related to voluntary recall of products and losses from suspension of plant operations at our Tokyo Plant. When these losses are accounted for, our income before income taxes and minority interests was a negative ¥4,584 million, down ¥9,996 million from last year's ¥5,412 million. The Group's net income for the year was a negative ¥6,295 million, down ¥10,691 million from the previous fiscal year, when we recorded a net income of ¥4,396 million.

The Company considers the return of profits to our shareholders to be an important management consideration, and our basic policy concerning dividends is to continue to return stable dividends taking into account our profits, future business development, and other considerations. We will invest retained earnings effectively, taking a long-term view to sustainable growth, and continue striving to achieve steady business performance and to increase our income.

In light of the significant net loss recorded for the year under review, and to prepare for a harsh business environment going forward, we regret to say that the year-end dividend for fiscal 2009 has been set at ¥3 per share, a reduction of ¥2 from the previous fiscal year.

### Outlook for Fiscal 2010

The economic climate in fiscal 2010 shows no sign of an early recovery from the unprecedented global decline in business conditions. We are seeing investment plans scaled back and frozen due to deterioration in corporate business results, along with widespread activity to reform business structures, including reorganization of and withdrawal from unprofitable businesses and cutting excess production capacity. There are also concerns that personal consumption will weaken due to deterioration in employment stability and income. In short, the economic climate is expected to continue to be harsh.

**For the fiscal year ending March 31, 2010 we are expecting consolidated net sales of ¥484,000 million (down 0.6% year on year), operating income of ¥2,700 million (compared with a loss of ¥2,465 million in the previous fiscal year), and net income of ¥2,000 million (compared with a ¥6,295 million loss).**

In the food industry, we believe that conditions in raw material purchasing will continue to be unpredictable. Some raw materials are expected to increase dramatically in price, despite changes in the global economic situation bringing a degree of calm to the purchasing environment. In sales too, we are expecting competition with rival companies to become even fiercer as we seek to respond to the problem of structural change—whereby domestic demand is shrinking as our society ages—and to consumers seeking lower prices in their increasing efforts to preserve their family finances.

Under these conditions, Itoham will strive to regain the trust of consumers and to restore the standing of our damaged brand. We will make the most of what we have learned from the underground water incident and return to basics, re-examining the compliance awareness of each employee, and building up a record of responsible corporate activities through management based on observance of corporate ethics. We will also strive to achieve our medium-term management plan objectives of bolstering earnings power and laying the foundations for growth. To this end, the ham and sausage and the processed foods business and the fresh meat business will be the two main pillars of our organization as we enhance our marketing capabilities and promote collaboration through business alliances with top-class companies worldwide, as well as undertaking thorough cost management including optimizing the distribution of personnel and reducing expenses.

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In keeping with our basic policy regarding dividends, we plan to leave the dividend for fiscal 2010 unchanged from fiscal 2009 at ¥3 per share.

**Chikara Kasai**
President


## 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.

## Rigorous Compliance

### Top Management Message Forums

The Itoham Group held 11 ‘Top Management Message’ forums from late January through March 2009 at nine venues around Japan to prevent future compliance violations. In these meetings, top management discussed the importance of compliance directly with employees, led by president Chikara Kasai, CSR Division General Manager Takashi Takechi (at that time), and Production Division Senior General Manager Shingo Iwamoto.

In addition to presenting an accurate picture of the Company’s position to employees, these forums were intended to unify the mindsets of all Group employees toward revitalization of the company and provide a forum for the sincere exchange of opinions between management and staff.

President Kasai stressed that rather than simply obeying laws and ordinances, compliance means acting with the confidence that one’s behavior accords with social ethics and is proper from the viewpoint of society. Emphasizing that a proper mindset is vitally important and that the establishment of an emotional bond is tied to the compilation of knowledge, President Kasai asked all employees to communicate closely among themselves and to perform their duties diligently with a shared mindset to create a better company. Senior General Manager Iwamoto explained that all plants are being placed under the Production Division to provide greater assurance on compliance issues to both internal and external stakeholders. General Manager Takechi explained about the Group’s dedication to rapidly narrowing the gap between the Group’s present compliance system and the expectations of society. The forums also provided a venue for lively exchanges of opinions between employees and upper management, including questions from staff in each location around Japan about the need for compliance education and training and the exchange of workers among departments.

### Compliance Training

Following a problem with underground water used at the Tokyo Plant in the fall of 2008, the Production Division conducted more than 90 compliance training seminars at all 16 of the Group’s business sites which were placed under its control in January 2009.

Conducted by members of the Group’s Compliance Promotion Section, these seminars presented the incident at the Tokyo Plant as a case study as part of an overall program to boost compliance awareness.

Participating employees report that they will remember to carry out ‘reporting, contact, and consultation.’ Also that they will keep in mind the content of the seminar as they perform their duties each day as members of the Itoham Group, and comply with all relevant laws and ordinances.

# The Itoham Group's Medium-term Management Strategies

Our three-year medium-term management plan for the Group started in April 2008 focuses our efforts on two basic themes: bolstering earnings power and laying the foundations for growth. Specifically, we are taking steps to establish competitive edges in core businesses, actively develop business in growth fields and enhance management quality. We have adopted quantitative Group targets for the fiscal year ending in March 2011 of ¥550.0 billion in net sales, ordinary income of ¥11.0 billion and a ratio of ordinary income to net sales of 2%. In future we plan to establish a solid management base and improve our structure to enable a ratio of ordinary income to net sales of 3%.

## Basic Strategy

**Establish competitive edges in core businesses**

Strengthen the fresh meat business and the ham and sausage and processed foods business to develop robust profitability regardless of external influences

**Basic Themes**

**Bolster earnings power**
**Lay the foundations for growth**

**Actively develop business in growth fields**

Aim for new growth by promoting development in overseas markets and promising markets likely to offer synergies

**Enhance management quality**

Continuously enhance corporate value and aim to be a company that can contribute to society

## Main management initiatives

**• Organizational Restructuring**

In the past, production and sales functions have been organizationally separated in the ham and sausage and the processed foods business, but we intend to integrate these functions. Structuring our organization around the two main pillars of the ham and sausage and processed food business and the fresh meat business, we will strive to strengthen our marketing capabilities and promote collaboration with top-class companies worldwide through business alliances. We will also work to undertake thorough cost management including optimizing the distribution of personnel and reducing expenses.

**• Overseas Strategy**

In light of the mature nature of the Japanese market, Itoham is eyeing overseas markets as new sales channels for its businesses. In addition to expanding Itoham brand ham and sausage and processed foods in China and ASEAN, we are also collaborating with businesses in these regions to advance local production and sales. In fresh meat, we are aiming to grow our sales network for Itoham brand beef overseas and to further increase our exports of wagyu Japanese beef.

## Concrete Initiatives in the Year Ended March 2009

### Comprehensive Business Alliance Agreement With Mitsubishi Corporation and Yonekyu Corp.

**1. Purpose of the Comprehensive Business Alliance**

In recent years, food prices have fluctuated dramatically on a worldwide scale and consumer interest in food safety and reliability has risen rapidly. These and other dynamics have provided a backdrop for intensifying competition in the food industry as it experiences unprecedented change in the business environment.

Under these circumstances, the three companies have decided to enter into a comprehensive business alliance and will discuss and implement ways to effectively utilize their business resources. Itoham has a nationwide production and distribution network and is strong in consumer products, while Yonekyu has a competitive edge in food products for foodservice use. Meanwhile, Mitsubishi Corporation possesses the ability to procure everything from feed grain to meat on a global basis. Itoham believes that this alliance will lift customer satisfaction and ultimately the corporate value of all three companies.

**2. Details of the Comprehensive Business Alliance**

The three companies will discuss and determine specific details of cooperation in the following fields going forward.

**(1) Procurement**

Study how to effectively source raw materials and supplies using Mitsubishi Corporation's global procurement capabilities.

**(2) Production**

Examine how to best utilize Itoham's and Yonekyu's strengths to develop a production system.

**(3) Distribution**

Look at how the three companies can create an efficient distribution system.

**(4) Other fields to be agreed upon by the three companies**

### Joint Venture Established in Thailand
### —Building a global procurement framework and developing overseas markets—

Itoham joined forces with three other companies, Betagro Public Co., Ltd. of Thailand, Ajinomoto Co., (Thailand) Ltd., and Hoei Bussan Co., Ltd. to establish a joint venture, Itoham Betagro Foods Co., Ltd. on March 6, 2009.

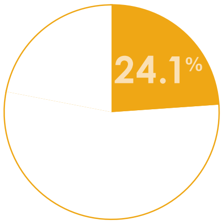
As part of its medium-term management plan, Itoham has identified two key management issues: the development of a global procurement framework and the positioning of overseas markets as a new sales channel for its products in light of the maturing Japanese market. The current joint venture is also integral to the business alliance signed last May between Itoham and Ajinomoto Co., Inc., which is designed to complement each company by taking advantage of their mutual business strengths.

The joint venture dovetails with the two key management issues. Plans for the project include the establishment of a meat processing plant in Thailand, with the ham, sausage and other meat products produced there sold to Japan and within Thailand itself. The sales target for the new company is to have a production volume of roughly 3,400 tons, and approximately ¥1.7 billion in monetary sales, by fiscal 2013, or three years from the start of plant operations. Furthermore, Itoham also intends to launch the sale of its Australian-raised Rockdale Beef as a premium beef brand in Thailand.

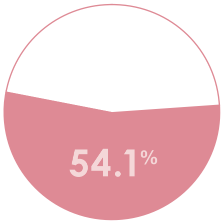
Betagro Public Co., Ltd. is a major food company in Thailand with swine and poultry farming and meat processing operations. The adoption of Itoham meat processing technology made possible through the venture is expected to enhance the company's competitiveness in the production and sale of ham and sausage. The Ajinomoto Group has been broadening its business operations in Thailand, primarily through Ajinomoto Co., (Thailand) Ltd. The new joint venture is expected to bring complementary benefits to the group with respect to the procurement of raw materials and sales cooperation in Thailand. Hoei Bussan, meanwhile, is a wholly owned subsidiary of Itoham involved in the import and export of fresh and processed meat products.

Sales Composition

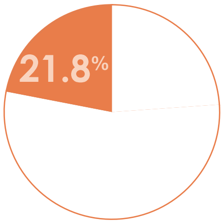
## Ham and Sausage Division



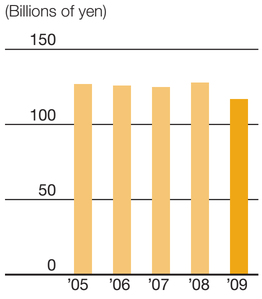

## Fresh Meat Division




## Processed Foods and Other Products Division



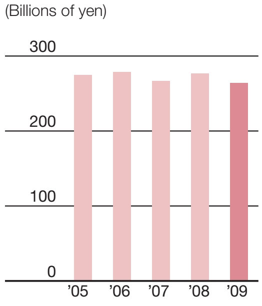
Net Sales




## Business Results for the Fiscal Year Ended March 2009

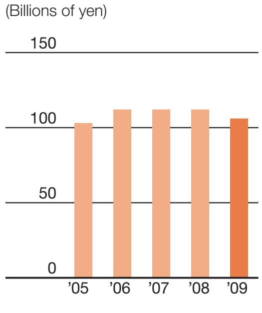
In the first half of the fiscal period results were up year on year, with brisk sales of our flagship products, *Alt Bayern* and our *Morning Fresh* series, followed by strong growth in sales of summer gift products in department stores. In the second half of the period, however, sales declined significantly from November onward because of the underground water incident, which occurred during the lead-up to the busy end-of-year sales activity period. Sales for winter gifts in particular suffered heavily. We responded with efforts to recover sales as soon as possible, employing sales campaigns for flagship products offering more volume for the same price and enhanced measures to stabilize supply of products.

As a result, sales in the Ham and Sausage Division declined 8.5% year on year to ¥117,377 million.




Amid a market trend of increasing frugality, we sought to meet the market need for lower prices in domestic beef by aggressively marketing our cross-bred beef. As a result, domestic beef saw increased sales volume, but lower sales in monetary terms as lackluster sales of high-priced wagyu Japanese beef depressed retail prices. Our sales for imported beef also declined significantly in volume and in value from last year. This was due to a decision to strategically boost sales from our Australian livestock operations within Australia and to other countries, reducing imports to Japan. Domestic and imported pork both secured steady sales as a result of vigorous marketing activity. Chicken saw a drop in sales volume in the second half of the period following a collapse in the market price for imported chicken, but sales in monetary terms were up over the whole period year on year due to strong sales in the first half of the period. Sales at our overseas subsidiaries declined heavily in yen terms year on year influenced by fluctuations in foreign exchange rates.

Overall, sales in our Fresh Meat Division fell 5.0% year on year to ¥263,718 million.




In the Processed Foods division, we saw steady sales of chicken and hamburger products throughout the period, but processed food products produced overseas, such as yakitori (roasted-chicken), saw persistently unsteady sales. Furthermore, sales of our flagship chilled pizza product, *La Pizza*, also declined after November. Consequently, total sales of processed food products declined 4.2% year on year to ¥72,080 million.

In the Other Products division, sales of dairy products and noodles were steady. Meanwhile, in September we sold our pharmaceutical products subsidiary and exited the pharmaceuticals business. This resulted in sales for the other products sector declining 8.3% year on year to ¥33,951 million.

Overall sales for the Processed Foods and Other Products Division fell 5.5% year on year to ¥106,031 million.

# Ham and Sausage Division

The Ham and Sausage Division produces and sells ham, sausage and bacon products. We leverage Itoham's proven technology and proprietary development capabilities to develop and market products focused on customers' needs. In production we employ a quality control system based on rigorous hygiene control standards. Our marketing objective is to capture the leading share in each of our product categories through marketing focused on our core products. In the gift products category we have a product lineup that has won the trust of our customers.

ALT BAYERN

MORNING FRESH SERIES OF LOIN HAM


DENSHO

## 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. They are complemented by a range of other sausage products including *Pork Bits*, popular for children's lunchboxes as they take only one minute to heat through, *Cheese-In*, which was awarded the 42nd Minister of Education, Culture, Sports, Science and Technology Prize in 2001, and *Pole Wiener*, which was awarded the 22nd Long Seller Prize in 2003 by the Japan Food Journal.

Our popular sliced pack products include the *Sawayaka Thin-Slice Pack* series, which can be used in a wide variety of dishes, and the *Morning Fresh* series that contribute to a good breakfast on busy mornings.

In our gift products category, core brands such as *Densho, Houjyun*, and *Roast Beef* have also performed well.

**Highlights**

### *Yasashisa Seikatsu* Ham and Sausage Series Launched
### —A simple way to enjoy the same delicious taste with less salt—

In May 2009, we released our low-salt* *Yasashisa Seikatsu* series of loin hams, bacon and wieners.

Health-consciousness has been rising in recent years, and when we surveyed our customers' opinions about health, the result showed that many are concerned about their salt intake. However, it is extremely difficult to reduce the salt used in manufacturing ham and sausage products without sacrificing taste.

Our solution was to collaborate with our business ally, Ajinomoto Co., Inc., which has developed a technology for reducing salt without sacrificing flavor. We applied their technology, used for manufacturing their healthy salt product *Yasashio*®, in a joint development project employing our livestock processing technology. The result was our *Yasashisa Seikatsu* series, which retains the delicious taste of ham, sausage or bacon while cutting salt by 35%.

Marketed with the slogan "For delicious taste and smiles," the *Yasashisa Seikatsu* brand proposes to customers a healthy, happy lifestyle, enjoying the delicious taste of ham, sausage or bacon. The packaging features a softly colored design intended to evoke this image for the brand.

* 35% cut compared with the Standard Tables of Food Composition in Japan, Fifth Revised and Enlarged Edition

# Fresh Meat Division

Itoham enforces strict hygiene management standards across all areas of its operations—from the raising of livestock in its own directly managed and contract feedlots at home and abroad through to the final product—to ensure product safety and reliability. In our domestic operations, we are expanding relationships with partner farms and leveraging to the utmost our quality-focused brand strategy to aggressively market distinctive products. As a means to further improve quality control and safety, Itoham has acquired ISO 22000 certification and is working to enhance traceability. In overseas operations, we have developed businesses in the U.S., Australia and New Zealand. Through these activities, we are building a business structure capable of responding to market trends.

JAPANESE REGIONAL BEEF

BERKSHIRE PIG


ISO 22000 CERTIFICATE

## Our focus on safety and reliability allows us to deliver high-quality meat produced both in Japan and overseas

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 pigs to supply the Kagoshima Berkshire Pork *Kuro no Takumi* brand at its dedicated feedlot, a facility that boasts state-of-the-art technologies. This brand 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. The pigs are given high-grade feed and fattened over a period of around 240 days. 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 the area of beef, meanwhile, we are expanding sales of high-quality Japanese regional beef brands in cooperation with our production partners. We also sell Japanese regional chicken brands reared for flavor on proprietary feed mixes.

In our overseas beef production business, we conduct sales from Australia to Japan, within Australia, and to other countries. In this way, we are developing our business overseas to adapt to the changing global food environment.

**Highlights**

### Sankyo Meat begins Production of Wagyu Japanese Beef for Singapore Market —Internationalizing the Wagyu Taste—

Group company Sankyo Meat Co., Ltd. is to begin production of wagyu Japanese beef for export to Singapore. The move comes after an announcement by the Ministry of Agriculture, Forestry and Fisheries of Japan that the Sankyo Meat's Ariake Plant had received Singapore Government approval to export meat to Singapore on May 14, 2009. Shipments to Singapore will be handled by Itoham.

Itoham has been actively producing wagyu Japanese beef for export in response to its growing international reputation. Sankyo Meat has been producing wagyu Japanese beef for export to the U.S. since May 2006, for Hong Kong since May 2007, and for Canada since August 2007.

Singapore is said to have a higher per-capita GDP than Japan, being home to many of Asia's wealthiest people. As such, we see Singapore as a promising market with great potential demand for wagyu. We therefore expect our exports to grow as we continue to meet the needs of customers in Singapore.

Going forward, the Itoham Group will continue its efforts to make safe and delicious beef more widely available overseas.

ARIAKE PLANT (Sankyo Meat Co., Ltd.)

# Processed Foods and Other Products Division

Japan is witnessing increasingly rapid societal changes such as a growing percentage of working women, an increasing elderly population, and ever more diverse household schedules. These changes have radically transformed the markets for ready-to-eat meals, restaurant dining, and meals made at home. The Processed Foods division strives to meet a more varied range of customer preferences, with an emphasis on healthy and safe food, easier preparation, smaller portions, and an insistence on more authentic taste among emerging preference trends. We are also expanding our dairy products and noodles businesses in our Other Products division.


GANSO ABURIYAKI CHICKEN
(slow-roasted chicken)

TAKUMI NO SHOKUNIN
BINCHOTANYAKI SHIAGE
HAMBURGERS
(charcoal-grilled hamburgers)


LA PIZZA (Margherita)

## A product lineup that satisfies a wide range of customers' needs

Itoham has created a range of consumer products that safely preserve the natural flavor of the ingredients. The *Ganso Aburiyaki Chicken* (slow-roasted chicken) series is packaged in a germ-free clean room, eliminating the need for a second sterilization and safely creating a more delicious product. The *Takumi no Shokunin Binchotanyaki Shiage Hamburgers* (charcoal-grilled hamburgers) series are gently grilled until they are light brown.

Since its launch in 2003, the authentic *La Pizza* series of chilled pizzas has gained popularity with our customers. To achieve the full flavor of authentic Napolitan pizza crust, we slowly raise the dough at a low temperature, then heat it quickly under a high flame to achieve our signature crust that is crunchy on the outside but soft in the middle. As evidence of its immense popularity, in 2005, Itoham's *La Pizza* series won the Outstanding Product Prize at the Hit Food Product Awards sponsored by the Japan Food Journal.

This division also sells the *Kyosho no Sai* series of ready-prepared meals that make it easy to recreate authentic restaurant dishes at home. A group of top chefs and food experts were called on to help develop the series. Among them were renowned master chefs Rokusaburo Michiba and Tei Keirin, masters of Japanese and Chinese cuisine, respectively.

**Highlights**

### *Yasai wo Oishiku* Series Products Revamped —Delicious Seasonal Vegetables for Everyday Meals—

In April 2009, we completely revamped our *Yasai wo Oishiku* series, launching a new product series. The new series is based on the concept of a tasty, stylish meal with seasonal vegetables that is prepared easily in a single pan.

This series targets the trend-conscious generation of adults in their thirties or forties, with a lineup inspired by popular favorites from the café scene. The packaging evokes the cover of a cook book and appeals to the customer by recreating a sizzling effect.

The pricing has also been changed to a more accessible level. In this way, we aim to stimulate the existing market for chilled convenience food by promoting new purchases while giving customers the fun of choosing.

According to a Ministry of Health, Labour and Welfare national nutrition survey, many people lack the daily intake of vegetables required for health. In an opinion survey, most people felt that they did not eat enough vegetables. This product line therefore meets the needs not only of those who require convenience, but also of those who want to eat more vegetables as part of their normal diet, as well as those who seek popular dishes.

## Itoham Tanzania Support Project

Since its foundation, Itoham has followed its company policy of “Service to Society Through Business” by making safe, high-quality processed meat products more widely available. This has promoted intake of quality animal protein among the people of Japan which has enriched their diets and contributed to longer lifespans.

While healthy diets are the norm in Japan, however, malnutrition remains a global concern. Around 9.2 million children around the world each year do not live to see their fifth birthday, and malnutrition is linked to approximately half of these cases. In Zanzibar, Tanzania, the problem is acute, with malnutrition causing a high mortality rate among children, and preventing education and economic growth.

As part of its activities to contribute to society, Itoham wholeheartedly supports UNICEF in its mission to help children in developing countries.

From fiscal 2009 we donated ¥1 per pack of certain products sold to support a nutrition project implemented by UNICEF and its partners for malnourished children of Zanzibar, Tanzania.

**In the first fiscal year of this program we donated ¥15,667,958 to UNICEF from sales of relevant products between September 1 to October 31, 2008. The program will continue until fiscal 2011.**


For every pack sold we donated ¥1 to UNICEF


We Support

伊藤ハム unicef

伊藤ハムはユニセフを支援します

## Introduction of New Technology for Solar Power Generation

In every part of its business, Itoham is taking steps to protect the environment and achieve coexistence between nature and society. One such initiative intended to help prevent global warming is our installation of solar power generation equipment incorporating new technology on the south side of the roof at our Nishinomiya Plant. The installation is some 62.084 meters long and is designed to generate 30,000kW annually. It went into test operation from February 25, 2009 and commenced full operation from March 12. The system uses a spherical silicon solar cell with a semi-concentration reflector–a new technology that is drawing much attention due its ability to generate equivalent power using only a fifth to a seventh of the silicon needed in a conventional solar cell. This enables us to contribute to conservation of limited resources. The units can also be installed in comparatively smaller spaces as the new design allows high efficiency generation at installation angles of up to 60 degrees, 20 to 30 degrees being the norm.

As a result of this power generation we expect a $CO_2$ reduction of 5,510kg (equivalent to 5.6ha of forest) and crude oil savings of 7,446 liters per year. Installation of the system is part of Itoham’s collaboration in joint research with the New Energy and Industrial Technology Development Organization (NEDO) in its Field Test Project on New Photovoltaic Power Generation Technology FY2008*.

* This project experimentally installs solar power generation systems based on new technology within Japan, operating them long-term. The aim is to verify the efficacy of the systems and aid further reductions in cost and improvements in performance to encourage full uptake.

# Corporate Governance

## Basic Approach to Corporate Governance

Itoham aims to establish reliable corporate governance and highly transparent management. 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.

## Business Policy Execution, Auditing and Oversight

### I. Board of Directors

The Board of Directors consists of 10 members as of June 25, 2009. 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 management of the Company. It also determines business policy and monitors the execution of the business.

### II. Management Executive Committee

Itoham has 16 executive officers as of June 25, 2009, including 4 that serve concurrently as directors responsible for execution of the business. 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.

### III. Corporate Auditors and the Board of Auditors

Itoham has four auditors as of June 25, 2009, 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.

### IV. 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 and Environmental Safety Promotion Section within the CSR Division. 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. The Internal Auditing Section deliberates with the auditors about the outline of the audit plan and makes reports about the status of the internal control system and the results of the audits. The Quality Assurance Department and Environmental Safety Promotion Section provide guidance on and monitor quality control, hygiene management, and environmental management systems, including those at Group companies, and check for compliance with all relevant laws and regulations.

### V. 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 Financial Instruments and Exchange Law.

### VI. Compliance System

Itoham carries out activities, led by the Compliance Promotion Section in the CSR Division, aimed at further increasing compliance awareness among all directors and regular employees of the Group, ensuring that related practices become firmly entrenched in its corporate culture, and strengthening and developing the internal audit system. Information on these activities is posted on the Itoham corporate website. The CSR Committee, chaired by an expert 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, the CSR Liaison Committee, which comprises the managers of all corporate divisions, operates horizontally across the company allowing the sharing of challenges and issues relating to compliance in each department. Compliance leaders work closely with workplace managers in their assigned areas to promote and establish compliance in every operating division. 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 internal contacts for the Compliance Promotion Section and Human Resources Department, as well as external legal counsel for compliance-related advice and consultation.

### VII. 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.

## Internal Control System: Basic Philosophy and Implementation Status

### I. System to ensure that directors' performance of duties is in accordance with laws and regulations and the Company's Articles of Incorporation

(1) The directors work to establish, maintain and enhance an internal control system led by the general manager of the CSR Division. The main entities administering this system are the CSR Committee (chaired by an experienced expert from outside the Company) and the CSR Liaison Committee (comprising the managers of all corporate divisions). As part of the internal control system, the directors have established a system for ensuring compliance, formulating a corporate philosophy and compliance promotion regulations.
(2) The directors work to improve mutual supervision between themselves, and establish a framework to monitor legal compliance in the course of their performance of duties.
(3) In the event that a director becomes aware of any suspected violation within the Company of laws and regulations or the Articles of Incorporation, the director will immediately report the matter to the Board of Directors through the general manager of the CSR Division, based on the judgment of the Crisis Management Committee Chairman.

### II. System to store and manage information regarding directors' performance of duties

Information regarding the directors' performance of duties will be stored and managed in accordance with internal information management regulations. This will be done in an appropriate and reliable manner according to the means used to record the information. The Company will ensure that for at least 10 years the information can be searched as required.

### III. Internal regulations regarding management of risk of loss and other systems

(1) Itoham acknowledges the following types of risk in relation to the conduct of its business. The Company will assess and manage these risks and establish a management system for each individual risk, to include appointing an officer responsible for such management.

1. Risks related to market and foreign exchange rate fluctuations
2. Risks related to investment in, and continuance of, our businesses
3. Risks related to disasters and disease
4. Risks related to the assurance of product quality

(2) Itoham's risk management system will be founded on the Company's own crisis management policies, and the appointment of officers responsible for the management of individual risks.

Itoham will also put in place a system enabling prompt response to mitigate and/or minimize damage in the event of a major crisis. To this end, the Company will establish a crisis management committee chaired by the company president, also forming a liaison team and an external advisory team comprising lawyers as necessary.

### IV. System to ensure that directors perform their duties efficiently

(1) Itoham's system to ensure that directors perform their duties efficiently is founded on regular monthly meetings of the Board of Directors, supplemented by appropriate extraordinary meetings as necessary. Important issues relating to the Company's management policies and strategies will be approved for execution following deliberation by the Board of Directors.
(2) Conduct of business based on decisions of the Board of Directors will be prescribed in the Company's organizational rules and rules relating to division of duties, according to the person concerned, their responsibilities and the details of procedures for execution.

### V. System to ensure that employees' performance of duties are in accordance with laws and regulations and the Articles of Incorporation of the Company

(1) The directors are working to establish, maintain and enhance an internal control system led by the general manager of the CSR Division, The main entities administering this system are the CSR Committee (chaired by an expert from outside the Company) and the CSR Liaison Committee (comprising the managers of all corporate divisions).
(2) To establish and maintain a system for ensuring compliance, Itoham put in place a CSR Division and Internal Auditing Section independent of the divisions responsible for business execution. Individual departments will formulate their own internal regulations and guidelines, conducting training as necessary.
(3) As a system for internally reporting violations of laws and regulations or the Articles of Incorporation, the Company will establish an internal reporting system whereby informants can provide information directly to external lawyers, third-party organizations, or other parties. The system will be governed by the internal reporting regulations.
(4) If the auditors find a problem with regard to the Company's systems for compliance or internal reporting, they will be authorized to express their opinions on the matter and request formulation of remedial measures.

### VI. System to ensure appropriate business conduct at the parent company and its subsidiaries

(1) To ensure appropriate business conduct at group companies, the Company will draw up a code of conduct to codify behavioral guidelines applicable to all group companies.
(2) With regard to business administration, Itoham will determine a basic policy for management of group companies and supervise the management of subsidiaries in line with the subsidiaries internal regulations, monitoring specific subsidiaries as necessary. The

supervision will be by means of a system for reporting to, and seeking approval, from the parent company.
(3) In the event that a director becomes aware of any suspected violation of laws and regulations or the Articles of Incorporation at a group company, the director will immediately report the matter to the Board of Directors through the general manager of the CSR Division, based on the judgment of the Chairman of the Crisis Management Committee.

### VII. System regarding personnel requested as assistants by auditors, and their independence from directors

(1) In the event that auditors request personnel to assist in their duties, an employee of the Company will be appointed as an auditor's assistant under the direction of the auditors.
(2) The appointment of auditors' assistants will be determined by the Board of Directors with the consent of the Board of Auditors.

### VIII. System for reporting to auditors by directors and employees, and others, and System for ensuring that audits can be conducted effectively

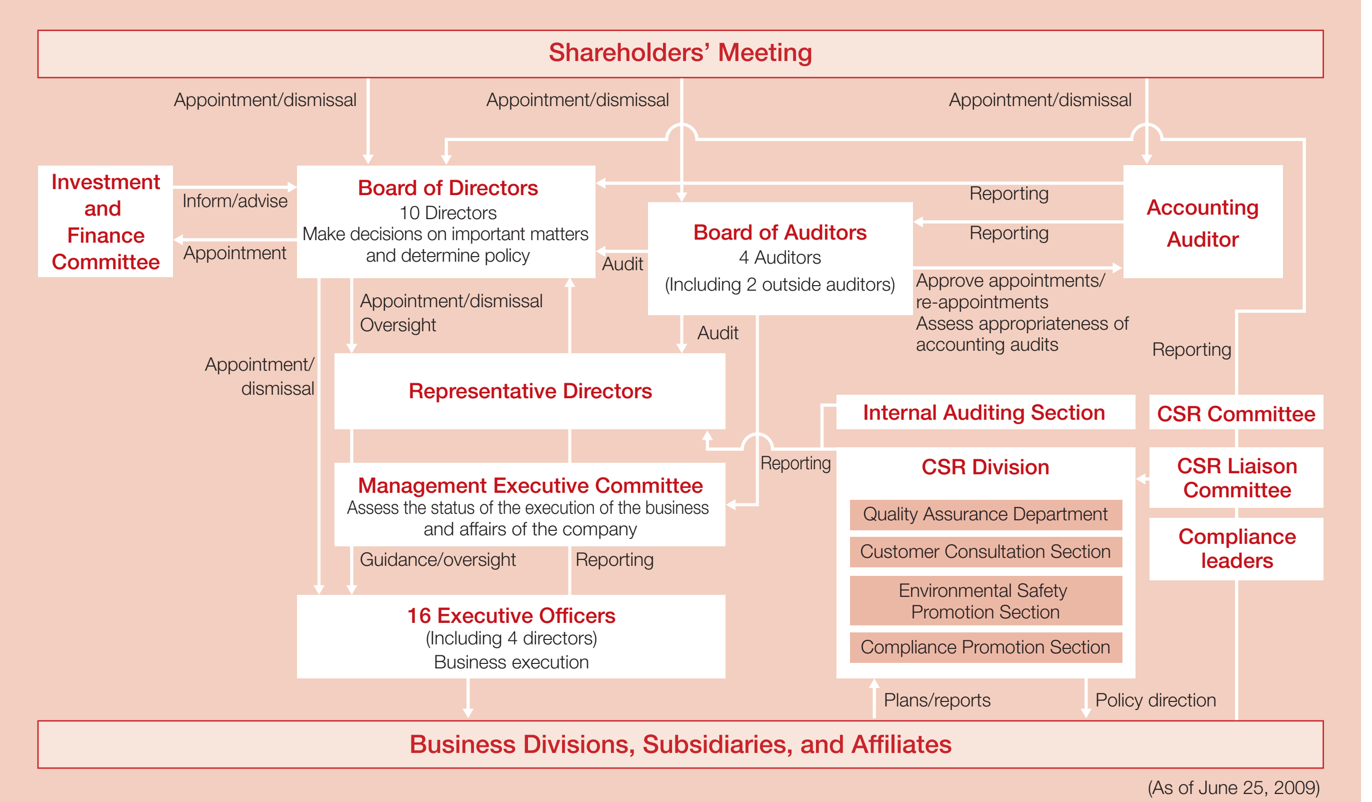
(1) Directors will consult with the Board of Auditors to determine matters to be reported to the auditors. Important matters affecting the Company's operations will be reported to the auditors by directors and employees without delay.
(2) Members of the Board of Auditors will regularly exchange opinions with the representative directors and the accounting auditor, seeking advice from specialist lawyers as necessary.

### IX. Basic approach to excluding antisocial elements and current status

Itoham's basic policy is that the parent company and group companies will be decisive in refusing all inappropriate requests from antisocial elements that threaten social order or public safety, and will under no circumstances associate with these groups.

The General Affairs Department is charged with administering measures to deal with antisocial elements. It collaborates with the police's organized crime units, local authority councils on corporate defense measures, and prefectural centers for the elimination of organized crime groups. Such collaboration enables the department to monitor developments with regard to antisocial elements, exchange information and conduct activities to raise awareness of the issue within the Company. Itoham has also prepared a manual for dealing with antisocial elements, and is taking steps to familiarize employees with it. Further, the Company is putting in place systems to deal with whatever situation may arise so that, in the event of an inappropriate request being made, it can collaborate with outside entities as prescribed in the manual to ensure the security of the Company and those associated with it.

## Corporate Governance Framework




(As of June 25, 2009)

# Financial Review

## Net Sales

During the first half of fiscal 2009, the fiscal year ended March 31, 2009, the Japanese economy began to show increasing signs of slowing. Exports and capital investment slackened and personal consumption was weak due to climbing prices for daily living essentials. From September onwards, however, the financial crisis and sudden economic recession originating in the U.S. developed globally. This resulted in an extremely harsh business climate with economic activity including investment, production and consumption stalling and contracting markedly. The business climate in our own industry also became very difficult as the recession began to bite, with consumers becoming even more frugal.

Under these conditions, the Itoham Group embarked on its medium-term management plan for fiscal 2009 through 2011, which is based on the themes of bolstering earnings power and laying the foundations for growth. In doing so we set fresh business performance targets in line with our three key strategies: establishing competitive edges in core businesses, actively developing business in growth fields and enhancing management quality. In the fall of last year, however, we had a problem with contaminated underground water at our Tokyo Plant, which caused great inconvenience not only to consumers, but also to our business partners, shareholders, investors and others. We would like to offer our sincere apologies once again for this incident. Since then, we have taken advice and guidance from the Investigative Committee, comprised of observers from outside the Company, and from regulatory agencies, to clarify the cause, correct deficiencies in our risk management framework, and enhance activities to ensure complete compliance throughout our operations. In this way, we have continued our efforts to prevent any such incident from recurring, to regain trust, and to restore the standing of the Itoham brand.

In the first half of the fiscal year under review, our sales recorded generally steady growth. In the second half, however, the effects of the underground water incident triggered a steep decline in sales, especially of ham and sausages. As a result, our consolidated net sales for this fiscal year declined overall by 6.0% from the previous fiscal year to ¥487.1 billion.

In the Ham and Sausage Division in the first half of the fiscal period results were up year on year, with brisk sales of our flagship products, followed by strong growth in sales of summer gift products in department stores. In the second half of the period, however, sales declined significantly from November onward because of the underground water incident, which occurred during the lead-up to the busy end-of-year sales activity period. Sales for winter gifts in particular suffered heavily. We responded with efforts to recover sales as soon as possible, employing sales campaigns for flagship products offering more volume for the same price and enhanced measures to stabilize supply of products. As a result, sales in the Ham and Sausage Division declined 8.5% to ¥117.4 billion.

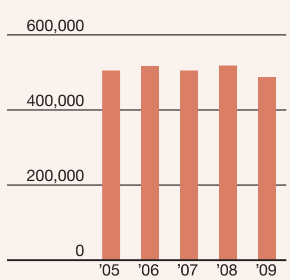
In the Fresh Meat Division, amid a market trend of increasing frugality, we sought to meet the market need for lower prices in domestic beef by aggressively marketing our cross-bred beef. As a result, domestic beef saw increased sales volume, but lower sales in monetary terms as lackluster sales of high-priced wagyu Japanese beef depressed retail prices. Our sales for imported beef also declined significantly in volume and in value from last year. This was due to a decision to strategically boost sales from our Australian livestock operations within Australia and to other countries, reducing imports to Japan. Domestic and imported pork both secured steady sales as a result of vigorous marketing activity. Chicken saw a drop in sales volume in the second half of the period following a collapse in the market price for imported chicken, but sales in monetary terms were up over the whole period year on year due to strong sales in the first half of the period. Sales at our overseas subsidiaries declined heavily in yen terms year on year influenced by fluctuations in foreign exchange rates. As a result, sales in our Fresh Meat Division fell 5.0% to ¥263.7 billion.

In the Processed Foods and Other Products Division, in the Processed Foods division, we saw steady sales of chicken and hamburger products throughout the period, but processed food products produced overseas, such as yakitori (roasted-chicken), saw persistently unsteady sales. Sales of our flagship chilled pizza product, *La Pizza*, also declined after November. Consequently, total sales declined 4.2% to ¥72.1 billion. In the Other Products division, sales of dairy products and noodles were steady. Meanwhile, in September we sold our pharmaceutical products subsidiary and exited the pharmaceuticals business. This resulted in sales for the other products sector declining 8.3% to ¥34.0 billion. Overall sales for the Processed Foods and Other Products Division fell 5.5% to ¥106.0 billion.

## Costs, Expenses and Earnings

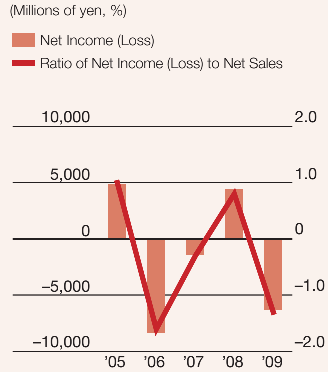
With regard to profits, gross profit declined 12.3% year on year to ¥89.9 billion, reflecting the sharp fall in net sales and significant decline in the profitability of ham and sausages. The gross profit margin slipped 1.4 percentage points to 18.4%.

### Net Sales
(Millions of yen)

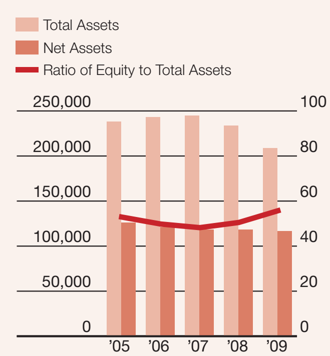



### Operating Income (Loss), Ratio of Operating Income (Loss) to Net Sales
(Millions of yen, %)


### 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, %)



Selling, general and administrative (SG&A) expenses were down 4.2% to ¥92.3 billion due to the decline in sales and other factors, while the ratio of SG&A expenses deteriorated by 0.4 percentage points to 19.0%. As a result, operating income decreased ¥8.6 billion to a loss of ¥2.5 billion.

In non-operating items, net financial expenses amounted to ¥0.3 billion, an improvement of ¥0.2 billion year on year. Key positive factors in other income and expenses included an increase of ¥0.3 billion in income as a result of a decreased loss on disposals of property, plant and equipment and an increase of ¥0.6 billion in equity in earnings of affiliates. Major negative factors included ¥1.2 billion in costs related to voluntary recall of products and ¥1.1 billion in losses from suspension of plant operations. As a result, the company recorded other expenses, net, of ¥2.1 billion, representing a deterioration of ¥1.4 billion from the previous year.

Income before income taxes and minority interests decreased ¥10.0 billion to a loss of ¥4.6 billion, and net income declined ¥10.7 billion to a loss of ¥6.3 billion. Consequently, the company recorded a net loss per share of ¥30.01.

## Financial Condition

Total assets as of March 31, 2009 totaled ¥209.9 billion, ¥23.8 billion lower than at the end of the previous year.

Current assets decreased ¥15.0 billion to ¥117.5 billion. This primarily reflected respective declines of ¥6.2 billion in cash and time deposits, ¥3.7 billion in inventories, and ¥5.1 billion in trade notes and accounts receivable.

Capital investments totaled ¥7.7 billion, chiefly reflecting investments to improve production capacity at existing plants. Property, plant and equipment at the fiscal year-end totaled ¥58.1 billion, a decrease of ¥1.9 billion from a year earlier.

Investments and other assets decreased ¥6.9 billion to ¥33.1 billion. This was chiefly attributable to lower stock prices compared with the previous fiscal year-end, which caused total investments in securities to decline by ¥5.3 billion.

Under liabilities and net assets, current liabilities decreased ¥20.6 billion to ¥60.5 billion. The major factors were a ¥7.3 billion decrease in the total of short-term borrowings and long-term debt due within one year and an ¥11.8 billion decrease in notes and accounts payable.

Long-term liabilities declined ¥2.0 billion to ¥31.9 billion, mainly reflecting a ¥1.8 billion decrease in deferred tax liabilities.

Net assets decreased ¥1.1 billion to ¥117.4 billion. The primary factors were a ¥12.0 billion increase in common stock and the capital surplus as a result of a capital increase, which was offset by a ¥7.3 billion decrease in retained earnings due to posting a net loss for the year, a ¥2.6 billion decrease in net unrealized holding gains on securities and a ¥3.1 billion decrease in foreign currency translation adjustments. The ratio of equity to total assets was 55.7% and the current ratio was 1.94.

## Cash Flows

Cash and cash equivalents at the end of the fiscal year stood at ¥25.7 billion, ¥6.3 billion lower than a year earlier.

### Cash flow from operating activities

Net cash used in operating activities was ¥7.7 billion, compared with net cash provided of ¥13.2 billion in the previous period. In addition to the loss before income taxes and minority interests, cash was increased due to non-cash items of depreciation and amortization of ¥6.5 billion, and a decrease in notes and accounts receivable of ¥3.8 billion, and cash was reduced by a ¥9.7 billion decrease in notes and accounts payable and a ¥0.6 billion increase in inventories.

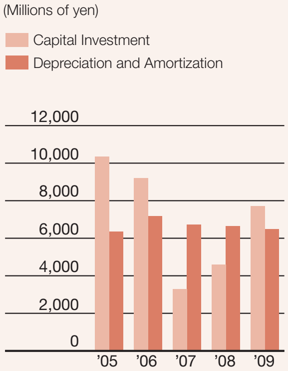
### Cash flow from investing activities

Net cash used in investing activities was ¥3.5 billion, against ¥1.3 billion used in the previous period. Major contributory factors were proceeds from sale of investments in subsidiaries of ¥1.5 billion and proceeds from net decrease in loans receivable of ¥1.6 billion. This was offset by cash outflows of ¥6.8 billion for acquisitions of property, plant and equipment to expand existing plants.

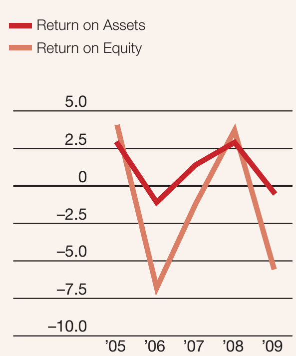
### Cash flow from financing activities

Net cash provided by financing activities was ¥5.6 billion, against ¥7.4 billion used in the previous period. The major factors were ¥12.0 billion in proceeds from the issuance of common stock for private placement subscription, which offset cash outflows of ¥5.0 billion for the redemption of bonds and ¥1.0 billion for dividends paid.

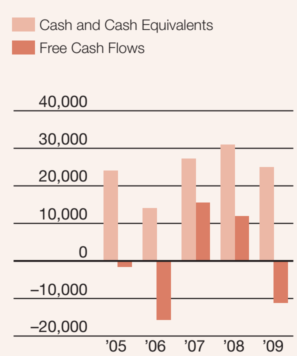
Capital Investment, Depreciation and Amortization
(Millions of yen)



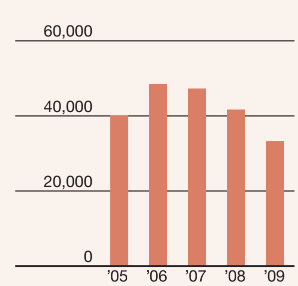

Return on Assets*1, Return on Equity*2
(%)




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, 2009 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2009 | 2008 | 2009 |
| **Current assets:** | | | |
| Cash and time deposits (Notes 3,12) | ¥ 25,934 | ¥ 32,119 | $ 264,013 |
| Notes and accounts receivables: | | | |
| Trade | 45,551 | 50,673 | 463,718 |
| Other | 35 | 133 | 356 |
| Allowance for doubtful receivables | (204) | (339) | (2,077) |
| | 45,382 | 50,467 | 461,997 |
| Inventories (Note 5) | 42,692 | 46,430 | 434,613 |
| Deferred tax assets (Note 17) | 1,580 | 2,222 | 16,085 |
| Other current assets | 1,874 | 1,243 | 19,077 |
| Total current assets | 117,462 | 132,481 | 1,195,785 |
| **Property, plant and equipment:** | | | |
| Land (Notes 7,12) | 19,179 | 19,757 | 195,246 |
| Buildings and structures (Notes 7,12) | 64,304 | 65,603 | 654,627 |
| Machinery and equipment (Note 7) | 88,802 | 89,839 | 904,021 |
| Livestock | 126 | 135 | 1,283 |
| Lease assets | 687 | – | 6,994 |
| Construction in progress | 129 | 439 | 1,313 |
| | 173,227 | 175,773 | 1,763,484 |
| Accumulated depreciation | (115,104) | (115,725) | (1,171,781) |
| | 58,123 | 60,048 | 591,703 |
| **Intangible assets** | 1,163 | 1,099 | 11,840 |
| **Investments and other assets:** | | | |
| Investments in securities: | | | |
| Affiliates | 9,926 | 11,009 | 101,049 |
| Other (Notes 4,12) | 10,617 | 14,841 | 108,083 |
| Long-term receivables | 2,533 | 3,477 | 25,786 |
| Deferred tax assets (Note 17) | 604 | 636 | 6,149 |
| Other | 11,430 | 11,960 | 116,360 |
| Allowance for doubtful receivables | (1,973) | (1,884) | (20,086) |
| | 33,137 | 40,039 | 337,341 |
| | ¥ 209,885 | ¥ 233,667 | $2,136,669 |

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

| LIABILITIES AND NET ASSETS | Millions of yen 2009 | Millions of yen 2008 | Thousands of U.S. dollars (Note 1) 2009 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings (Notes 11,12) | ¥ 6,277 | ¥ 8,654 | $ 63,901 |
| Long-term debt due within one year (Notes 11,12) | 1,156 | 6,078 | 11,768 |
| Notes and accounts payable: | | | |
| Trade | 35,168 | 45,416 | 358,017 |
| Construction | 1,858 | 1,641 | 18,915 |
| Other | 9,915 | 11,686 | 100,936 |
| | 46,941 | 58,743 | 477,868 |
| Lease obligations | 150 | – | 1,527 |
| Accrued expenses | 3,854 | 4,332 | 39,234 |
| Income taxes payable | 1,038 | 2,084 | 10,567 |
| Deferred tax liabilities (Note 17) | 4 | 4 | 41 |
| Other | 1,085 | 1,237 | 11,046 |
| Total current liabilities | 60,505 | 81,132 | 615,952 |
| **Long-term liabilities:** | | | |
| Long-term debt due after one year (Notes 11,12) | 25,901 | 26,931 | 263,677 |
| Lease obligations | 513 | – | 5,222 |
| Employees' severance and retirement benefits (Note 13) | 364 | 684 | 3,706 |
| Directors' and statutory auditors' retirement benefits | 489 | 893 | 4,978 |
| Provision for loss on guarantees | 473 | – | 4,815 |
| Deferred tax liabilities (Note 17) | 2,815 | 4,587 | 28,657 |
| Other long-term liabilities | 1,388 | 884 | 14,131 |
| Total long-term liabilities | 31,943 | 33,979 | 325,186 |
| **Contingent liabilities** (Note 14) | | | |
| **Net assets** (Note 19): | | | |
| Shareholders' equity: | | | |
| Common stock: | 28,428 | 22,415 | 289,402 |
| Authorized—342,013,000 | | | |
| Issued—247,482,533 | | | |
| Capital surplus | 30,033 | 24,021 | 305,742 |
| Retained earnings | 59,478 | 66,815 | 605,497 |
| Treasury stock, at cost, 2,180,735 shares in 2009 (2,161,664 shares in 2008) | (813) | (805) | (8,276) |
| Total shareholders' equity | 117,126 | 112,446 | 1,192,365 |
| Valuation and translation adjustments: | | | |
| Net unrealized holding gains on securities | 1,516 | 4,098 | 15,433 |
| Net unrealized holding losses on derivative instruments | (500) | (269) | (5,090) |
| Foreign currency translation adjustments | (1,317) | 1,757 | (13,407) |
| Total valuation and translation adjustments | (301) | 5,586 | (3,064) |
| Stock acquisition rights (Note 18) | 64 | – | 652 |
| Minority interests | 548 | 524 | 5,578 |
| Total net assets | 117,437 | 118,556 | 1,195,531 |
| | ¥209,885 | ¥233,667 | $2,136,669 |

# Consolidated Statements of Operations

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2009 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| **Net sales** | ¥487,128 | ¥517,951 | $4,959,055 |
| **Cost and expenses:** | | | |
| Cost of sales | 397,263 | 415,427 | 4,044,213 |
| Selling, general and administrative expenses (Note 6) | 92,330 | 96,417 | 939,936 |
| **Operating income (loss)** | (2,465) | 6,107 | (25,094) |
| **Other income (expenses):** | | | |
| Interest and dividend income | 459 | 521 | 4,673 |
| Interest expense | (759) | (1,013) | (7,727) |
| Gain on sales of investments in securities, net | 222 | 370 | 2,260 |
| Gain on sales of property, plant and equipment | 245 | 284 | 2,494 |
| Loss on disposals of property, plant and equipment | (546) | (839) | (5,558) |
| Write-down of investment securities | (57) | (149) | (580) |
| Equity in earnings of affiliates | 1,076 | 430 | 10,954 |
| Impairment losses on fixed assets (Note 7) | (587) | (264) | (5,976) |
| Restructuring expenses (Note 8) | – | (66) | – |
| Payment of customs tariffs | – | (625) | – |
| Costs related to voluntary recall of products (Note 9) | (1,246) | – | (12,685) |
| Losses from suspension of plant operations (Note 10) | (1,080) | – | (10,995) |
| Provision for loss on guarantees | (473) | – | (4,815) |
| Other, net | 627 | 656 | 6,383 |
| | (2,119) | (695) | (21,572) |
| **Income (loss) before income taxes and minority interests** | (4,584) | 5,412 | (46,666) |
| Provision for income taxes (Note 17): | | | |
| Current | 1,401 | 2,340 | 14,262 |
| Deferred | 261 | (1,388) | 2,657 |
| Minority interests | (49) | (64) | (499) |
| **Net income (loss)** | ¥ (6,295) | ¥ 4,396 | $ (64,084) |

| | Yen | | U.S. dollars |
|---|---|---|---|
| Net income (loss) per share | ¥ (30.01) | ¥ 21.10 | $ (0.306) |
| Dividends per share | 3.00 | 5.00 | 0.031 |

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

# Consolidated Statements of Changes in Net Assets

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2009 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| **Common stock:** | | | |
| Balance at beginning of year | ¥22,415 | ¥22,415 | $228,189 |
| Issuance of new shares | 6,013 | – | 61,213 |
| Balance at end of year | ¥28,428 | ¥22,415 | $289,402 |
| **Capital surplus:** | | | |
| Balance at beginning of year | ¥24,021 | ¥24,021 | $244,538 |
| Issuance of new shares | 6,012 | – | 61,204 |
| Balance at end of year | ¥30,033 | ¥24,021 | $305,742 |
| **Retained earnings:** | | | |
| Balance at beginning of year | ¥66,815 | ¥63,253 | $680,189 |
| Net income (loss) for the year | (6,295) | 4,396 | (64,084) |
| Cash dividends paid | (1,042) | (834) | (10,608) |
| Balance at end of year | ¥59,478 | ¥66,815 | $605,497 |
| **Treasury stock, at cost:** | | | |
| Balance at beginning of year | ¥ (805) | ¥ (795) | $ (8,195) |
| Purchase of treasury stock | (8) | (10) | (81) |
| Balance at end of year | ¥ (813) | ¥ (805) | $ (8,276) |
| **Net unrealized holding gains on securities:** | | | |
| Balance at beginning of year | ¥ 4,098 | ¥ 7,599 | $ 41,718 |
| Decrease for the year | (2,582) | (3,501) | (26,285) |
| Balance at end of year | ¥ 1,516 | ¥ 4,098 | $ 15,433 |
| **Net unrealized holding gains (losses) on derivative instruments:** | | | |
| Balance at beginning of year | ¥ (269) | ¥ 165 | $ (2,738) |
| Decrease for the year | (231) | (434) | (2,352) |
| Balance at end of year | ¥ (500) | ¥ (269) | $ (5,090) |
| **Foreign currency translation adjustments:** | | | |
| Balance at beginning of year | ¥ 1,757 | ¥ 1,236 | $ 17,887 |
| Net increase (decrease) | (3,074) | 521 | (31,294) |
| Balance at end of year | ¥ (1,317) | ¥ 1,757 | $ (13,407) |
| **Stock acquisition rights:** | | | |
| Balance at beginning of year | ¥ – | ¥ – | $ – |
| Net increase | 64 | – | 652 |
| Balance at end of year | ¥ 64 | ¥ – | $ 652 |
| **Minority interests:** | | | |
| Balance at beginning of year | ¥ 524 | ¥ 681 | $ 5,334 |
| Net increase (decrease) | 24 | (157) | 244 |
| Balance at end of year | ¥ 548 | ¥ 524 | $ 5,578 |

| Number of shares of common stock issued: | 2009 | 2008 |
|---|---|---|
| At beginning of year | 210,482,533 | 210,482,533 |
| Issuance of new shares | 37,000,000 | – |
| At end of year | 247,482,533 | 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, 2009 and 2008

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| **Cash flows from operating activities:** | | | |
| Income (loss) before income taxes and minority interests | ¥ (4,584) | ¥ 5,412 | $ (46,666) |
| Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 6,496 | 6,637 | 66,131 |
| Impairment losses on fixed assets | 587 | 264 | 5,976 |
| Restructuring expenses | – | 8 | – |
| Decrease in employees' severance and retirement benefits | (319) | (415) | (3,247) |
| Increase in allowance for doubtful receivables | 59 | 1 | 601 |
| Interest and dividend income | (459) | (521) | (4,673) |
| Interest expense | 759 | 1,013 | 7,727 |
| Costs related to voluntary recall of products | 761 | – | 7,747 |
| Losses from suspension of plant operations | 664 | – | 6,760 |
| Equity in earnings of affiliates | (1,076) | (430) | (10,954) |
| Write-down of investments in securities | 57 | 149 | 580 |
| Gain on sales of property, plant and equipment | (245) | (284) | (2,494) |
| Loss on disposals of property, plant and equipment | 287 | 687 | 2,922 |
| Decrease in notes and accounts receivable | 3,770 | 5,682 | 38,379 |
| Decrease (increase) in inventories | (558) | 2,342 | (5,681) |
| Decrease in notes and accounts payable | (9,725) | (3,717) | (99,002) |
| Decrease in accrued consumption taxes | (39) | (1,381) | (397) |
| Other, net | (1,361) | (867) | (13,857) |
| | (4,926) | 14,580 | (50,148) |
| Interest and dividends received | 737 | 836 | 7,503 |
| Interest paid | (813) | (1,023) | (8,276) |
| Income taxes paid | (2,801) | (1,330) | (28,515) |
| Income taxes refunded | 75 | 158 | 764 |
| Net cash provided by (used in) operating activities | (7,728) | 13,221 | (78,672) |
| **Cash flows from investing activities:** | | | |
| Investments in time deposits | (195) | (170) | (1,985) |
| Proceeds from time deposits | 120 | 270 | 1,222 |
| Acquisitions of property, plant and equipment | (6,823) | (3,845) | (69,459) |
| Proceeds from sale of property, plant and equipment | 368 | 860 | 3,746 |
| Acquisitions of intangible assets | (458) | (291) | (4,663) |
| Payments for purchase of investment securities | (76) | (471) | (773) |
| Proceeds from sale of investment securities | 39 | 1,364 | 397 |
| Payments for purchase of investments in subsidiaries | – | (96) | – |
| Proceeds from sale of investments in affiliates | – | 906 | – |
| Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation | 1,527 | – | 15,545 |
| Payments for purchase of stocks of subsidiaries and affiliates | (53) | – | (540) |
| Disbursement of loans receivable | (1,690) | (2,637) | (17,205) |
| Collection of loans receivable | 3,326 | 2,734 | 33,859 |
| Other, net | 437 | 112 | 4,449 |
| Net cash used in investing activities | (3,478) | (1,264) | (35,407) |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term borrowings, net | 552 | (232) | 5,619 |
| Proceeds from long-term debt | 200 | 5,450 | 2,036 |
| Repayments of long-term debt | (1,047) | (11,550) | (10,659) |
| Redemption of bonds | (5,020) | (20) | (51,105) |
| Proceeds from issuance of common stock | 12,025 | – | 122,417 |
| Payments for purchase of treasury stock | (8) | (10) | (81) |
| Purchase of subsidiaries' stock from minority shareholders | – | (149) | – |
| Dividends paid | (1,042) | (834) | (10,608) |
| Repayments of lease obligations | (36) | – | (366) |
| Dividends paid to minority shareholders of consolidated subsidiaries | (8) | (12) | (81) |
| Net cash provided by (used in) financing activities | 5,616 | (7,357) | 57,172 |
| **Effect of exchange rate changes on cash and cash equivalents** | (667) | 74 | (6,790) |
| **Net increase (decrease) in cash and cash equivalents** | (6,257) | 4,674 | (63,697) |
| **Cash and cash equivalents at beginning of year** | 31,962 | 27,288 | 325,379 |
| **Cash and cash equivalents at end of year** (Note 3) | ¥25,705 | ¥ 31,962 | $261,682 |

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 Financial Instruments 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 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 Financial Instruments 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 translations 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, 2009, which was ¥98.23 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 6 overseas subsidiaries for 2009, 30 domestic and 8 overseas subsidiaries for 2008) 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 (5 domestic and 5 overseas subsidiaries for 2009, 6 domestic and 4 overseas subsidiaries for 2008) 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.

Six 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.

Effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of first-in, first-out cost or net realizable value at March 31, 2009.

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

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories". As permitted under the superseded accounting standard, the Company and consolidated domestic subsidiaries previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate.

As a result of the adoption of ASBJ Statement No. 9, operating loss and ordinary loss increased ¥1,256 million ($12,786 thousand), and loss before income taxes and minority interests increased ¥1,421 million ($14,466 thousand) for the year ended March 31, 2009.

(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 lives 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 | 4–10 years |

Effective from the year ended March 31, 2009, the Company and consolidated domestic subsidiaries changed the useful lives of machinery from 4 to 9 years to 4 to 10 years based on the reassessment of the useful lives in light of the change in the Corporation Tax Code of Japan.

As a result, operating loss, ordinary loss and loss before income taxes and minority interests decreased ¥270 million ($2,749 thousand) for the year ended March 31, 2009.

(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) Provision for loss on guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties whose indebtedness has been guaranteed.

(11) 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 ¥655 million ($6,668 thousand) and ¥946 million for the years ended March 31, 2009 and 2008, respectively, are charged to income in the period incurred.

(12) Finance leases

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the estimated useful lives or lease terms, as applicable. However, the Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

On March 31, 2007, the Accounting Standards Board of Japan issued "Accounting standards for lease transactions" (ASBJ Statement No. 13) and "Guidance on Accounting standard for lease transactions" (ASBJ Guidance No. 16). The new accounting standards require that all finance lease transactions must be capitalized. Finance leases, which do not transfer ownership before the applications of these standards, are accounted for in the same manner as operating lease. The effect on operating income, income taxes and minority interests, and net income as a result of applying the new accounting standards has been none.

(13) 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.

(14) 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.

(15) Stock options

The Company has adopted a new accounting standard for stock options. The standard requires companies to account for stock options granted to non-employees based on the fair value of the stock options. In the balance sheet, stock options are presented as stock acquisition rights as a separate component of net assets until exercised.

(16) 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, although there are potential shares, because the Company has reported a net loss per share.

<Changes in accounting procedures for the year ended March 31, 2009>

From the fiscal year ended March 31, 2009, the Company adopted "Practical Solution on Unification of Accounting Policies Applies to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006).

The effect of the change on net income has been minor.

## 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, 2009 and 2008 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Cash and time deposits in the consolidated balance sheets | ¥25,934 | ¥32,119 | $264,013 |
| Time deposits with maturities exceeding 3 months | (229) | (157) | (2,331) |
| Cash and cash equivalents in the consolidated statements of cash flows | ¥25,705 | ¥31,962 | $261,682 |

## 4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2009 and 2008:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Book value | ¥250 | ¥250 | $ 2,545 |
| Fair value | 255 | 255 | 2,596 |
| Difference | ¥ 5 | ¥ 5 | $ 51 |

Securities with available market values not exceeding book values

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Book value | ¥ – | ¥ – | $ – |
| Fair value | – | – | – |
| Difference | ¥ – | ¥ – | $ – |

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

Securities with book values (market values) exceeding acquisition cost

| March 31, 2009 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥5,161 | ¥ 8,272 | ¥ 3,111 |

| March 31, 2009 | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $52,540 | $84,211 | $31,671 |

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

| March 31, 2009 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥1,552 | ¥ 1,181 | ¥ (371) |

| March 31, 2009 | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $ 15,800 | $12,023 | $ (3,777) |

Securities with book values (market values) exceeding acquisition cost

| March 31, 2008 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥5,921 | ¥12,983 | ¥ 7,062 |

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

| March 31, 2008 | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥ 789 | ¥ 638 | ¥ (151) |

B. The following tables summarize book values of securities with no available market values as of March 31, 2009 and 2008:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Available-for-sale securities | | | |
| Non-listed equity securities | ¥762 | ¥791 | $7,757 |
| Other | 152 | 179 | 1,547 |

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2009 and 2008 mature as follows:

| | Within one year | Within five years |
|---|---|---|
| March 31, 2009 | Millions of yen | |
| Government bonds | ¥ – | ¥ 250 |
| Total | ¥ – | ¥ 250 |
| March 31, 2009 | Thousands of U.S. dollars | |
| Government bonds | $ – | $2,545 |
| Total | $ – | $2,545 |

| March 31, 2008 | Within one year | Within five years |
|---|---|---|
| | Millions of yen | |
| Government bonds | ¥ – | ¥ 250 |
| Total | ¥ – | ¥ 250 |

D. Total sales of available-for-sale securities in the years ended March 31, 2009 and 2008 amounted to ¥31 million ($316 thousand) and ¥1,054 million, and the related gains amounted to ¥2 million ($20 thousand) and ¥257 million, respectively.

## 5. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Finished products and resale inventories | ¥24,290 | ¥28,819 | $247,277 |
| Raw materials and cattle | 18,402 | 17,611 | 187,336 |
| | ¥42,692 | ¥46,430 | $434,613 |

## 6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses at March 31, 2009 and 2008 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Salaries and bonuses for employees | ¥21,644 | ¥22,532 | $ 220,340 |
| Delivery expenses | 18,961 | 18,296 | 193,027 |
| Provision for accrued bonuses | 1,618 | 1,921 | 16,472 |
| Severance and retirement benefits expenses | 1,618 | 1,404 | 16,472 |
| Depreciation | 1,298 | 1,453 | 13,214 |

## 7. 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, 2009 and 2008.

March 31, 2009

| Location | Use | Type of assets |
|---|---|---|
| Ibaraki Prefecture | Idle assets | Machinery and equipment, Buildings and structures, Land, other |

March 31, 2008

| Location | Use | Type of assets |
|---|---|---|
| Saitama Prefecture | Idle assets | 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 for the years ended March 31, 2009 and 2008, which consisted of ¥327 million ($3,329 thousand) and ¥161 million in Land, ¥101 million ($1,028 thousand) and ¥92 million in Buildings and structures, ¥10 million ($102 thousand) and ¥11 million in Machinery and equipment and ¥148 million ($1,507 thousand) and ¥1 million in the others.

The recoverable values of fixed assets were measured on the basis of their net selling price based primarily on the road rating evaluated by the National Tax Agency.

## 8. 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, 2008.

| March 31, 2008 | Millions of yen |
|---|---|
| Closing expense of a production site | ¥40 |
| Withdrawal from restaurant businesses | 16 |
| Withdrawal from other businesses | 10 |

## 9. COSTS RELATED TO VOLUNTARY RECALL OF PRODUCTS

The Company and its consolidated subsidiaries recognized special losses related to the voluntary recall of products produced in the Tokyo Plant in the year ended March 31, 2009.

| March 31, 2009 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Loss on disposals of inventories | ¥838 | $8,531 |
| Costs related to noticing and dealing with customers | 312 | 3,176 |
| Other costs | 96 | 977 |

## 10. LOSSES FROM SUSPENSION OF PLANT OPERATIONS

The Company and its consolidated subsidiaries recognized special losses related to the suspension of the Tokyo Plant operations in the year ended March 31, 2009.

| March 31,2009 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Loss on disposals of finished products and raw materials related to suspension of plant operations | ¥640 | $6,515 |
| Compensation for employees and contracting business companies related to suspending plant operations | 349 | 3,553 |
| Other costs | 91 | 926 |

## 11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are generally represented by unsecured notes, with average interest rates of 4.33% and 5.72% at March 31, 2009 and 2008, respectively. Such borrowings are generally renewable at maturity.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Secured: | | | |
| Banks, 0.900%–2.299%, maturing serially through 2013 | ¥ 932 | ¥ 1,031 | $ 9,488 |
| Unsecured: | | | |
| Banks, 0.980%–5.740%, maturing serially through 2015 | 16,095 | 16,928 | 163,850 |
| 2.11% bonds due 2008 | – | 5,000 | – |
| 0.65% bonds due 2010 | 30 | 50 | 305 |
| 1.15% bonds due 2012 | 10,000 | 10,000 | 101,802 |
| | 27,057 | 33,009 | 275,445 |
| Less amounts due within one year | 1,156 | 6,078 | 11,768 |
| | ¥25,901 | ¥26,931 | $263,677 |

The aggregate annual maturities of long-term debt outstanding at March 31, 2009 were as follows:

| March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2010 | ¥ 1,156 | $ 11,768 |
| 2011 | 9,891 | 100,692 |
| 2012 | 451 | 4,591 |
| 2013 | 10,199 | 103,828 |
| 2014 and thereafter | 5,360 | 54,566 |
| | ¥27,057 | $275,445 |

The Companies have overdraft contracts and credit commitments with eight banks with unused credit available to the Companies at March 31, 2009 of ¥31,060 million ($316,197 thousand).

## 12. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings of ¥172 million ($1,751 thousand) and ¥203 million at March 31, 2009 and 2008 and secured long-term debt due within one year of ¥301 million ($3,064 thousand) and ¥271 million and long-term debt due after one year of ¥631 million ($6,424 thousand) and ¥760 million at March 31, 2009 and 2008, respectively, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Land | ¥ 503 | ¥ 503 | $ 5,121 |
| Buildings and structures net of accumulated depreciation | 2,416 | 2,256 | 24,595 |

Time deposits of ¥120 million ($1,222 thousand) and ¥120 million and investments in securities of ¥250 million ($2,545 thousand) and ¥250 million were pledged for transaction guarantees of ¥120 million ($1,222 thousand) and ¥120 million and gift certificates of ¥90 million ($916 thousand) and ¥95 million at March 31, 2009 and 2008.

## 13. 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, 2009 and 2008 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Projected benefit obligation | ¥ 33,393 | ¥ 32,904 | $ 339,947 |
| Unrecognized actuarial differences | (14,327) | (8,127) | (145,851) |
| Unrecognized prior service costs | 3,199 | 3,503 | 32,566 |
| Fair value of pension assets | (27,466) | (32,665) | (279,609) |
| Prepaid pension costs | 5,565 | 5,069 | 56,653 |
| Employees' severance and retirement benefits | ¥ 364 | ¥ 684 | $ 3,706 |

Included in the consolidated statements of operations for the years ended March 31, 2009 and 2008 were severance and retirement benefit expenses comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Service costs–benefits earned during the year | ¥1,778 | ¥ 1,899 | $18,100 |
| Interest cost on projected benefit obligation | 649 | 657 | 6,607 |
| Expected return on plan assets | (934) | (1,032) | (9,508) |
| Amortization of actuarial differences | 885 | 503 | 9,010 |
| Amortization of prior service costs | (304) | (294) | (3,095) |
| Severance and retirement benefit expenses | ¥2,074 | ¥ 1,733 | $21,114 |

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.

Contributory funded multi-employer pension plans
(1) Funded status of pension plans
Four domestic consolidated subsidiaries are participating in a contributory funded multi-employer pension plan and recognizing the required contributions for a period as net pension cost. The total amounts recorded in the financial statements of such plan as of March 31, 2008 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Amount of pension assets | ¥ 30,477 | $ 310,262 |
| Amount of benefit obligation | 46,333 | 471,679 |
| The net balance | ¥(15,856) | $(161,417) |

(2) The ratio of pension premiums expensed from April 1, 2007 to March 31, 2008 by the subsidiaries to the total premium amount was 11.98%.

## 14. CONTINGENT LIABILITIES

At March 31, 2009 the Company was contingently liable as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| As guarantor of indebtedness of: | | |
| Affiliates | ¥1,062 | $ 10,811 |
| Other companies | 2,861 | 29,126 |
| | ¥3,923 | $ 39,937 |

## 15. 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, 2009 and 2008 was not disclosed because all such contracts were effectively hedging transactions.

## 16. FINANCE LEASES

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the estimated useful lives or lease terms, as applicable. However, as permitted and discussed in Note 2.(12), the Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

Information for non-capitalized finance leases at March 31, 2009 and 2008 was as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| March 31, 2009 | Machinery and equipment | Other | Total | Total |
| Original lease obligation (including finance charges) | ¥7,276 | ¥809 | ¥ 8,085 | $82,307 |
| Payments remaining: | | | | |
| Payments due within one year | | | ¥ 676 | $ 6,882 |
| Payments due after one year | | | 841 | 8,561 |
| Total | | | ¥ 1,517 | $15,443 |

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2008 | Machinery and equipment | Other | Total |
| Original lease obligation (including finance charges) | ¥9,241 | ¥ 977 | ¥10,218 |
| Payments remaining: | | | |
| Payments due within one year | | | ¥ 1,320 |
| Payments due after one year | | | 1,417 |
| Total | | | ¥ 2,737 |

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2009 and 2008 were ¥1,318 million ($13,417 thousand) and ¥1,807 million, respectively.

## 17. INCOME TAXES

The Company and its consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2009 and 2008.

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2008 | 2009 |
| Deferred tax assets: | | | |
| Allowance for doubtful receivables | ¥ 2,291 | ¥ 2,436 | $ 23,323 |
| Bonuses accrued | 961 | 1,129 | 9,783 |
| Year-end bonuses | – | 334 | – |
| Enterprise taxes | 39 | 42 | 397 |
| Loss on revaluation of inventories | 577 | – | 5,874 |
| Accrued retirement benefits for directors and statutory auditors | 193 | – | 1,965 |
| Directors' retirement benefits | 168 | 332 | 1,710 |
| Write-down of investments in securities | 607 | 637 | 6,179 |
| Write-down of property, plant and equipment | 867 | 570 | 8,826 |
| Employees' severance and retirement benefits | 1,629 | 1,991 | 16,584 |
| Restructuring expenses | 351 | 516 | 3,573 |
| Net unrealized holding losses on derivative instruments | – | 184 | – |
| Provision for loss on guarantees | 192 | – | 1,955 |
| Loss carryforwards | 3,893 | 1,358 | 39,631 |
| Other | 781 | 871 | 7,951 |
| | 12,549 | 10,400 | 127,751 |
| Less valuation allowance | (10,365) | (7,542) | (105,517) |
| Total deferred tax assets | 2,184 | 2,858 | 22,234 |
| Deferred tax liabilities: | | | |
| Deferred gains on property, plant and equipment | (1,591) | (1,730) | (16,197) |
| Net unrealized holding gains on securities | (1,227) | (2,810) | (12,491) |
| Other | (1) | (51) | (10) |
| Total deferred tax liabilities | (2,819) | (4,591) | (28,698) |
| Net deferred tax assets (liabilities) | ¥ (635) | ¥ (1,733) | $ (6,464) |

A reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2009 is not provided due to the recording of a loss before income taxes and minority interests. This item for the year ended March 31, 2008 was as follows:

| | 2008 |
|---|---|
| Statutory tax rate | 40.6% |
| Non-deductible expenses | 10.9 |
| Non-taxable dividend income | (1.5) |
| Inhabitants' per capita taxes | 2.5 |
| Elimination of dividend income | 11.6 |
| Less valuation allowance | (44.7) |
| Other | (1.8) |
| Effective income tax rate | 17.6% |

## 18. STOCK OPTION PLAN

At March 31, 2009, the Company had the following stock option plan:

| | 2008 plan |
|---|---|
| Date of grant | July 31, 2008 |
| Grantees | 21 (including 9 directors) |
| Type of stock | Common stock |
| Number of shares granted | 114,000 |
| Exercise price (yen) | ¥1 |
| Exercise price (U.S. dollars) | $0.01 |
| Exercise period | August 1, 2008 – July 31, 2038 |
| Fair value (yen) | ¥565 |
| Fair value (U.S. dollars) | $5.75 |

## 19. NET ASSETS

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.

At the annual shareholders' meeting held on June 25, 2009, the shareholders approved cash dividends amounting to ¥736 million ($7,493 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 20. 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 in this business segment exceeded 90% of consolidated net sales for the years ended March 31, 2009 and 2008.

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, 2009 and 2008 were less than 10% of consolidated net sales.

## 21. RELATED PARTY TRANSACTIONS

The Company adopted a new accounting standard entitled "Account Standard for Related Party Disclosures" (Accounting Standards Board of Japan, Statement No. 11) and "Guidance on Accounting Standard for Related Party Disclosures" (Accounting Standards Board of Japan, Guidance No. 13) effective the year ended March 31, 2009. As a result, in addition to the former scope of disclosure, the Company's parent companies and its affiliated companies are added to the scope of disclosure.

1. Transaction with related parties

Transaction with companies submitting consolidated financial statements and related parties.

| Parent company and leading shareholder (only in the case of companies), etc. | |
|---|---|
| Type | Other affiliated companies |
| Name of company, etc. | Mitsubishi Corporation |
| Location | Chiyoda-ku Tokyo |
| Capital stock or investments (millions of yen) | ¥202,817 |
| Content of business | General merchant |
| Held ratio of voting right, etc. (%) | (Owned) Direct 20.29 |
| Relationship with related party | Merchandise resources of fresh meat and raw material |
| Content of transaction | Fresh meat and raw material purchases |
| Value of transaction (millions of yen) | ¥18,428 |
| Item | Accounts payable |
| Year-end balance (millions of yen) | ¥3,229 |

2. Notes in connection with parent company and important affiliated companies

(1) Parent company

N/A

(2) Condensed financial information of important affiliated companies

Important affiliated companies are ANZCO FOODS LTD. and INDIANA PACKERS CORP. Their financial information for the year ended March 31, 2009 is summarized as follows:

| | ANZCO FOODS LTD. (millions of yen) | INDIANA PACKERS CORP. (millions of yen) |
|---|---|---|
| Total current assets | ¥13,517 | ¥ 9,062 |
| Total fixed assets | 16,969 | 12,009 |
| Total current liabilities | 17,289 | 6,651 |
| Total fixed liabilities | 1,947 | 1,487 |
| Total net assets | 11,250 | 12,934 |
| Net sales | 76,323 | 74,737 |
| Net income before income taxes | 1,477 | 2,892 |
| Net income | 1,085 | 1,746 |

## 22. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 25, 2009, an appropriation of the Company's retained earnings for the year ended March 31, 2009 was duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Appropriation: | | |
| Cash dividends (¥3.00 per share) | ¥736 | $7,493 |

# 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, 2009 and 2008, and the related consolidated statements of operations,changes in net assets 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, 2009 and 2008, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 25, 2009

# Directors, Auditors and Executive Officers

**Director and Senior Advisor**
Kenichi Ito

**President**
Chikara Kasai

**Executive Vice President**
Mamoru Horio

**Managing Directors**
Toshiyuki Fujiyama
Satoru Hirayama*1
Takashi Takechi

**Directors**
Shingo Iwamoto*2
Takashi Ishii
Hiroaki Ikeuchi*2
Kiyotaka Kikuchi*2

*1 Managing Executive Officer
*2 Executive Officer

**Standing Auditors**
Ryo Matsuoka
Toshio Fujiwara

**Auditors**
Kenichiro Kensho
Shinobu Okamoto

**Executive Officers (Excluding current directors)**
Kazumi Ihara*3
Kazuhiko Tamura
Yoshihito Fujiwara
Hisanori Nakajima
Kenichi Ichida
Kouichi Ito
Yoshinobu Nakame
Teiji Murata
Yutaka Shishido
Hideo Haraguchi
Hiromu Fukuyama
Masaki Hiraoka

*3 Managing Executive Officer

(As of June 25, 2009)

# Itoham Corporate History

| | |
|---|---|
| 1928 | Forerunner of Itoham founded as a private food processing enterprise in Osaka |
| 1934 | Develops sausages packaged in cellophane (now known as *Pole Wiener*) |
| 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<br>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.<br>Lists on the Second Section of the Tokyo and Osaka stock exchanges, and on the Kobe stock exchange (closed October 1967) |
| 1967 | Itoham shares moved to the First Section of the Tokyo and Osaka stock exchanges |
| 1970 | Participates in the Japan World Exposition |
| 1974 | Launches *Palky*, a skinless wiener product |
| 1979 | Launches *Cheese-In*, a wiener product with a cheese center |
| 1984 | Changes company name to Itoham Foods Inc. |
| 1985 | Begins sales of the *Bayern* brand of wieners |
| 1989 | *Pork Bits* win a Nikkei Superior Products and Services Award |
| 1997 | Opens the Alt-Ito Building as the company's base in the Tokyo metropolitan area |
| 1999 | *Alt Bayern* wins a Nikkei Superior Products and Services Award |
| 2001 | *Cheese-In* wins the Minister for Education, Culture, Sports, Science and Technology Prize |
| 2004 | *Pole Wiener* wins the Long Seller Prize awarded by the Japan Food Journal |
| 2005 | The *La Pizza* series wins the Japan Food Journal's Outstanding Product Prize |

# Stock Information

## Shares

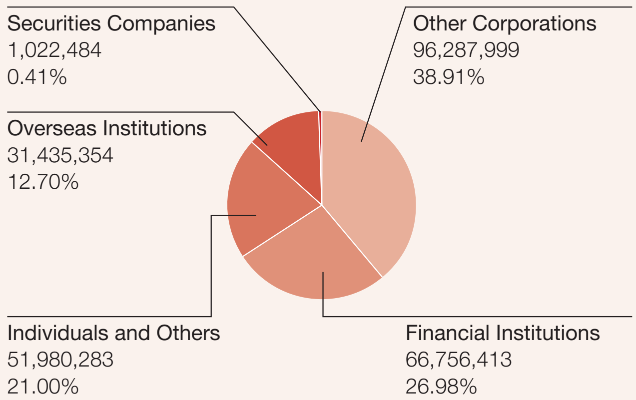
| | |
|---|---|
| Total number of shares authorized | 342,013,000 |
| Number of shares of common stock issued | 247,482,533 |
| Number of shareholders | 32,767 |

## Major Shareholders

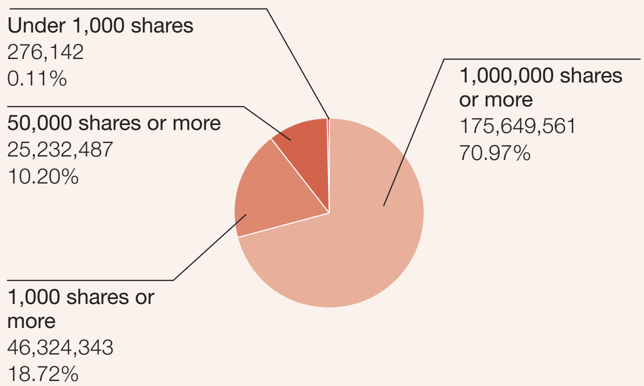
| | Number of Shares Held (thousands of shares) | Percentage of Total (%)* |
|---|---|---|
| Mitsubishi Corporation | 49,656 | 20.2 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 12,276 | 5.0 |
| The Ito Foundation | 12,000 | 4.8 |
| Toei Shoji Co., Inc. | 9,785 | 3.9 |
| Japan Trustee Services Bank, Ltd. (Trust Account 4G) | 7,317 | 2.9 |
| Marubeni Corporation | 7,099 | 2.8 |
| Sumitomo Mitsui Banking Corporation | 6,303 | 2.5 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 6,303 | 2.5 |
| The Ito Cultural Foundation | 6,200 | 2.5 |
| Japan Trustee Services Bank, Ltd (Trust Account) | 6,064 | 2.4 |

* Percentage of total is calculated after deducting treasury stock

## Breakdown of Shareholders by Type



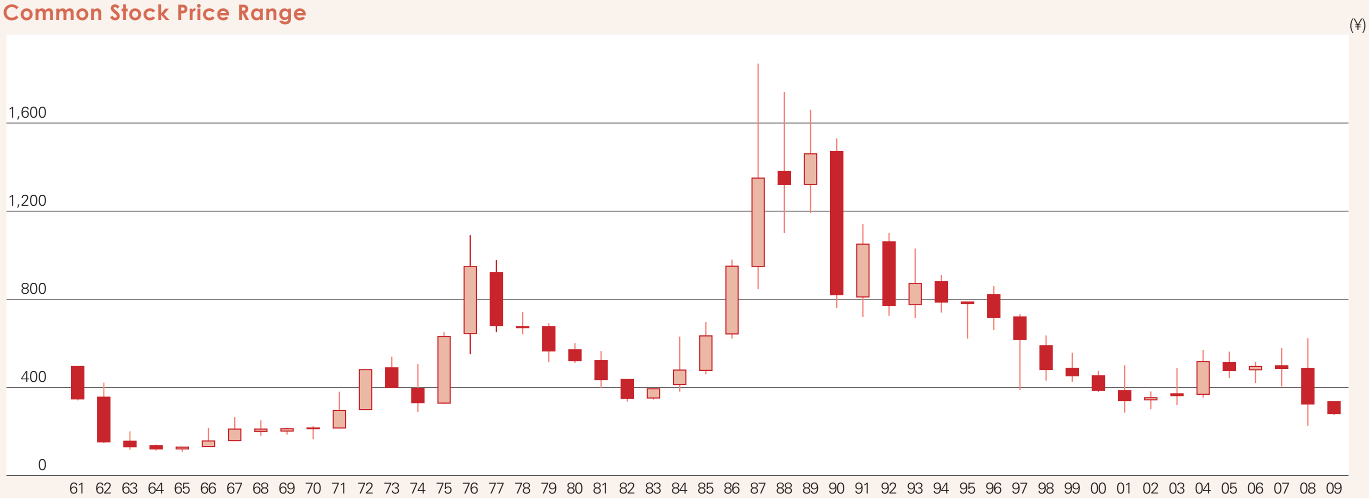

## Breakdown of Shareholders by Size of Holding




(As of March 31, 2009)

## Common Stock Price Range

(¥)




| Calendar year | | 99 | 00 | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Itoham Common Stock (¥) | High | 557 | 495 | 500 | 381 | 487 | 573 | 565 | 519 | 577 | 619 | 336 |
| | Low | 425 | 379 | 285 | 300 | 320 | 356 | 445 | 422 | 404 | 228 | 276 |
| Trading Volume (thousands of shares) | | 62,290 | 78,006 | 90,433 | 56,636 | 88,391 | 114,589 | 167,511 | 195,607 | 126,481 | 260,516 | 38,069 |

Note: The figures for the 2009 calendar year only are for the 3-month period from January 2009 through March 2009.

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