



ANNUAL REPORT 2001

ITOHAM FOODS INC.

Ham and
Sausages

Fresh
Meats

Processed
Foods
and Other
Products



▶ PROFILE

プロフィール

The Itoham Group's management policy is to create corporate value over the long term. Since its establishment, the Itoham Group has promoted a corporate philosophy of "Service to society through business." Our basic philosophy is to supply high-quality products and consumer-centric services that embody our commitment to contributing to healthy lifestyles and fostering a rich food culture. The following five points represent the basic approach we have adopted to realize our aims.

- (1) Achieve greater corporate transparency through disclosure of business information to create corporate value over the long term.
- (2) Provide the "safe and reliable, fresh and high quality" products that consumers deserve.
- (3) Prepare to respond with ever-increasing speed to our customers' needs and raise our ability to offer value proposals that satisfy them.
- (4) Remain conscious of the environment and consistently strive for a harmonious balance between the environment and society.
- (5) Create a vibrant workplace environment where each individuals strive to improve themselves, and understand that their business activities should contribute to society.

伊藤ハムグループは、長期的な企業価値の向上を目指すことを経営の基本方針とし、創業以来「事業を通じて社会に奉仕する」という社是のもとに、真心を込めたサービスと最高の品質で、お客様の健康と豊かな食文化の創造に貢献することを基本理念に掲げ、それを実現するために以下の5項目を経営の基本姿勢としております。

- (1) 長期的な企業価値の向上を目指し、透明な経営情報を開示します。
- (2) お客様が求める「安全・安心」と「品質・鮮度」の高い商品をお届けします。
- (3) お客様に対する提案力の向上とスピーディーな対応を実践します。
- (4) 環境に配慮し、その保全と社会との共生を図る努力を持続的に実践します。
- (5) 一人ひとりが企業活動を通じ社会への貢献を認識し、自己実現できる活力ある職場を創生します。

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▶ FIVE-YEAR CONSOLIDATED FINANCIAL HIGHLIGHTS

5年間の主要財務数値

Years ended March 31

		Millions of yen				Thousands of U.S. dollars	
		1997	1998	1999	2000	2001	2001
Netsales	売上高	¥465,536	¥468,947	¥450,105	¥470,453	¥475,519	\$3,837,925
Cost of sales	売上原価	374,381	370,406	350,386	364,362	370,946	2,993,914
Selling, general and administrative expenses	販売費及び一般管理費	85,761	90,649	92,199	93,418	93,369	753,584
Operating income	営業利益	5,394	7,892	7,520	12,673	11,204	90,427
Non-operating income(loss)	営業外損益	(418)	(891)	(572)	206	803	6,481
Ordinary income	経常利益	4,976	7,001	6,948	12,879	12,007	96,908
Special profit(loss)	特別損益	(435)	(1,084)	(986)	(1,689)	(8,975)	(72,437)
Income before income taxes	税金等調整前当期純利益	4,541	5,917	5,962	11,190	3,032	24,471
Income taxes	法人税、住民税及び事業税	3,544	2,670	4,383	4,781	5,442	43,922
Deferred income taxes	法人税等調整額	—	—	(951)	27	(4,181)	(33,745)
Minority interest	少数株主利益	24	60	55	3	13	105
Net income	当期純利益	973	3,187	2,475	6,379	1,758	14,189
Diluted net income per share (in yen and U.S. dollars)	潜在株式調整後 一株当たり当期純利益	4.26	13.80	10.87	27.61	8.08	0.065
Total assets	総資産	227,082	229,056	236,867	241,655	245,531	1,981,687
Working capital	運転資本	57,753	36,927	51,963	57,038	58,171	469,500
Depreciation	減価償却費	9,867	9,840	9,935	9,426	8,707	70,274
Shareholders' equity per share (in yen and U.S. dollars)	一株当たり株主資本	542.49	545.68	545.19	567.33	578.04	4.67
Return on equity	株主資本利益率	0.8%	2.6%	2.0%	5.1%	1.4%	
Cash flows from operating activities	営業活動による キャッシュ・フロー	—	—	—	20,125	9,381	75,714
Cash flows from investing activities	投資活動による キャッシュ・フロー	—	—	—	(1,353)	(5,239)	(42,284)
Cash flows from financing activities	財務活動による キャッシュ・フロー	—	—	—	(11,613)	(6,061)	(48,918)
Cash and cash equivalents at end of year	現金及び現金同等物 期末残高	20,846	18,768	28,451	35,717	33,836	273,091

Notes: 1. Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥123.90=US\$1, the rate prevailing on March 31, 2001.

2. The company adopted deferred tax accounting commencing in the year ended March 31, 1999.

3. The company started preparing a "Consolidated Statement of Cash Flows" in the year ended March 31, 2000. Figures for cash flows from operating, investing and financing activities are not available for the previous three years.

注記: 1. 為替換算は2001年3月31日における為替レート(1ドル=123円90銭)で計算しております。

2. 法人税等調整額につきましては、1999年度より税効果会計を適用しております。

3. 2000年度より「連結キャッシュ・フロー計算書」を作成しているため、「営業活動」「投資活動」及び「財務活動」による各キャッシュ・フローについては、過去3年の数値は掲載しておりません。

▶ MESSAGE FROM THE PRESIDENT

社長メッセージ



Fiscal 2001 Business Results

The Japanese economy got onto a slight recovery footing, albeit a shaky one, during fiscal 2001, ended March 31, 2001, on the back of increasing demand in the IT sector and favorable exports. This was evident in improving company profits and increased capital investments. However, signs of a slowdown in the U.S. economy from the second half of the year and lackluster personal consumption due to worries about employment and stagnant income levels dampened the mood. It would seem that stagnation has set in.

The Japanese meat industry could not escape the effects. Consumption fell below last year's level and in a situation characterized by falling sales prices, sales competition intensified, creating a difficult operating environment. Added difficulties were presented by an E. coli O-157 bacteria-related scare mistakenly attributed to ham and a series of food poisoning incidents in Japan last summer and the reemergence of mad cow disease combined with the spread of foot-and-mouth disease in Europe. Difficulties thus persisted in our operating environment.

The Itoham Group has responded by strengthening sales capabilities and attempting to expand sales in the Fresh Meat Division and the Processed Foods Division. Furthermore, we reduced the number of items in our ham and sausage lineup

to focus on core products in line with our program to cut production costs and to pare selling expenses.

As a result, net sales increased 1.1% to ¥475,518 million. On the profit front, the pressure of falling sales prices squeezed gross profit margins and resulted in a 6.8% fall in ordinary income to ¥12,007 million. Net income dropped 72.4% to ¥1,757 million, principally on account of a ¥17,027 million one-off charge as a special loss for unfunded employees' severance and retirement benefits in line with relevant accounting standards.

Medium-term Management Strategy

The Itoham Group will promote three themes in accordance with its basic philosophy.

1. Remain a company driven by high-quality management

We are cultivating a vibrant corporate culture that emphasizes profits and ongoing management reforms that lead to more efficient asset utilization and improved cost performance, while fostering human resources on a performance-based approach that provides equal opportunities for both men and women.

2. Construct a company with a strong corporate brand

In addition to strengthening brand equity by enhancing marketing, both quality and safety are essential elements of our management focus. Our corporate image is enhanced by a high level of environmental consciousness and communication with people on a local level.

3. Value our shareholders and stress a high level of corporate transparency

Establish strong corporate governance to raise the quality of management, clarifying specific management indicators and ensuring timely disclosure of information while seeking to raise market capitalization.

The Medium-term Plan was devised based on the Group's management vision as defined above. Reforms aimed at constructing a strong base that delivers profitability are ongoing.

The concept behind our core business domains is "Providing ham and sausages, fresh meat and processed foods for consumers." We are strengthening our marketing activities and sales operation while striving to raise quality and productivity so that we can continue to supply safe, reliable and high-value-added products to the market.

2001年3月期の業績について

当期におけるわが国の経済は、IT関連需要の高まりと好調な輸出に支えられ、企業収益の改善や設備投資の増加など、景気は緩やかな回復基調にありました。しかし、期の後半からは景気後退の兆しが見られた米国経済や、先行きの雇用不安と所得の伸び悩みから個人消費が依然低迷したままなど、景気の先行きに対する警戒感から、再び停滞色を強めてまいりました。

当業界におきましても、消費が前年を下回り、販売単価の下落基調が続く中、販売競争が激化し、厳しい経営を強いられました。さらに、昨夏の国内でのO-157誤認事件や一連の食中毒事件、そして昨年の秋からの欧州での狂牛病の再発や口蹄疫の広がりなどにより、厳しい経営環境が続きました。

このような状況の中で当社グループは、生肉部門と調理加工食品部門の販売力強化を積極的に進め、拡販を図りました。また、ハム・ソーセージのアイテム数の削減を進め、重点販売商品の上位集中化を図ることにより、生産コストおよび販売費の低減に鋭意努力してまいりました。

この結果、当期の売上高は4,755億1千8百万円(前期比1.1%増)となりました。利益につきましては、販売単価下落による粗利益率の低下により、経常利益は120億7百万円(前期比6.8%減)となり、当期純利益は、退職給付会計に基づく積立不足(170億2千7百万円)を一括償却し、特別損失に計上したことから17億5千7百万円(前期比72.4%減)となりました。

中長期的な経営戦略

伊藤ハムグループの基本理念に基づき、将来の姿として以下の3項目を目指します。

1: 経営品質の高い会社

利益を重視し、資産効率とコストパフォーマンスを高める経営改革の継続的な実行と、人材育成・成果主義・女性の活用などを通じて活力ある企業風土・文化を創造します。

2: コーポレートブランド(企業イメージ)の高い会社

マーケティング機能を充実させ商品ブランド力を高めるとともに、品質と安全性を重視した経営を行います。また、地球環境への配慮と地域社会との交流を大切にして企業イメージを高めてまいります。

3: 株主を重視した透明性の高い会社

経営の品質を高めるために、コーポレートガバナンスの確立、経営指標の明確化、タイムリーな情報開示を行い、株式の時価総額を高めます。

以上のグループ経営ビジョンに基づき、「中期経営計画」をこの度策定し、伊藤ハムグループ全体でこの経営改革に継続的に取り組むことで、収益性の高い企業体質への基盤づくりを目指します。

また、事業ドメインのコンセプトを「お客様への食肉・食肉加工品(ハム・ソーセージ、調理加工食品)の提供」とし、安全・安心で付加価値の高い商品を提供し続けるために、マーケティング活動と販売力を強化するとともに、品質と生産性の向上を目指します。

2002年3月期の見通し

2001年は「中期経営計画」のスタートの年にあたります。グループの事業領域での「選択と集中」を推進するために、「コアドメイン(基幹事業)を中心とした各事業の位置づけを明確にし、採算と効率に重点を置いたグループ経営に取り組み、長期的な企業価値の向上を推進します。

ハム・ソーセージ部門については、シェアNo.1戦略に基づく強い商品づくりと重点販売商品の集中販売に取り組み、収益力の向上に努めます。

商品政策については、家庭用量販商品で主力の「アルトバイエルン」、「あらびきグルメ」、「さわやかパック」、「朝のフレッ

Outlook for Fiscal 2002

Fiscal 2002 saw the launch of a new Medium-term Plan. This plan clarifies the position of each business, particularly our core domains, so as to promote selection and concentration of the Group's business spheres. It requires management policies focused on profitability and efficiency to create corporate value over the long term.

1. Ham and Sausage Division

In the Ham and Sausage Division, we will work on two fronts to raise profitability: creating products that ascend to No.1 in the market, and concentrating sales on core product lines.

Our product strategy is to strengthen our core consumer-market brands such as *Alt Bayern*, *Arabiki Gourmet Wiener*, the *Sawayaka Thin-Slice Pack* series and the *Morning Fresh* series. At the same time, we are developing superior products aligned to consumer needs with priority on the "Pursuit of a blend of quality and flavor."

Regarding our sales strategy, we have concentrated on the department store sector, strengthening activities in each sales channel while realigning our organization to expand the scope of business. Moving forward, we will strengthen activities in foodservice channels to respond to the steadily growing market for ready-made meals and restaurant services. On the sales promotion front, we will offer a series of weekly meals each with their own theme that reflects the changing seasons, under the banner of the TSP52 (Table Scene Promotion 52) program. In addition, we will support the improvement of promotion and sales areas.

Our production strategy will see us become more cost competitive by restructuring production bases and reducing materials costs. Simultaneously, we will maintain and raise quality levels in all processes, from procurement of raw materials through to shipment.

2. Fresh Meat Division

Growth in consumption of fresh meats in Japan is flat, but we are confident that there is room for expansion in this area too. Accordingly, our overall strategy in the Fresh Meat Division emphasizes continuing the drive to expand sales volume.

Our products strategy in this division stresses the themes of safety and reliability. In line with our overall

strategy on building brand equity through core brands, international standards on hygiene management and environmental protection are applied at our own feed-lots overseas where we feed stock for *Jyukusei Kuroushi* as well as in our domestic operation for Japanese *Berkshire pork*. We are also presenting new, high-value-added products like different kinds of pre-prepared meats.

Aiming to expand sales volume, our sales strategy in the Fresh Meat Division involves upgrading our sales bases, while carefully cultivating existing and new sales channels.

3. Processed Foods and Other Products Division

In the Processed Foods Division, we will drive sales and earnings growth by stepping up the pace of product development to stay in step with consumers' changing needs and bolstering our cost competitiveness.

Our strategy on products and sales in this division is to concentrate on sales of core consumer-market products such as *Binchotanyaki Yakitori* (charcoal-roasted chicken) and the *Ganso Aburiyaki Chicken* (slow-roasted chicken) series. We will also respond to growing demand from the foodservice channels, notably in ready-made meals and restaurant services. This drive will see us bolster sales support for large-volume customers, mainly major supermarkets, convenience stores and restaurants. At the same time, we will upgrade product development.

In production, we will restructure our domestic production system, upgrade overseas bases, reduce purchasing costs for materials and streamline our product lineup.

In the Other Products Division, we aim to improve profitability by clarifying the scope of operations of each subsidiary. This process will involve fostering Group companies as well as combining them to achieve the benefits that accrue through improved synergies and concentration on core business. This approach should maximize profits for the Group as a whole.

In line with the above strategies, we are projecting a 1.4% increase in net sales to ¥482,000 million, a 0.1% decrease in ordinary income to ¥12,000 million, and a 241.5% jump in net income to ¥6,000 million for fiscal 2002, ending March 31, 2002.

シュ」のブランド力を強化するとともに、「美味しさと品質の追求」を第一に、お客様の求める優れた商品を開発、提供してまいります。

販売政策については、お取引先のチャネル毎への販売体制の強化としてデパート部門を集約するとともに、広域事業への組織の再編を実施しました。また、今後も伸長性のある市場の中食と外食への対応として、業務用チャネルの強化を図ります。そして、販促面では、TSP(テーブル・シーン・プロモーション)52を軸に季節感と週間の歳時記の食をテーマとしたメニューを提案し、売れる売場づくりをサポートしてまいります。

生産政策については、コスト競争力をさらに強化するために生産拠点の再構築と原料・資材コストの削減を行います。また、原材料の調達から製品に至るまでのプロセス全般での高いレベルの品質の維持・向上を図ります。

生肉部門については、国内の食肉消費量は横ばいで推移すると思われませんが、当社グループの優位性から、この部門は今後とも伸びる余地が大きいと考えています。従って、戦略としては、引き続き販売量の拡大に重点を置いて展開をしてまいります。

商品政策については、安全・安心をテーマに、衛生管理と環境面で国際基準に適合した自社ファームで生産肥育された海外の「熟成黒牛」と国内の「黒豚」を中心にブランド力をさらに強化してまいります。また、より付加価値の高いミートミール商品(生肉調理品)などの新しい提案を行ってまいります。

販売政策については、販売拠点の拡充とチャネル毎に新規・深耕開拓をさらに進め、販売量の拡大を目指します。

調理加工食品部門については、変化するお客様のニーズにマッチした商品開発のスピードアップとコスト競争力を強化して売上と利益の拡大を目指します。

商品・販売政策については、「備長炭焼やきとり」、「元祖あぶり焼チキン」等の家庭用量販商品の集中販売を行います。また、

伸長する中食・外食などの業務用商品への対応として、量販店の惣菜・日配部門、コンビニエンスストア、外食などのチャネルへの販売サポート体制を強化するとともに、商品開発力の強化に取り組みます。

生産政策については、国内生産体制の再構築と海外拠点の拡充、原料・資材の調達コストの削減、アイテム数の削減を推進します。

その他の事業部門については、各社の事業領域を明確化して利益の追求を行います。その過程で、グループ各社の育成と統廃合を行い、コアビジネスを中心に連携を強化してシナジー効果を発揮し、グループ収益の極大化を推進します。

以上により、次期の業績につきましては、売上高は4,820億円(前期比1.4%増)、経常利益120億円(前期比0.1%減)、当期純利益は60億円(前期比241.5%増)を予定しております。



Kenichi Ito President
伊藤 研一 取締役社長

▶ MEDIUM-TERM PLAN (THREE-YEAR PLAN)

中期経営計画(3ヶ年計画について)

Itoham's basic strategy contained in its Medium-term Plan is based on the Group's management vision. The basic elements of the strategy are as follows:

1. Group management focused on profitability and efficiency by concentrating on hams and sausages, fresh meat and processed foods

To create corporate value, Itoham is promoting selection and concentration of its business spheres. This involves cultivating business activities—and possibly withdrawing from businesses—by clearly identifying each different business domain. Itoham has positioned its businesses into four categories: "Core domain," "Satellite domain" for strengthening main business, the "Supporting domain" for providing support for main businesses, and the "Social domain," which focuses on the Group's relationship with society.

Furthermore, Itoham will withdraw from unprofitable businesses, review its domestic production structure, and consolidate and reduce sales bases within the Group.

2. Strengthen sales capabilities

Itoham will strengthen marketing and product development to solidify its position in the markets for hams and sausages, fresh meat and processed foods that make up its core business. The focus is on initiatives that realign and improve sales systems for fresh meat and processed foods. Itoham has clearly identified attractive segments in terms of markets, products, sales channels and other factors. The organization will be revamped and resources reallocated to grow products that stand out in the marketplace. Moreover, an IT-based support system will be instrumental in achieving greater efficiency in supply and sales.

3. Reform profit structures

To construct a strong operating base, Itoham will reduce interest bearing debt, trim its personnel costs and eliminate excess production capacity to lower fixed costs.

4. Other business initiatives

Itoham is pushing ahead with the following initiatives to create corporate value, increase competitiveness and build a harmonious relationship with society.

- (1) Realigning the organization to facilitate the more efficient implementation of business strategy.
- (2) Reducing costs and streamlining peripheral divisions.
- (3) Reforming personnel systems to raise the ability of each and every employee.
- (4) Improving ROA and ROE.
- (5) Reducing distribution costs.
- (6) Using IT to coordinate purchasing activities and increase efficiency.
- (7) Implementing environmentally conscious management policies.
- (8) Strengthening quality and risk management systems.
- (9) Conducting highly transparent public relations (PR) and investor relations (IR) activities.

The following table lays out specific numerical targets for the year ending March 31, 2004, the final year of Itoham's Medium-term Plan.

Net sales	¥500,000 million
Operating income	¥13,500 million
Ordinary income	¥14,500 million
Net income	¥7,800 million
ROA	6.3%
ROE	5.8%

グループ経営ビジョンに基づく「中期経営計画」の基本戦略は以下のとおりです。

1:食肉・食肉加工品を中心として、採算と効率に重点を置いたグループ経営

グループとしての企業価値を高めるため、事業領域の「選択と集中」を推進します。事業ドメインを本業の「コアドメイン」、本業を強化する「サテライトドメイン」、本業を支援する「サポートイングドメイン」、そして社会との共生を目的とした「ソーシャルドメイン」に事業の位置付けを明確にして、事業の育成と撤退を図ります。

また、不採算事業からの撤退、国内の生産体制の見直し、グループ内の販売拠点の統廃合を行います。

2:販売力の向上

コアビジネスとしての食肉・食肉加工品事業の基盤強化のために、マーケティング力と商品開発力の強化、特に生肉および調理加工食品の販売体制を強化・再編します。また、市場・商品・チャネルなどの有望セグメントを明確に選定して、組織の再検討や差別化商品の育成のため経営資源の重点配分を行います。さらに、効率的な供給・販売体制を構築するために、IT活用によるサポートシステムを整備します。

3:利益構造の改善

強固な経営基盤をつくり上げるために、有利子負債の圧縮と人件費の削減、過剰な生産設備の解消を行い、固定費の削減に取り組みます。

4:その他の経営施策

グループの企業価値の向上、競争力強化、そして社会との共生を目的に以下の施策を進めてまいります。

事業戦略実行型への組織の再編

間接部門の業務の効率化とコストダウン

人的資産価値の向上を目指した人事制度の改革

資産(ROA)と資本(ROE)効率の改善

物流コストの削減

ITによる購買業務の集中と効率化

環境マネジメントへの対応

品質・危機管理体制の強化

透明性の高い広報・IR活動

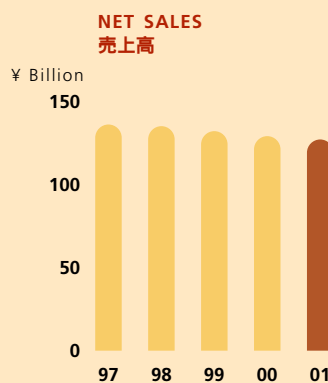
なお、具体的な数値目標として、この中期経営計画の最終年度に当たる2004年3月期の連結経営指標を以下のとおり設定しております。

売上高	5,000億円
営業利益	135億円
経常利益	145億円
当期純利益	78億円
ROA	6.3%
ROE	5.8%

▶ AT A GLANCE

事業一覧

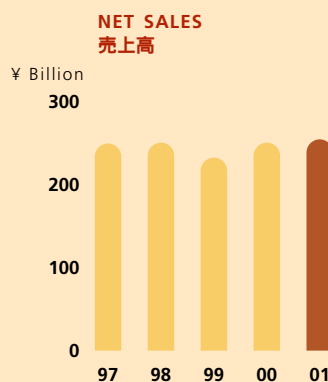
▶ Ham and Sausage Division ハム・ソーセージ部門



BUSINESS OVERVIEW

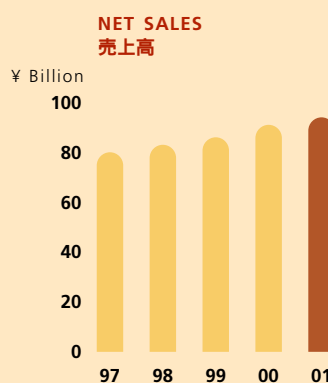
This division produces and sells hams, sausages and bacon. Backed by sophisticated technology, it consistently turns out safe, high-quality products. In production activities, the HACCP system has been implemented at the division's 8 domestic plants. On the sales front, strong relationships built on trust with major department stores and supermarkets have lifted Itoham to the No. 1 position in the market for ham and sausage gift products.

▶ Fresh Meat Division 生肉部門



Itoham owns directly managed and contract feedlots in Japan and overseas. Their hygiene management standards conform with HACCP ensuring that from the transport of livestock through to the final product, all procedures at these feedlots are geared toward production of safe and reliable products. By producing fresh meat at directly managed feedlots overseas, Itoham's production costs are lower and operations are much less susceptible to fluctuations in market prices for meat. That means Itoham can consistently supply high-quality products at reasonable prices. Moreover, Itoham has a powerful lineup of high-quality, domestically produced products to respond to the needs of consumers.

▶ Processed Foods and Other Products Division 調理加工食品ほか部門



In the Processed Foods Division, activities are guided by two core concepts: "Meal solutions" and "Home meal replacement." One of Itoham's aims is to develop high-quality products that are easy to prepare. Starting with chicken side dishes, Itoham has built a strong selection of high-quality, timesaving products. Other offerings for consumers on the run include hamburger patties, pizza meals, charcoal-roasted meat, and dairy products. Through this diverse lineup, Itoham is confident that it can cater to consumers' changing needs. Itoham is also developing business in the pharmaceutical products and restaurant industries.

FIVE-YEAR REVIEW AND BUSINESS RESULTS

業務内容

過去5年間の市場の動向と業績の推移

In addition to maturation of the market for hams and sausages, personal consumption is languishing due to pessimism about the future aroused by a worsening employment picture. These factors have sparked intense competition. Set against this backdrop, Itoham is focusing on core products, which include *Alt Bayern*, *Arabiki Gourmet Wiener*, the *Sawayaka Thin-Slice Pack* series and the *Morning Fresh* series of sliced ham packs, to grow them into major pillars of sales for this division. However, in a market leaning toward lower prices, sales volume increased, but sales in monetary terms were stunted.

当部門ではハム、ソーセージ、ベーコン等の製造販売を行っており、高い技術力のもと安全で品質の高い優れた商品を提供し続けています。製造に関しては、HACCPシステムを整えた工場を国内8ヶ所に設けています。また販売に関しては、大手百貨店やスーパーとの信頼関係によって、ハム・ソーセージのギフト市場では業界No.1の座を獲得しています。

ハム・ソーセージ市場の成熟化に加え、雇用環境の悪化などによる先行き不安から個人消費は低迷し、販売競争は激化しています。この状況下で「アルトバイエルン」[®]「あらびきグルメ」[®]「さわやかパックうすぎり」[®]「朝のフレッシュ」シリーズ等を重点商品として、売上の上位集中化を図りました。しかし、低価格志向の強い販売環境の中で、販売数量は増加しましたが売上高は伸び悩んでいます。

The pork market was thrown into chaos by the imposition of safeguards on three occasions in the past and an outbreak of foot-and-mouth disease in Taiwan. In addition, intense competition has led to falling sales prices. Market conditions worsened from the fall of 2000, with the reemergence of mad cow disease and the spread of foot-and-mouth disease in Europe. In this climate, Itoham worked to expand sales channels and strengthen relationships with existing business partners. Sales have increased thanks to these efforts.

国内及び海外に直営牧場や契約牧場を有し、生体搬入時から最終商品になるまでHACCPに基づく厳しい衛生管理基準により、安全・安心を追求した商品を生産しています。海外の直営牧場で生産していることから、他社より低コストで生産でき、相場の影響を受けにくいことにより高品質で低価格の商品の供給を実現しています。さらに国内産の高級商品も豊富に取り揃えており、あらゆるお客様のニーズに対応しています。

豚肉の過去3度のSG発動や台湾の口蹄疫発生等から市況が混乱しました。また、販売競争の激化により販売単価は下落しています。さらに2000年秋からの狂牛病の再発や欧州での口蹄疫の広がりなど、厳しい環境が続きました。このような状況の中でも当社は、販路の拡大と既存取引先との関係強化に積極的に取り組み、その結果、売上高は増加しています。

By matching advances in distribution and production technology with changing consumer lifestyles, the Processed Foods Division has grown rapidly. The division has focused on processed chicken foods like *Ganso Aburiyaki Chicken*, (slow-roasted chicken) and *Binchotanyaki Yakitori* (charcoal-roasted chicken) in addition to charcoal-roasted meat. Leveraging superior technology and innovation, Itoham is successfully developing products that match consumers' lifestyles. Sales in the Processed Foods Division and the Other Products Division continue to expand.

調理加工食品部門では、ミールソリューションやホームミールリプレイメントの概念から、簡便性が高く、かつ高品質の商品を開発しています。チキン惣菜をはじめ、ハンバーグ、ピザ類、焼肉商材、乳製品などハイクオリティ・ハイコンピニエンスの商品の品揃えを強化し、変化お客様のニーズに合った商品を提供しています。また、ほかに医薬品事業、外食産業なども展開しています。

調理加工食品部門は消費者のライフスタイルの変化と流通・生産技術の発展がマッチして、急速に拡大を遂げました。当社は「元祖あぶり焼チキン」[®]「備長炭焼やきとり」などのチキン加工品や「焼肉商材」等を中心に、優れた技術力と企画力で消費者ニーズにマッチした商品の開発・販売に成功し、その他の事業と合わせて、売上高を拡大しています。

▶ HAM AND SAUSAGE DIVISION

ハム・ソーセージ部門



▶ **Arabiki Gourmet Wiener**
あらびきグルメウインナー

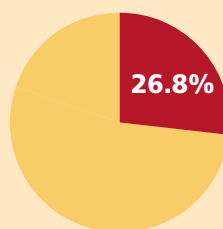


▶ **Low-salt Bacon**
うす塩ベーコン



▶ **Roast Beef**
ローストビーフ

▶ **Sales Composition**
売上高構成比



Backed by sophisticated technology and our proprietary development capabilities, Itoham continues to turn out safe, high-quality products. *Alt Bayern*, which meets specified Japanese Agricultural Standards (JAS) regulations, is unshakable as the No. 1 wiener in Japan. *Arabiki Gourmet Wiener*, for its part, remains highly popular with consumers. Itoham is also cultivating the *Morning Fresh* series of sliced ham packs and *Sawayaka Thin-Slice Pack* series, aiming to establish them as the No. 1 products in their respective



当社は、確かな技術力と独自の開発力を生かした安全で高品質な商品を一貫して提供し続けています。重点商品である「アルトバイエルン」は特定JAS熟成規格のウインナーNo.1の地位を不動のものとし、「あらびきグルメウインナー」も高い人気を得ています。また「朝のフレッシュ」や「さわやかパックうすぎり」シリーズなどそれぞれのカテゴリーでNo.1となる商品が着実に育っています。さらに、これらの商品群に



categories. Moreover, Itoham has taken the lead in the market for new products which answer the needs of consumers demanding gourmet, healthy and safe products, by introducing the *Mainichi Tabemasho Sutekina Egao* series of low-salt, low-additive products that use quality meat.

In gift products, the company has responded to difficult market conditions by building ever-stronger brand equity and offering high-quality products such as *Densyo Ippin*, *Houjyun*

and *Densyo Jyukusei*. Itoham's delicious roast beef owes much to the company's proprietary *Sous Vide* vacuum sealing and cooking technology.

Itoham will continue to bring to market safe, reliable and delicious products. To this end, the company is strengthening quality control, particularly at HACCP-certified plants, and developing original products that are in step with emerging consumer needs and changing lifestyles.

加え新たに、グルメ・健康・安心を意識する生活者の要望に応え、塩分、添加物を抑え、原料肉にこだわった商品を「まいにち食べましょ素敵なお笑顔」シリーズとして提供するなど、市場を常にリードしています。

ギフト市場では縮小傾向にある厳しい環境ながら、長年培ってきたブランド力と高い品質が支持され「伝承逸品」「芳醇」「伝承熟成」に加え、当社独自の真空調理製法によるローストビーフが好評を得ています。

今後も安全・安心・美味しさを追求した商品をお届けするため、HACCPの認証を受けた製造工場を中心にさらに品質管理体制の強化に努めつつ、お客様の様々な新しいニーズに応えた生活提案型商品の開発を進めていきます。

▶ FRESH MEAT DIVISION

生肉部門



▶ *Rockdale Beef Pty. Ltd.*
ロックデールビーフ社

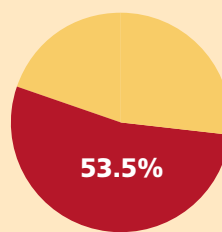


▶ *Wyoming Premium Farms, LLC.*
ワイオミング・プレミアム・ファームズ社



▶ *Itoham's Pure Kagoshima
Berkshire pork feedlot*
純粋鹿児島黒豚生産農場

▶ *Sales Composition*
売上高構成比



Itoham has set up an overseas production system for beef centered on Rockdale Beef in Australia and Five Star Beef in New Zealand to produce the *Jyukusei Kuroushi* brand of grain-fed beef so popular with consumers. In January 2001, Five Star Beef gained ISO 9001 and ISO 14001 certification for quality and environmental management, respectively, signifying that they have attained the highest international standards. In conjunction with Rockdale Beef, which acquired the same certification in 1998 and 2000, respectively, Itoham is now poised to take a further step towards raising and processing beef in compliance with the highest standards for quality

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当社はオーストラリアのロックデールビーフ社およびニュージーランドのファイブスタービーフ社を中心に牛肉生産・加工事業を行ない、長期穀物飼育牛「熟成黒牛」のブランドで販売し、市場で高い評価を得ています。2001年1月にはファイブスタービーフ社が品質管理と環境管理の国際規格ISO 9001とISO 14001の認証を取得しました。これにより既に1998年と2000年に同規格の認証を取得しているロックデールビーフ社と合わせて、品質と環境面で一歩進んだ牛肉生産・加工が可能



and environmental management. At present, 50,000 head of cattle are ordinarily fed at Rockdale Beef and 15,000 at Five Star Beef.

Itoham is also active overseas in pork production. Itoham raises hogs at the directly operated Wyoming Premium Farms, LLC. in the U.S. where production conforms with MD (Minimum Disease) agricultural methods. Major brands produced in the U.S. are *Kenkobuta*, produced using MD agricultural methods, and *Delphi Pork* produced by Indiana Packers Corp. From Canada comes the *Mugijitate* brand of barley fed pork.

In Japan, Group company, Sankyo Meat Packers Inc., in

Kagoshima Prefecture opened a new feedlot in August 2000 for the production of Pure Berkshire pork to cater to rapidly expanding demand for *Pure Kagoshima Berkshire* pork.

Against the backdrop of a sluggish market, Itoham has established a comprehensive, integrated system from production to sales, enabling it to supply high-quality, fresh and superior value-added products. The company has also worked to strengthen sales capabilities. Looking ahead, Itoham will deliver detailed services underpinned by its production and supply system to meet demands for safe, reliable and high-quality products that reflect customers' needs.

になりました。現在、ロックデールビーフ社では常時5万頭規模、ファイブスタービーフ社では1万5千頭規模の飼育事業を展開しています。

一方、豚肉の生産は、米国での直営養豚事業ワイオミング・プレミアム・ファームズ社がMD農法によって生産した「健康豚」をはじめ、同国のインディアナパッカーズ社製造の「デルファイポーク」、さらにカナダ産の「麦仕立て」などブランドの品揃えが整い、順調に推移しています。さらに国内では、鹿児島県のグループ会社サンキョーミート㈱が純

粋鹿児島黒豚のニーズ拡大に対応し、2000年8月に黒豚専用農場を新設し、増産体制を整備しました。

このように当社は、低迷する国内の市場環境の中で、生産から販売まで品質と鮮度の優れた付加価値の高い商品を提供する一貫したシステムを確立し、販売力の強化に努めています。今後も、食肉の「安全・安心」と「高品質」が求められる中で、お客様のニーズに合った生産・供給体制により、きめ細かなサービスを行なっていきます。

▶ PROCESSED FOODS AND OTHER PRODUCTS DIVISION

調理加工食品ほか部門



▶ **Ganso Aburiyaki chicken**
元祖あぶり焼きチキン

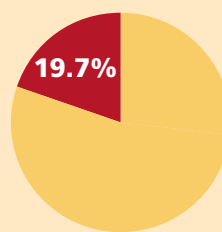


▶ **Chicken Fillet**
チキンフィレ



▶ **Yakiniku Hiden**
焼肉秘伝

▶ **Sales Composition**
売上高構成比



With consumers showing greater interest in convenience and ways to save time when cooking, expenditure on ready-made meals is increasing whilst that on foodstuffs for making meals at home is sluggish. As the processed food products sector becomes an increasingly important part of the food products market, competition on quality and prices is intensifying.

Itoham is responding to these trends. In the market for consumer products, the company has strengthened sales capabilities and given added value to the *Ganso Aburiyaki Chicken* (slow-roasted chicken) series, the No. 1 brand of roasted chicken, and the company's

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低迷する内食に比べ、中食での消費支出が消費者の簡便・合理志向の高まりを受けて伸びている一方で、調理加工食品市場は広く食品業界と競合しているため、品質と価格での競争がより一層激化しています。

このような環境のもと、消費者向け市場で当社は、焼きチキンNo.1ブランドの「元祖あぶり焼き」シリーズと「チキンフィレ」などをハーフ鶏原料にバリューアップし、販売強化を図りました。また、ほかにも各



Chicken Fillet products. These products are made from herb-fed chickens. The drive is on to launch new products that will establish themselves as the No. 1 brands in their respective categories.

In line with the *Back Yard Solutions* theme, the company is providing better value products for the foodservices channels by paying close attention to raw materials. The rewards are reflected in the encouraging sales performance of *Binchotanyaki Yakitori* (charcoal-roasted chicken), charcoal-roasted meat and fried products.

Consolidation and reduction of the company's product lineup will continue in fiscal 2002. Itoham will focus on utilizing its pro-

prietary technology and sales capabilities to strengthen sales of basic products such as chicken and roasted meats. An important issue in this division is deciding whether Itoham should produce products itself or consign production to other companies. Consideration will be given to such matters as product cycles and price competition. Itoham will also strengthen sales capabilities through stricter cost management. Moreover, it will offer new value proposals aligned to suit consumers' diverse needs. Underpinning this drive will be an efficient production system that is HACCP-compliant and utilizes thorough temperature management technology.

カテゴリーでのNo.1を目指した新商品を積極的に投入しています。

業務用商材では、こだわり原料に基づいたバリューアップ商品を提案する「バックヤードソリューション」をテーマに、「備長炭焼やきとり」、「焼肉商材」、「フライ商材」などが好調に推移しています。

2001年度は商品の統廃合を推進し、当社の技術力、販売力を生かせるチキン、焼肉商材など食肉を使ったベーシックな商品の販売に注力

していきます。一方、商品サイクルや価格競争の状況から、自社工場での製造と外部委託製造とを適正に見極め、徹底したコスト管理により販売力の強化を図り、HACCP対応の徹底した温度管理とスピーディーな生産システムのもと調理加工食品に対する消費者の多様なニーズに応える新しい価値提案を行なっていきます。

▶ COMMITTED TO ENVIRONMENTAL CONSERVATION

環境問題への取り組み



ISO 14001 certificate of Registration

環境マネジメントの国際規格「ISO 14001」の認定証



Compressed Natural Gas Vehicle

天然ガス車(CNG車)

In February 1999, Itoham made a public commitment to incorporate environmental conservation in all its business activities and to build a harmonious relationship with the environment and society. The company clarified its basic environmental philosophy defining how it would deal with environmental challenges and commenced activities directed at conservation.

As a result of a consistent effort to incorporate environmental considerations in all aspects of its operations, Itoham's plants in Nishinomiya, Tokyo and Toyohashi in 2000 obtained ISO 14001 certification, a respected international standard for environmental management. Overseas, Itoham's feedlot at Rockdale Beef in Australia received the same certification, also in 2000. Five Star Beef in New Zealand gained ISO

14001 certification in January 2001. These achievements demonstrate clearly that the Itoham Group's environmental management systems are operating at an internationally recognized level.

Itoham has also incorporated its environmental philosophy into its sales and distribution operations by implementing measures to reduce emissions of greenhouse gases. At the start of 1998, it introduced vehicle running on environmentally friendly CNG (compressed natural gas). As of March 31, 2001, Itoham had 19 such vehicle in its fleet. Company-wide, Itoham launched a program to ensure that its sales and distribution personnel turn off their engines to stop their cars idling when stationary for long periods.

The environmental philosophy has been extended to Itoham's offices also, reflected in paperless office proce-

dures that minimize paper usage. When purchasing, Itoham gives priority to environmentally friendly products.

The 21st century is already being called the "Century of the environment." Consciousness of environmental issues will only gain momentum. A broad range of environmentally directed laws and regulations such as the Food Waste Recycling Law are being formulated. "Toward an environmentally friendly company" is the watchword directing Itoham's approach to the issues, illustrating the spirit in which it approaches these challenges one step at a time, constantly asking what it can do to help the environment.

当社は、1999年2月に地球環境の保全と自然との調和・共生に配慮した事業活動を展開することを宣言し、環境基本方針を定め地球環境問題への取り組みを明確にし、環境保全活動に取り組んできました。

環境に配慮した生産活動を行ない、継続的な改善を行なうため、2000年に西宮、東京、豊橋の3工場が環境管理の国際規格であるISO 14001を認証取得しました。海外の生産拠点については同年にオーストラリアのロックデールビーフ社が、2001年1月にはニュージーランドのファイブスタービーフ社が同認証を取得し、国際レベルでの環境管理体制が評価されています。

営業・物流においては、温暖化ガスの削減に寄与するため、1998年度より営業車輛に地球にやさしい天然ガス車(CNG車)の導入を進め、2001年3月現在19台が走行しています。また、アイドリングストップ運動を全社的に展開し、環境にやさしい営業・物流に取り組んでいます。

オフィスにおいては、ペーパーレスプロジェクトを設置しペーパーレス化を進めるとともに、グリーン購入基本方針を制定し、環境への影響を低減するために積極的にグリーン購入に取り組んでいます。

「環境の世紀」といわれる21世紀に入り、食品リサイクル法など環境関連法が立て続けに施行されるなど環境保全への取り組みがますます重要となってきています。～地球にやさしい会社をめざします～を合言葉に、私たちにできることは何なのかを常に考え、一步一步取り組んでいきます。

▶ UNIVERSAL STUDIOS JAPAN™

ユニバーサル・スタジオ・ジャパン™



The Long Branch Barbecue

伊藤ハムが協賛する「ロング・ブランチ・バーベキュー」



The menu hanging at the entrance of the Long Branch Barbecue
「ロング・ブランチ・バーベキュー」入口にある表札



Barbecue Pork Rib is a popular menu item
人気メニュー「バーベキューポークリブ」



In March 2001, Itoham signed a Corporate Marketing Partnership agreement with Universal Studios Japan, an exhilarating new theme park in Osaka. Under the agreement, Itoham will cooperate with Universal Studios Japan on a theme restaurant inside the park and on a wide range of advertising and promotional marketing activities.

The Long Branch Barbecue restaurant located in the Old West Area is serving Itoham products arranged with an American Wild West flavor. Itoham sees this cooperative relationship with Universal Studios Japan as providing it with exciting opportunities to develop new foodstuffs and create a richer food culture. Aiming to ensure a stable supply of foodstuffs to the park, which is expected to attract 8 million people annually, Itoham set up the Osaka US sales office in close proximity to the park in February 2001. This sales office will coordinate the supply of hamburger patties, sausages used in hot dogs and other food products at the theme park.

Universal Studios Japan is positioned as one of the core facilities forming the international multimedia region in Osaka City. Itoham, for its part, is confident that the Corporate Marketing Partnership agreement will make a significant contribution to enhancing its corporate brand equity.

当社は、2001年3月、大阪にグランドオープンしたテーマパーク「ユニバーサル・スタジオ・ジャパン」と「コーポレート・マーケティング・パートナーシップ」契約を締結し、パーク内のレストランに協賛するとともに相互に協力しながら広告、プロモーションなど幅広いマーケティング活動を推進しています。

当社協賛のレストラン「ロング・ブランチ・バーベキュー」は、ウエスタン・エリアに位置し、米国の西部開拓時代風アレンジした当社製品を提供しています。このレストランへの協賛を機会に、新しい食材の開発やより豊かな食文化の創造を目指していきます。また、安定的な食材の供給を目指し、2001年2月に大阪US営業所を設置し、年間800万人の入場者数が見込まれている「ユニバーサル・スタジオ・ジャパン」内で使用されるハンバーガーパティ、ホットドッグ用ソーセージ等の食材を一手に供給する体制を整えています。

「ユニバーサル・スタジオ・ジャパン」は、大阪市の「国際集客都市」構想の核となる国際マルチメディア地域形成の中核施設と位置付けられており、「コーポレート・マーケティング・パートナーシップ」契約は、伊藤ハムのコーポレート・ブランド向上に大きな貢献が期待されます。

The Power Of Hollywood™ USJ Co., Ltd.
Back To The Future ® - The Ride © Universal Studios/U-Drive J.V.
E. T. Adventure ® & © Universal Studios and Amblin
Jurassic Park - The Ride ® & © Universal Studios and Amblin
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Universal elements, Universal Studios Japan™ & © Universal Studios.
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Long Branch Barbecue™ & © Universal Studios
CR01-3229

CONSOLIDATED FINANCIAL SUMMARY

主要財務指標

NET SALES

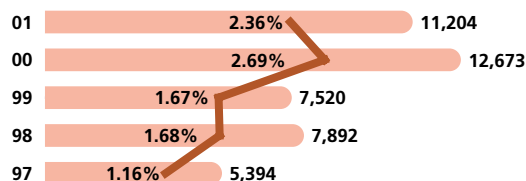
売上高



(billions of yen / 十億円)	Mar.1997	98	99	00	2001
Netsales					
売上高	465	468	450	470	475

OPERATING INCOME, RATIO OF OPERATING INCOME TO NET SALES

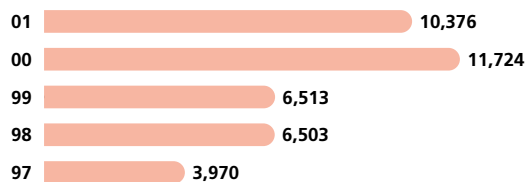
営業利益、売上高営業利益率



(millions of yen, % / 百万円)	Mar.1997	98	99	00	2001
Operating income					
営業利益	5,394	7,892	7,520	12,673	11,204
Ratio of operating income to net sales					
売上高営業利益率	1.16	1.68	1.67	2.69	2.36

OPERATING INCOME, INCLUDING INTEREST AND DIVIDEND INCOME, NET OF INTEREST AND DISCOUNT EXPENSES

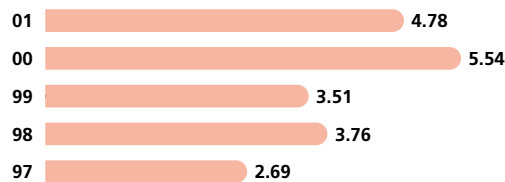
利払後事業利益



(millions of yen / 百万円)	Mar.1997	98	99	00	2001
Operating income including interest and dividend income, net of interest and discount expenses					
利払後事業利益	3,970	6,503	6,513	11,724	10,376

RATIO OF OPERATING INCOME, INCLUDING INTEREST AND DIVIDENDS, TO AVERAGE TOTAL CAPITAL

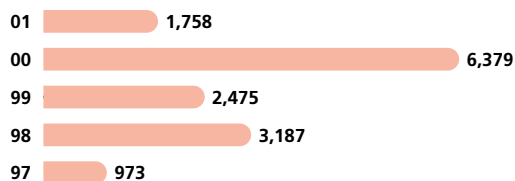
使用総資本事業利益率



(%)	Mar.1997	98	99	00	2001
Ratio of operating income, including interest and dividends, to average total capital					
使用総資本事業利益率	2.69	3.76	3.51	5.54	4.78

NET INCOME

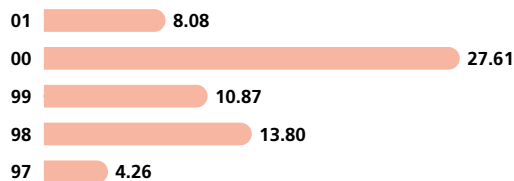
当期純利益



(millions of yen / 百万円)	Mar.1997	98	99	00	2001
Net income					
当期純利益	973	3,187	2,475	6,379	1,758

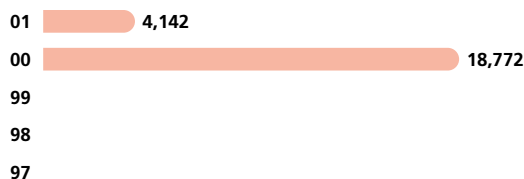
DILUTED NET INCOME PER SHARE

潜在株式調整後一株当たり当期純利益



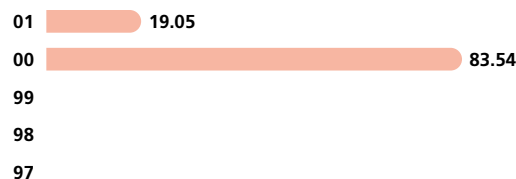
(yen / 円)	Mar.1997	98	99	00	2001
Diluted net income per share					
潜在株式調整後一株当たり当期純利益	4.26	13.80	10.87	27.61	8.08

FREE CASH FLOWS フリーキャッシュ・フロー



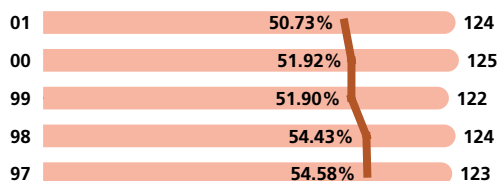
	Mar.1997	98	99	00	2001
Free cash flows					
フリーキャッシュ・フロー	-	-	-	18,772	4,142

FREE CASH FLOWS PER SHARE 一株当たりフリーキャッシュ・フロー



	Mar.1997	98	99	00	2001
Free cash flows per share					
一株当たりフリーキャッシュ・フロー	-	-	-	83.54	19.05

SHAREHOLDERS' EQUITY, RATIO OF SHAREHOLDERS' EQUITY TO TOTAL ASSETS 株主資本、株主資本比率



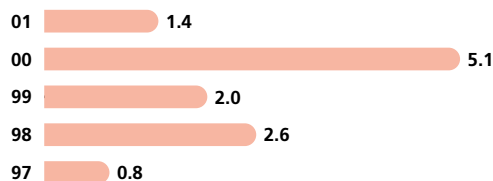
	Mar.1997	98	99	00	2001
Shareholders' equity					
株主資本	123	124	122	125	124
Ratio of shareholders' equity to total assets					
株主資本比率	54.58	54.43	51.90	51.92	50.73

SHAREHOLDERS' EQUITY PER SHARE 一株当たり株主資本



	Mar.1997	98	99	00	2001
Shareholders' equity per share					
一株当たり株主資本	542.49	545.68	545.19	567.33	578.04

RETURN ON EQUITY 株主資本利益率



	Mar.1997	98	99	00	2001
Return on equity					
株主資本利益率	0.8	2.6	2.0	5.1	1.4

INTEREST BEARING DEBT 有利子負債



	Mar.1997	98	99	00	2001
Interest bearing debt					
有利子負債	49,244	47,824	56,300	48,483	46,923

Note: The company started preparing a "Consolidated Statement of Cash Flows" in the year ended March 31, 2000. Figures for Free Cash Flows and Free Cash Flows per Share are not available for the previous three years.

注記: 2000年度より「連結キャッシュ・フロー計算書」を作成しているため、「フリーキャッシュ・フロー」「一株当たりフリーキャッシュ・フロー」については、過去3年の数値は掲載しておりません。

CORPORATE INFORMATION

企業情報

CORPORATE DATA

企業データ(2001年3月31日現在)

Company Name: ITOHAM FOODS INC.
 Address: 4-27, Takahata-cho, Nishinomiya City,
 Hyogo 663-8586, Japan
 Tel: 0798-66-1231
 Homepage: <http://www.itoham.co.jp>
 Common stock: ¥22,415 million
 Number of shares of common stock issued: 215,482,533
 Number of employees: 6,447 (Consolidated)
 Consolidated Subsidiaries: 44
 Equity-Method Affiliates: 11
 Shareholder Coupon System:
 1. Qualification Shareholders with 1,000 or more shares
 2. Coupon amount Itoham product coupons worth ¥2,000

伊藤ハム株式会社(証券コード 2284)
 本社所在地: 〒663-8586
 兵庫県西宮市高畑町4番27号
 TEL: 0798-66-1231
 ホームページアドレス: <http://www.itoham.co.jp>
 資本金: 22,415百万円
 発行済株式数: 215,482,533株
 連結従業員数: 6,447人
 連結子会社数: 44社
 持分法適用関連会社数: 11社
 株主優待制度について: 1)優待基準 所有株式数1,000株以上の株主
 2)優待内容 当社製品引換券 2,000円

CORPORATE BONDS

社債明細表

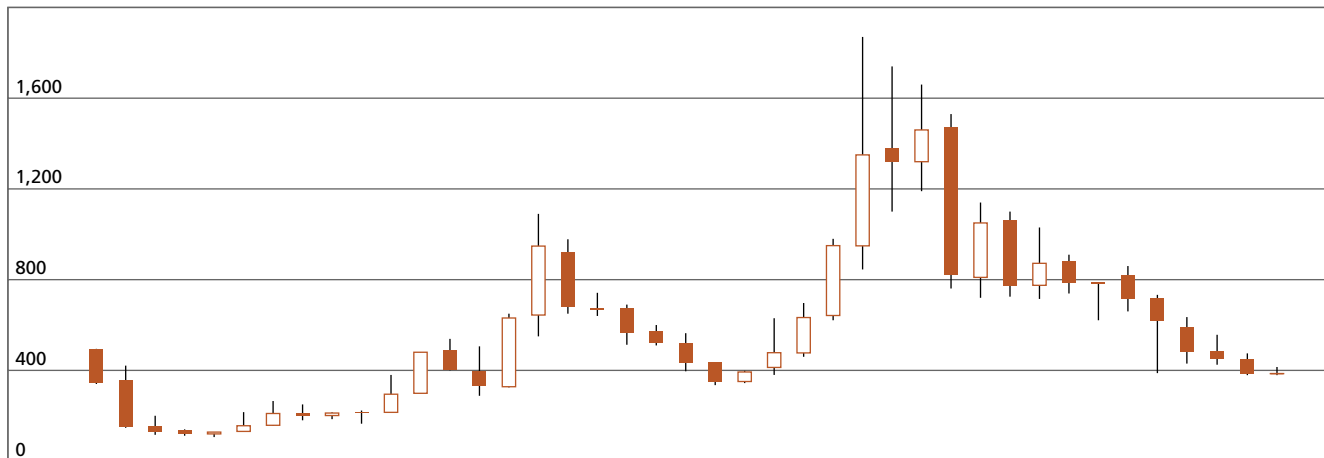
(millions of yen / 百万円)

	Bond 銘柄	Issue Date 発行年月日	Amount 発行総額	Interest Rate 利率 (%)	Outstanding Amount 未償還残高	Due Date 償還期限
7th unsecured bond	第7回無担保社債	April 15, 1997	3,000	2.000	3,000	April 15, 2002
8th unsecured bond	第8回無担保社債	June 8, 1998	10,000	2.175	10,000	June 8, 2005
9th unsecured bond	第9回無担保社債	October 9, 1998	5,000	2.110	5,000	October 9, 2008
3rd convertible sinking fund debentures	第3回転換社債	December 18, 1987	20,000	1.800	19,655	February 28, 2003

COMMON STOCK PRICE RANGE

株価の推移

(¥/円)



Calendar year		91	92	93	94	95	96	97	98	99	00	01
Itoham Common Stock (¥)	High 高値	1,140	1,100	1,030	910	788	860	733	635	557	495	415
株価(円)	Low 安値	720	725	715	739	621	660	388	430	425	379	365
Trading Volume (thousands of shares)												
出来高(千株)		44,541	31,122	47,708	30,237	33,956	37,741	42,862	37,830	62,290	78,006	14,570

Note: The figures for the 2001 calendar year only are for the 3-month period from January 2001 through March 2001.
 01年度のみ1~3月までのデータを反映させております。

► FINANCIAL SECTION

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FINANCIAL REVIEW

Net Sales

The Japanese economy got onto a slight recovery footing, albeit a shaky one, during fiscal 2001, ended March 31, 2001, on the back of increasing demand in the IT sector and favorable exports. This was evident in improving company profits and increased capital investments. However, signs of a slowdown in the U.S. economy from the second half of the year and lackluster personal consumption due to worries about employment and stagnant income levels dampened the mood. It would seem that stagnation has set in.

The Japanese meat industry could not escape the effects. Consumption fell below last year's level and in a situation characterized by falling sales prices, sales competition intensified, creating a difficult operating environment. Added difficulties were presented by an E. coli O-157 bacteria-related scare mistakenly attributed to ham and a series of food poisoning incidents in Japan last summer and the reemergence of mad cow disease combined with the spread of foot-and-mouth disease in Europe. Difficulties thus persisted in our operating environment.

The Itoham Group has responded by strengthening sales capabilities and attempting to expand sales in the Fresh Meat Division and the Processed Foods Division. Furthermore, we reduced the number of items in our ham and sausage lineup to focus on core products in line with our program to cut production costs and to pare selling expenses. As a result, net sales increased 1.1% to ¥475.5 billion.

By division, in the Ham and Sausage Division sales decreased 1.5% year-on-year to ¥127.5 billion in a market leaning toward lower prices, despite higher sales volumes.

In the Fresh Meat Division, sales increased 1.8% to ¥254.2 billion. This was the result of efforts to expand sales volumes by

opening up new sales channels and strengthening relationships with existing customers. These actions enabled the division to overcome the effects of declining sales prices in the face of sluggish market conditions and increasingly intense competition.

In the Processed Foods and Other Products Division, sales of processed food products rose 3.2% to ¥80.1 billion. Competition remains intense however. The company responded by strengthening each sales channel, developing new products that reflect consumers' changing preferences and adding new value to core products. Sales of other products coming from the medical products and food services industry rose 0.6% to ¥13.7 billion. The combined effect was a 2.9% rise in sales for the Division as a whole to ¥93.8 billion.

Costs, Expenses and Earnings

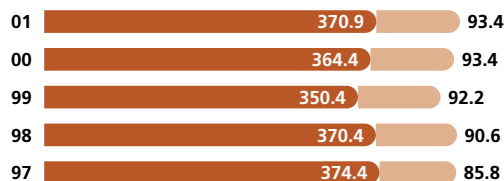
The cost of sales increased 1.8% to ¥370.9 billion and the cost of sales ratio was 78.0%. Gross profit fell 1.4% to ¥104.6 billion and the ratio of gross profits to net sales declined 0.6 of a percentage point to 22.0%.

Selling, general and administrative (SGA) expenses were ¥93.4 billion and the ratio of SGA expenses to net sales was largely unchanged at 19.6%. The result was that operating income declined 11.6% to ¥11.2 billion while the ratio of operating income to net sales fell 0.3 of a percentage point to 2.4%.

In non-operating items net financial income and expenses improved from a year ago. This reflected declining market interest rates in Japan and the reduction of interest bearing debt to strengthen the company's balance sheet. In other non-operating items, the company recorded a ¥9.5 billion gain on securities contributed to an employee retirement benefit trust. Offsetting this was a ¥0.8 billion loss on the write-down of investment

COSTS AND EXPENSES

¥ Billion

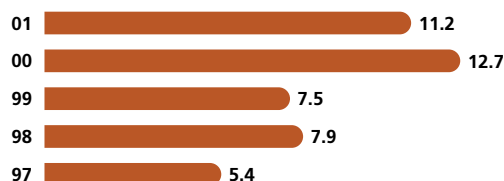


■ Cost of sales

■ Selling, general and administrative expenses

OPERATING INCOME

¥ Billion



securities and a one-off charge of ¥17.0 billion for unfunded employees' severance and retirement benefits in line with relevant accounting standards. As a result, net other expenses increased ¥6.7 billion year on year to ¥8.2 billion.

Income before income taxes declined 72.9% to ¥3.0 billion. Diluted net income per share fell from ¥27.61 to ¥8.08.

Financial Position

Total assets at March 31, 2001 stood at ¥245.5 billion, ¥3.9 billion higher than a year ago. Current assets increased ¥7.5 billion to ¥133.4 billion. This was primarily attributable to a ¥6.3 billion increase in trade notes and accounts receivable as the final day of the fiscal year fell on a bank holiday, and a ¥2.3 billion increase in inventories due to an increase in finished products and resale inventories. On the other hand, marketable securities decreased ¥1.1 billion.

Capital investments totaled ¥8.1 billion, reflecting improvements at existing factories and replacement of vehicles. Property, plant and equipment, excluding land, decreased ¥1.9 billion to ¥53.0 billion due to disposals, sales and depreciation. Land decreased ¥0.3 billion to ¥23.9 billion. As a result, property, plant and equipment at the year's end was ¥76.9 billion.

On the other side of the balance sheet, current liabilities increased ¥6.4 billion to ¥75.2 billion. This was primarily the result of a ¥3.4 billion increase in trade payables and a ¥1.1 billion increase in short-term bank loans. Long-term debt due after one year was ¥40.6 billion due to a ¥2.9 billion decrease in long-term bank loans.

Shareholders' equity decreased ¥0.9 billion to ¥124.6 billion due to two factors. One was that Itoham decided to use additional paid-in capital to purchase and retire ¥2.5 billion of trea-

sury stock as this was judged to be an effective action in light of present economic conditions and the company's financial position. The other was the inclusion of a ¥2.0 billion decrease in foreign currency translation adjustments. Offsetting these decreases was a ¥3.7 billion increase from net unrealized holding gains on securities. The ratio of shareholders' equity to total assets was largely unchanged at 50.7% and the current ratio was 1.77.

Cash Flows

Cash and cash equivalents decreased 5.3%, or ¥1.9 billion, to ¥33.8 billion. This primarily reflected decreases in borrowings, outgoings for the acquisitions of property, plant and equipment, and payments for purchase of treasury stock.

Net cash provided by operating activities fell 53.4% to ¥9.4 billion. In terms of inflows, this mainly reflected income before income taxes of ¥3.0 billion, depreciation and amortization of ¥8.8 billion, and a ¥1.6 billion increase in employees' severance and retirement benefits. Offsetting these items was an increase in trade notes and accounts receivable as the final day of the fiscal year fell on a bank holiday, and other factors.

Net cash used in investing activities increased 287.2% to ¥5.2 billion. This reflected ¥8.4 billion in payments for upgrading existing plants offset by proceeds from the sales of investment securities and idle land.

Net cash used in financing activities decreased 47.8% to ¥6.1 billion. Cash was used primarily for the repayment of loans of a merged subsidiary and for the purchase and retirement of treasury stock.

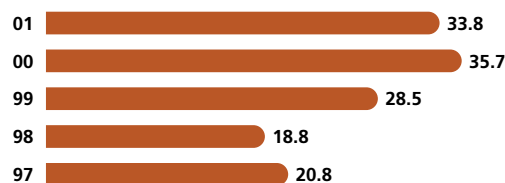
CURRENT RATIO

Times



CASH AND CASH EQUIVALENTS

¥ Billion



▶ CONSOLIDATED BALANCE SHEETS

ITOHAM FOODS INC. – March 31, 2001 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current assets:			
Cash and time deposits (Notes 4, 8)	¥ 15,713	¥ 16,467	\$ 126,820
Marketable securities (Note 5)	18,445	19,536	148,870
Receivables:			
Trade notes and accounts (Note 3)	53,718	47,390	433,559
Other	241	331	1,945
Allowance for doubtful receivables	(481)	(391)	(3,882)
	53,478	47,330	431,622
Fund trust investments	–	540	–
Inventories (Note 6)	41,893	39,587	338,120
Deferred tax assets (Note 13)	1,394	835	11,251
Other current assets	2,467	1,608	19,911
Total current assets	133,390	125,903	1,076,594
Investments and non-current assets:			
Investments in:			
Unconsolidated affiliates	3,268	3,037	26,376
Other (Note 5)	18,609	18,161	150,194
Loans to:			
Unconsolidated affiliates	178	409	1,437
Other	1,911	1,841	15,424
Long-term deferred tax assets (Note 13)	1,009	530	8,143
Other	10,534	10,940	85,020
Allowance for doubtful receivables	(873)	(580)	(7,046)
	34,636	34,338	279,548
Property, plant and equipment:			
Land	23,866	24,173	192,623
Buildings and structures	66,102	64,937	533,511
Machinery and equipment	93,639	92,990	755,763
Breeding livestock	258	227	2,082
Construction in progress	284	701	2,292
	184,149	183,028	1,486,271
Accumulated depreciation	(107,272)	(103,964)	(865,795)
	76,877	79,064	620,476
Intangible assets	628	775	5,069
Foreign currency translation adjustments	–	1,575	–
	¥ 245,531	¥ 241,655	\$1,981,687

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current liabilities:			
Bank loans	¥ 5,784	¥ 4,640	\$ 46,683
Long-term debt due within one year (Note 7)	517	355	4,173
Notes and accounts payable:			
Trade (Note 3)	45,630	42,255	368,281
Construction	1,752	2,095	14,140
Other	11,401	10,603	92,018
	58,783	54,953	474,439
Accrued expenses	4,481	4,456	36,166
Income taxes payable	3,035	2,955	24,495
Deferred tax liabilities (Note 13)	72	77	581
Other	2,547	1,429	20,557
Total current liabilities	75,219	68,865	607,094
Long-term debt due after one year (Note 7)	40,621	43,488	327,853
Employees' retirement benefits	—	2,204	—
Employees' severance and retirement benefits (Note 9)	3,854	—	31,106
Directors' and statutory auditors' retirement benefits	832	778	6,715
Long-term deferred tax liabilities (Note 13)	82	560	662
Minority interests	367	284	2,962
Contingent liabilities (Note 10)			
Shareholders' equity (Note 14):			
Common stock, par value ¥50 per share;			
Authorized—347,013,000 shares			
(352,701,000 shares—2000)			
Issued—215,482,533 shares			
(221,170,533 shares—2000)	22,415	22,415	180,912
Additional paid-in capital	26,381	28,852	212,922
Retained earnings	74,147	74,210	598,442
Net unrealized holding gains on securities	3,652	—	29,475
Foreign currency translation adjustments	(2,038)	—	(16,448)
Treasury stock, at cost	(1)	(1)	(8)
Total shareholders' equity	124,556	125,476	1,005,295
	¥245,531	¥241,655	\$1,981,687

See accompanying notes.



CONSOLIDATED STATEMENTS OF INCOME

ITOHAM FOODS INC. – Years ended March 31,
2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Net sales	¥475,519	¥470,453	\$3,837,925
Cost and expenses:			
Cost of sales	370,946	364,362	2,993,914
Selling, general and administrative expenses	93,369	93,418	753,584
Operating income	11,204	12,673	90,427
Other income (expenses):			
Interest and dividend income	439	591	3,543
Interest expense	(1,268)	(1,540)	(10,234)
Gain on sale of marketable and investment securities, net	360	104	2,905
Loss on disposal of property, plant and equipment	(470)	(397)	(3,793)
Write-down of investment securities	(540)	(1,326)	(4,358)
Equity in earnings of associated companies	696	293	5,617
Gain on securities contributed to employee retirement benefit trust	9,514	–	76,788
Net transition obligation of employee retirement benefit plans	(17,027)	–	(137,425)
Other, net	124	792	1,001
	(8,172)	(1,483)	(65,956)
Income before income taxes	3,032	11,190	24,471
Income taxes – current	5,442	4,781	43,922
– deferred	(4,181)	27	(33,745)
Minority interests	13	3	105
Net income	¥ 1,758	¥ 6,379	\$ 14,189
	Yen		U.S. dollars
Net income per share	¥ 8.08	¥ 28.39	\$ 0.065
Diluted net income per share	8.08	27.61	0.065
Dividends per share	8.00	8.00	0.065

See accompanying notes.



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ITOHAM FOODS INC. – Years ended March 31,
2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$180,912
Balance at end of year	¥22,415	¥22,415	\$180,912
Additional paid-in capital:			
Balance at beginning of year	¥28,852	¥30,841	\$232,865
Common stock purchased and retired	(2,471)	(1,989)	(19,943)
Balance at end of year	¥26,381	¥28,852	\$212,922
Retained earnings:			
Balance at beginning of year	¥74,210	¥69,675	\$598,951
Net income for year	1,758	6,379	14,189
Cash dividends paid — ¥8.00 per share (¥8.00 per share–2000)	(1,769)	(1,804)	(14,278)
Bonuses to directors	(50)	(40)	(404)
Effect of increase in consolidated subsidiaries	(2)	—	(16)
Balance at end of year	¥74,147	¥74,210	\$598,442
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ —	¥ —	\$ —
Adoption of new accounting standard for financial instruments	3,652	—	29,475
Balance at end of year	¥ 3,652	¥ —	\$ 29,475
Foreign currency translation adjustments:			
Balance at beginning of year	¥ —	¥ —	\$ —
Adjustments from translation of foreign currency financial statements	(2,038)	—	(16,448)
Balance at end of year	¥ (2,038)	¥ —	\$ (16,448)
Number of shares of common stock issued:	2001	2000	
At beginning of year	221,170,533	225,482,533	
Common stock purchased and retired	(5,688,000)	(4,312,000)	
At end of year	215,482,533	221,170,533	

See accompanying notes.



CONSOLIDATED STATEMENT OF CASH FLOWS

ITOHAM FOODS INC. – Year ended March 31,
2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes	¥ 3,032	¥11,190	\$ 24,471
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	8,957	9,426	72,292
Increase (decrease) in employees' retirement benefits	(2,204)	440	(17,788)
Increase in employees' severance and retirement benefits	3,854	–	31,106
Increase in allowance for doubtful receivables	382	405	3,083
Interest and dividend income	(439)	(591)	(3,543)
Interest expense	1,268	1,541	10,234
Equity in earnings of associated companies	(696)	(293)	(5,617)
Write-down of investment securities	540	1,326	4,358
Gain on sale of property, plant and equipment	(179)	(651)	(1,445)
Loss on disposal of property, plant and equipment	571	1,047	4,609
Gain on securities contributed to employee retirement benefit trust	(9,514)	–	(76,788)
Net transition obligation of employee retirement benefit plans	14,195	–	114,568
Increase in notes and accounts receivable	(6,831)	(4,059)	(55,133)
Increase in inventories	(2,312)	(3,646)	(18,660)
Increase in notes and accounts payable	3,319	9,053	26,788
Decrease in accrued consumption taxes	(235)	(237)	(1,897)
Other	1,837	1,129	14,826
	15,545	26,080	125,464
Interest and dividends received	597	595	4,818
Interest paid	(1,338)	(1,590)	(10,799)
Income taxes paid	(5,423)	(4,960)	(43,769)
Net cash provided by operating activities	9,381	20,125	75,714
Cash flows from investing activities:			
Investments in time deposits	(4,665)	(3,733)	(37,651)
Proceeds from time deposits	4,625	8,110	37,328
Acquisitions of property, plant and equipment	(8,402)	(7,423)	(67,813)
Proceeds from sale of property, plant and equipment	1,955	2,054	15,779
Acquisitions of intangible assets	(76)	(172)	(613)
Payments for purchases of investment securities	(217)	(296)	(1,751)
Proceeds from sales of investment securities	1,333	788	10,758
Disbursement of loans receivable	(749)	(850)	(6,045)
Collection of loan receivables	1,000	1,105	8,071
Other	(43)	(936)	(347)
Net cash used in investing activities	(5,239)	(1,353)	(42,284)
Cash flows from financing activities:			
Payments of short-term bank loans, net	(1,545)	(3,612)	(12,470)
Proceeds from long-term debt	1,398	1,445	11,283
Repayments of long-term debt	(1,670)	(2,649)	(13,478)
Repayments of bonds	–	(3,000)	–
Payments for purchase of treasury stock	(2,471)	(1,989)	(19,943)
Dividends paid	(1,769)	(1,804)	(14,278)
Dividends paid to minority shareholders of consolidated subsidiaries	(4)	(4)	(32)
Net cash used in financing activities	(6,061)	(11,613)	(48,918)
Effect of exchange rate changes on cash and cash equivalents	(41)	80	(331)
Net increase (decrease) in cash and cash equivalents	(1,960)	7,239	(15,819)
Cash and cash equivalents at beginning of year	35,717	28,451	288,273
Effect of changes in consolidated subsidiaries	79	27	637
Cash and cash equivalents at end of year (Note 4)	¥33,836	¥35,717	\$273,091

See accompanying notes.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

ITOHAM FOODS INC. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Minister of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 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 significant companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in non-consolidated affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted by the equity method.

In accordance with the revised Accounting Principles for Consolidated Financial Statements effective from the year ended March 31, 2000, a company which is substantially controlled by the Company is considered subsidiary and included in the consolidation for 2000. In the prior years only majority-owned subsidiaries were consolidated.

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 equity in their net assets at dates of acquisition is amortized over five years.

(2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, 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 changes 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 plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(4) Securities

Prior to April 1, 2000, listed and quoted securities of the Company and its consolidated subsidiaries were valued at the lower of cost or market.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberations Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average 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 sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities

are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, including effects of changes to accounting for derivatives, allowance for doubtful accounts and golf course memberships, income before income taxes decreased by 522 million (\$4,213 thousand).

(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 remaining inventories.

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

(6) Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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 fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract 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. 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.

(8) Bonuses

The Company and its consolidated domestic subsidiaries follow the Japanese practice of paying bonuses to employees in July and Decem-

ber. Accrued bonus liabilities as of the balance sheet date are based on estimated amounts to be paid in the subsequent period. Bonuses to directors and statutory auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(9) 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 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.

At March 31, 2000, the Company and its consolidated domestic subsidiaries accrued liabilities for lump-sum severance and retirement payments equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated domestic subsidiaries provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥17,027 million (\$137,425 thousand), of which ¥14,195 million (\$114,568 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥14,195 million (\$114,568 thousand) to the employee retirement benefit trust in September 2000. The remaining net transition obligation amounting to ¥2,832 million (\$22,857 thousand) was also recognized as an expense in the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥16,352 million (\$131,977 thousand). After subtracting the "gain on securities contributed to employee retirement benefit trust" amounting to ¥9,514 million (\$76,788 thousand), income before income taxes decreased by ¥6,874 million (\$55,480 thousand) compared with what would have been recorded under the previous accounting standard.

(10) 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.

(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 ¥941 million (\$7,595 thousand) and ¥922 million for the years ended March 31, 2001 and 2000, respectively, are charged to operations in the period incurred.

(12) Finance leases

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

(13) Income taxes

Deferred income taxes are recorded to reflect tax effects of 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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(14) Foreign currency translation

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

As a result of adopting the new accounting standard for financial instruments, income before income taxes increased by ¥41 million (\$331 thousand), respectively.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, 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.

Due to the adoption of Revised Accounting Standard, the Company and its consolidated domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity. The prior year's amount, which is included in assets, has not been reclassified.

(15) Amounts per share

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

Diluted net income per share is calculated assuming the conversion of all dilutive convertible bonds at the beginning of the year.

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

3. EFFECT OF BANK HOLIDAY ON MARCH 31, 2001

As financial institutions in Japan were closed on March 31, 2001, amounts that would normally be settled on March 31, 2001 were collected or paid on the following business day, April 2, 2001. The effect of the settlements on April 2 instead of March 31 included the following:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable, trade increased	¥145	\$1,170
Accounts payable, trade increased	11	89

4. STATEMENT OF CASH FLOWS

The reconciliation of cash and time deposits in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flows as of March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits on the consolidated balance sheet	¥15,713	¥16,467	\$126,820
Time deposits with maturities exceeding 3 months	(322)	(286)	(2,599)
Highly liquid investments whose original maturities are within 3 months	18,445	19,536	148,870
Cash and cash equivalents on the consolidated statement of cash flows	¥33,836	¥35,717	\$273,091

5. SECURITIES

A. The following tables summarize information on securities with available fair values as of March 31, 2001:

(a) Held-to-maturity debt securities

Securities with available fair values exceeding book values

	Millions of yen	Thousands of U.S. dollars
Book value	¥ 301	\$2,429
Fair value	306	2,470
Difference	¥ 5	\$ 41

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

Securities with book values (fair values) exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥6,610	¥13,563	¥6,953	\$53,349	\$109,467	\$56,118

Securities with book values (fair values) not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥2,777	¥ 2,279	¥ (498)	\$22,413	\$ 18,394	\$ (4,019)
Bonds	370	279	(91)	2,986	2,252	(734)
Total	¥3,147	¥ 2,558	¥ (589)	\$25,399	\$ 20,646	\$ (4,753)

B. The following tables summarize book values of securities with no available fair values as of March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
(a) Held-to-maturity debt securities		
Non-listed foreign bonds	¥ 500	\$ 4,036
(b) Available-for-sale securities		
Money market fund	¥18,445	\$148,870
Non-listed equity securities	1,802	14,544
Others	184	1,485

C. Available-for-sale securities with maturities and held-to-maturity debt securities mature are as follows:

	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
	Millions of yen		
Government bonds	¥ –	¥ 301	¥ –
Corporate bonds	–	48	–
Others	–	279	500
Total	¥ –	¥ 628	¥ 500

	Thousands of U.S. dollars		
Government bonds	\$ –	\$2,429	\$ –
Corporate bonds	–	387	–
Others	–	2,252	4,036
Total	\$ –	\$5,068	\$4,036

D. Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥987 million (\$7,966 thousand) and the related gains amounted to ¥360 million (\$2,905 thousand).

E. In April 2000, the Company contributed, receiving no cash, certain investment securities to its employee retirement benefit trust as explained in Note 2 (9). The market value of the contributed securities at the time of contribution was ¥14,195 million (\$114,568 thousand). Upon contribution of these securities, a "gain on securities contributed to employee retirement benefit trust" amounting to ¥9,514 million (\$76,788 thousand) was recognized.

F. Listed and quoted securities included in investments in securities at March 31, 2000, consisted of the following:

	Millions of yen
Listed corporate shares	¥14,680
Listed bonds and debentures	303
Other	280
	¥15,263

The aggregate market values of the listed securities shown above at March 31, 2000, were as follows:

	Millions of yen
Market values	¥33,572

6. INVENTORIES

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished products and resale inventories	¥27,102	¥24,531	\$218,741
Raw materials and cattle	14,791	15,056	119,379
	¥41,893	¥39,587	\$338,120

7. LONG-TERM DEBT

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Secured:			
Banks, 1.800% – 6.980%, maturing serially through 2015	¥ 2,050	¥ 1,165	\$ 16,546
Unsecured:			
Banks, 1.640% – 6.880%, maturing serially through 2006	1,433	5,023	11,566
1.8% convertible sinking fund debentures due 2003	19,655	19,655	158,636
2.0% bonds due 2002	3,000	3,000	24,213
2.175% bonds due 2005	10,000	10,000	80,710
2.11% bonds due 2008	5,000	5,000	40,355
	41,138	43,843	332,026
Less amounts due within one year	517	355	4,173
	¥40,621	¥43,488	\$327,853

The 1.8 percent convertible sinking fund debentures due 2003 are convertible into common stock at the option of the holders at a conversion price, at March 31, 2001, of ¥1,439 (\$11.61) per share. The debentures are also redeemable, commencing on March 1, 2001, at the option of the Company at prices ranging from 101 percent to 100 percent of the principal amount.

The conversion price of the convertible debentures is subject to adjustment as provided in the issuing agreement. If on March 31, 2001 all convertible debentures were converted to common stock, 13,659 thousand shares of stock would be issuable.

The aggregate annual maturities of long-term debt outstanding at March 31, 2001, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 517	\$ 4,173
2003	23,396	188,830
2004	1,302	10,508
2005	219	1,768
2006 and thereafter	15,704	126,747
	¥41,138	\$332,026

At March 31, 2001 assets pledged as collateral for bank loans of ¥882 million (\$7,119 thousand) and secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 422	\$ 3,406
Buildings and structures net of accumulated depreciation	1,361	10,985

8. PLEDGED ASSETS

At March 31, 2001, time deposits of ¥110 million (\$888 thousand) were pledged for transaction guarantees.

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2 (9). Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥59,615	\$481,154
Unrecognized actuarial differences	(9,440)	(76,190)
Fair value of pension assets	(46,323)	(373,874)
Prepaid pension costs	2	16
Allowance for severance and retirement benefit	¥ 3,854	\$ 31,106

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars
Service costs – benefits earned during the year	¥ 2,613	\$ 21,090
Interest cost on projected benefit obligation	1,960	15,819
Expected return on plan assets	(2,094)	(16,901)
Net transition obligation of employee retirement benefit plans	17,027	137,425
Severance and retirement benefit expenses	¥19,506	\$157,433

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries are 3.5% and 5.5%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the income statement using the straight-line method over 15 years.

10. CONTINGENT LIABILITIES

At March 31, 2001 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥1,415	\$11,420
Other companies	1,556	12,559
	<u>¥2,971</u>	<u>\$23,979</u>

11. 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. It is the Company's policy not to use derivatives for speculation.

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

Hedging instruments: Forward currency exchange contracts
Hedged items: Foreign currency trade payables

Outstanding positions at March 31, 2000 were as follows:

Forward currency exchange transactions

	Millions of yen		
	Contracted amount	Current market amount	Unrealized losses
Purchase U.S. dollars	¥9,943	¥9,779	¥164

The market value amount is based on the year end forward rates.

12. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2001 and 2000 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Furniture and fixtures	Other	Total	Total
March 31, 2001				
Original lease obligation (including finance charges)	<u>¥5,424</u>	<u>¥2,700</u>	<u>¥8,124</u>	<u>\$65,569</u>
Payments remaining:				
Payments due within one year			<u>¥1,234</u>	<u>\$ 9,960</u>
Payments due after one year			<u>1,989</u>	<u>16,053</u>
Total			<u>¥3,223</u>	<u>\$26,013</u>

	Millions of yen		
	Furniture and fixtures	Other	Total
March 31, 2000			
Original lease obligation (including finance charges)	<u>¥8,074</u>	<u>¥2,149</u>	<u>¥10,223</u>
Payments remaining:			
Payments due within one year			<u>¥ 1,153</u>
Payments due after one year			<u>4,939</u>
Total			<u>¥ 6,092</u>

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2001 and 2000 were ¥1,219 million (\$9,839 thousand) and ¥1,223 million, respectively.

13. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Allowance for			
doubtful receivables	¥ 382	¥ 170	\$ 3,083
Bonuses accrued	641	423	5,174
Enterprise taxes	252	235	2,034
Directors retirement benefits	354	328	2,857
Write-down of			
investment securities	802	353	6,473
Employees' retirement benefits	—	315	—
Liability for employees' severance			
and retirement benefits	3,437	—	27,740
Accumulated losses	1,328	1,113	10,718
Unrealized gain of land	245	245	1,977
Other	408	320	3,293
	<u>7,849</u>	<u>3,502</u>	<u>63,349</u>
Less valuation allowance	(1,360)	(1,129)	(10,976)
Total deferred tax assets	<u>6,489</u>	<u>¥2,373</u>	<u>52,373</u>
Deferred tax liabilities:			
Deferred gains on			
real properties	(1,423)	(1,520)	(11,485)
Net unrealized holding			
gains on securities	(2,693)	—	(21,735)
Other	(125)	(125)	(1,009)
Total deferred tax liabilities	<u>(4,241)</u>	<u>(1,645)</u>	<u>(34,229)</u>
Net deferred tax assets	<u>¥2,248</u>	<u>¥ 728</u>	<u>\$18,144</u>

14. SHAREHOLDERS' EQUITY

The Company purchased and retired 5,688,000 shares of its common stock in accordance with resolutions of the directors' meetings held on June 29 and December 14, 1999 and May 23, 2000. As a result, the number of the Company's registered authorized common stock was reduced to 347,013,000 shares at March 31, 2001. The cost of the retired shares was charged to additional paid-in capital in the amount of ¥2,471 million (\$19,943 thousand).

The Commercial Code of Japan provides that at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as common stock. The Commercial Code also provides that at least 10% of cash distributions of retained earnings be appropriated as legal reserve until such reserve equals 25% of common stock. Legal reserve is included in retained earnings.

Both additional paid-in capital and legal reserve may be used to reduce a deficit by resolution of the shareholders, or may be capitalized by resolution of the Board of Directors. Retained earnings may also be transferred to common stock, subject to approval by the general shareholders' meeting.

The Company may issue, by resolution of the Board of Directors, new shares to shareholders without compensation, in respect of the portion of common stock in excess of the aggregate amount of the par value of the shares already issued.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

15. SOFTWARE COSTS

In accordance with the provisional rule of the JICPA's Accounting Committee Report No. 12 "Practical Guidance for Accounting for Research and Development Costs" (the "Report"), the Company continues to account for internal use software, which was included in other non-current assets in 1999, in the same manner as in 2000. Pursuant to the Report, however, the Company included such software in intangible assets in 2000 and 2001 and depreciated it using the straight-line method over the estimated useful lives (five years).

16. SEGMENT INFORMATION

The company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of foods. As these activities comprise one industry segment, industry segment information is not disclosed.

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

The overseas sales of the years ended March 31, 2000 and 2001 were less than 10% of consolidated net sales.

17. RELATED PARTY TRANSACTIONS

Principle transactions between the Company and related parties for the year ended March 31, 2001 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Insurance premium paid	¥205	\$1,655
Purchase of cardboard boxes	40	323

18. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 28, 2001, the appropriation of the Company's retained earnings for the year ended March 31, 2001 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥8.00 per share)	¥1,724	\$13,914
Bonuses to directors	40	323
Total	<u>¥1,764</u>	<u>\$14,237</u>



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors
ITOHAM FOODS INC.

We have audited the accompanying consolidated balance sheets of ITOHAM FOODS INC. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income and shareholders' equity for the years then ended, and the consolidated statement of cash flows for the year ended March 31, 2001 and 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

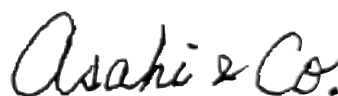
In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of ITOHAM FOODS INC. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations for the years then ended and their cash flows for the year ended March 31, 2001 and 2000, in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2 (4), (9) and (14), in the year ended March 31, 2001, ITOHAM FOODS INC. and subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments, retirement benefits and foreign currency translation.

As explained in Note 2 (1), in the year ended March 31, 2000, ITOHAM FOODS INC. and subsidiaries prospectively adopted the new Japanese accounting standard for consolidated financial statements.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 28, 2001



Asahi & Co.
(Member Firm of Andersen Worldwide SC)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.



MANAGEMENT AND COMPANY NETWORK

Board of Directors

President
Kenichi Ito

Vice President
Kyoji Ito

Senior Managing Directors
Masami Ito
Naotada Tano
Hironobu Takagi

Managing Directors
Shigeo Takahashi
Yoshio Hayashi
Chikara Kasai*
Haruo Ito*

Directors
Nario Ishida*
Michitaka Sakai*
Kotaro Kikuchi*
Minoru Nose*

Standing Auditors
Kiyoshi Kuboi
Takao Kobayashi

Auditors
Kenichiro Kensho
Shinobu Okamoto

**Corporate Executive Officer*

Corporate Executive Officers

Shozaburo Hirasawa
Toyoo Nakamura
Shinichi Yamada
Takashi Ninomiya
Yoshitaka Tanaka
Shingo Iwamoto
Tsuguharu Kawano
Atsuji Katayama
Toshiyuki Fujiyama
Akio Mito

(As of June 28, 2001)

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Kobe City, Hyogo

Head Office

4-27, Takahata-cho
Nishinomiya City, Hyogo
Tel: 0798-66-1231

Tokyo Office

1-6-21, Mita
Meguro-ku, Tokyo
Tel: 03-5723-6204

Plants

Nishinomiya, Tokyo,
Toyohashi, Kyushu,
Rokko, Otaru,
Tohoku, Hokushin,
Funabashi

Meat Centers

Tokyo, Toyohashi,
Yokkaichi, Saga

Subsidiaries

Itoham Daily Inc.
HW Delicatessen Inc.
Itoham Shokuhin Inc.
Itoham Sales Inc.
Okinawa Itoham Inc.
Sankyo Meat Packers Inc.
Hoei & Co., Ltd.
Kikusui Inc.
Itoham Kansai Meat Sales Inc.
Itoham Kanto Meat Sales Inc.
Itoham Chubu Meat Sales Inc.
Itoham Kyushu Meat Sales Inc.

Overseas Network

Ito Cariani Sausage Co., Inc.
3190 Corporate Place
Hayward, California 94545, U.S.A.
Tel: 510-887-0882

Itoham Foods (Australia) Pty. Ltd.

Level 25, St. Martin's Tower 31
Market Street, Sydney
N.S.W. 2000, Australia
Tel: 02-9283-6333

Five Star Beef Ltd.

Seaside Road, Wakanui
P.O. Box 42, Ashburton
New Zealand
Tel: 03-308-1599

American Peptide Company, Inc.

777 E. Evelyn Avenue
Sunnyvale, California 94086, U.S.A.
Tel: 408-733-7604

Domaine de la Lauzade Kinu-Ito

Paris Office
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