



ITOHAM FOODS INC.

Annual Report 2004



The Itoham Group's Management Policy

The aim of the Itoham Group's management policy is to create corporate value over the long term. In order to realize this aim, we will use Group management to become a more vibrant and active company that makes a meaningful contribution to society. Our management policy detailed below will underpin these efforts.

Company Policy

"Service to Society Through Business"

Corporate Philosophy

Winning the confidence and trust of customers engenders belief in the safety and reliability of our products. The Itoham brand is founded on this reliability. By continually strengthening our brand and enhancing corporate value, we can make a meaningful contribution to society. This is our corporate mission.

Corporate Stance

- Carry out customer-centric business activities and enhance the company's ability to respond to changes in the operating environment*
- Create an energetic workplace that encourages people to take on challenges by rewarding individuals for skills and results*

Code of Conduct

- Respect public decency by observing all relevant laws and corporate regulations*
- Keep in mind that all activities affect Itoham's ability to win orders and retain customers. Underpinned by this thinking, promote information sharing and a commitment to rapid response and communication*
- Anchored by the traditional ethos of "Strong, True and Stalwart," ensure total commitment to the principle of self-responsibility*

Contents

<i>01</i>	<i>Consolidated Financial Highlights</i>
<i>02</i>	<i>Message From the President</i>
<i>06</i>	<i>Medium-Term Plan (Three-Year Plan)</i>
<i>08</i>	<i>At a Glance</i>
<i>10</i>	<i>Ham and Sausage Division</i>
<i>12</i>	<i>Fresh Meat Division</i>
<i>14</i>	<i>Processed Foods and Other Products Division</i>
<i>16</i>	<i>Social Contribution and Environmental Protection Activities</i>
<i>18</i>	<i>Financial Section</i>
<i>37</i>	<i>Itoham Corporate History</i>
<i>38</i>	<i>Corporate Data</i>
<i>39</i>	<i>Stock Information</i>

Consolidated Financial Highlights

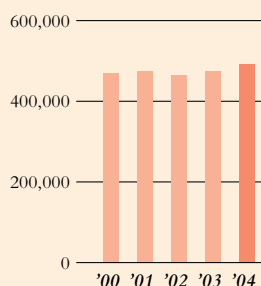
ITOHAM FOODS INC. and Consolidated Subsidiaries

Years ended or as of March 31	Millions of yen		Thousands of U.S. dollars (Note)
	2004	2003	2004
For the year:			
Net sales	¥492,661	¥473,891	\$4,661,378
Operating income	7,315	3,768	69,212
Net income	3,697	313	34,980
At year-end:			
Shareholders' equity	¥122,930	¥117,771	\$1,163,119
Total assets	229,400	219,383	2,170,499
Return on equity	3.1%	0.3%	
Return on assets	3.7%	2.2%	
<hr/>			
	Yen		U.S. dollars (Note)
Per share data:			
Net income	¥ 17.59	¥ 1.49	\$ 0.166
Shareholders' equity	589.86	559.71	5.58

Note: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥105.69=US\$1, the rate prevailing on March 31, 2004.

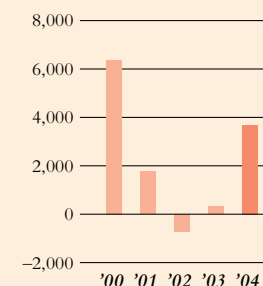
Net sales

(Millions of Yen)



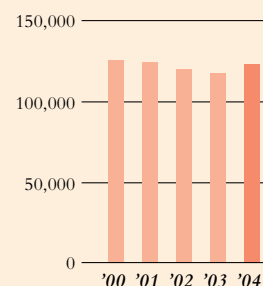
Net income (loss)

(Millions of Yen)



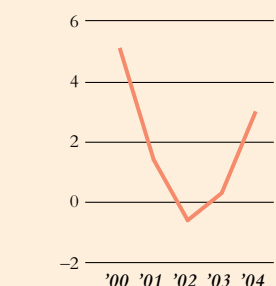
Shareholders' equity

(Millions of Yen)



Return on equity

(%)



Message From the President



MASAMI ITO
President

FISCAL 2004 BUSINESS RESULTS

Although there were some positive signs in the Japanese economy during the year under review, the labor market and income environment remained weak. With no recovery in personal consumption, uncertainty continued to cloud the economic outlook.

Amid difficult conditions, the meat industry faced strong demands for products guaranteeing even higher levels of safety and reliability. This was due to a number of issues that colored the operating landscape during the year, including a ban on beef imports from the U.S. following an outbreak of bovine spongiform encephalopathy (BSE), and incidents of avian flu both in Japan and overseas.

Against this backdrop, the Itoham Group placed top priority on winning the confidence and trust of customers by providing safe and reliable products to build Itoham brand equity. Meanwhile, we took actions to create a more customer-facing company by focusing on three key themes: reinforcing marketing capabilities, realizing a low-cost operating base, and promoting innovation.

In the Ham and Sausage Division, we worked to increase market share by reducing the number of items in the product lineup and focusing on core products. This went hand in hand with initiatives to lower production costs and pare back selling expenses. In the Fresh Meat Division, we focused on developing “backyard solutions” and increasing the number of products with real brand power, and in the Processed Foods Division, we endeavored to boost product development and sales capabilities.

As a result of these and other steps, Itoham posted a 4.0% rise in net sales to ¥492,661 million. In line with this increase in sales, cost of sales rose ¥12,464 million year on year, to ¥386,664 million. Despite the imposition of import safeguards, outbreaks of avian flu and other factors that drove up the cost of raw materials, Itoham achieved a 0.5 percentage point increase in the gross profit ratio, to 21.5%, on the back of ongoing efforts to reduce production costs using the Itoham Production System (IHPS). Compared to the previous period, selling, general and administrative expenses increased 2.9%, or ¥2,759 million, to ¥98,682 million.

Itoham recorded operating income of ¥7,315 million, 94.1% higher year on year, and ordinary income of ¥8,204 million, 64.7% up on the previous year. In special gain and loss items, the company booked a special gain of ¥5,810 million on transfer of the substitutional portion of the social welfare pension insurance scheme. Special loss items included the following: ¥3,290 million for additional retirement indemnity for early retirement and other factors; ¥1,247 million losses on the revision of the retirement benefit plan due to the company changed its tax-qualified pension plan to a defined contribution plan; ¥1,193 million for losses on disposal of property, plant and equipment due to the closure of a factory; and ¥1,100 million for a write-down of property, plant and equipment. As a result of the foregoing, Itoham recorded income before income taxes and minority interests of ¥6,776 million, compared to ¥1,327 million in fiscal 2003, and net income of ¥3,697 million, against ¥313 million in the previous year.

OUTLOOK FOR FISCAL 2005

Although the results of some domestic companies are expected to recover, we anticipate the labor market and income environment will remain difficult, which will continue to stifle personal consumption. We therefore expect our business environment to remain difficult in fiscal 2005.

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

In this business environment, supported by our Medium-Term Plan, we will take a number of group-wide management initiatives designed to transform Itoham into a highly profitable company and create new business models. Our ultimate aim will be to enhance the corporate value of the Itoham Group over the long term. With the needs of the

customer always our number-one priority, we will actively develop products providing solutions for our customers' various needs and carry out marketing activities. And by remaining committed to providing "safe and reliable, fresh and high-quality" products that customers want, we will further enhance trust in the Itoham Group.

In the **Ham and Sausage Division**, the market is currently characterized by contrasting trends. While customers are demanding more authentic flavors and greater food safety, they are also increasingly seeking lower-priced products. Amid this market polarization, we are aiming to win the leading market share in the ham and sausage categories by focusing our sales strategy on two core brands—*Alt Bayern* and the *Morning Fresh* series. We will also expand sales of high value-added products developed from the standpoint of the customer, such as low-calorie *Soft Sausage Mousse Balls*, as well as the *Kobe* series and *Bimi Meihin Berkshire* pork, which both offer customers an enhanced taste experience. We will also improve the efficiency of sales and logistics networks by reducing the number of items we handle and by promoting a joint delivery strategy across all the company's business divisions. This will help enhance Itoham's earnings capabilities in the years ahead.

In production, cost-competitiveness will be bolstered by improving productivity at Itoham Group plants, with efforts centered on promoting IHPS. At the same time, we will maintain and raise quality levels in all processes—from the procurement of raw materials through to the final product.

In the **Fresh Meat Division**, key aims are to increase sales of our own beef brands and *Berkshire* pork as the leading volume supplier of this brand in Japan. We will continue to build Itoham brand equity in the beef market and actively expand sales centered on *Blue Ribbon Beef* and *Rockdale Beef*, which we raise and process at our overseas feedlots. In Japanese regional beef (high value-added beef brand) and pork, we will expand volumes, enabling us to position Itoham brands in a more attractive price range.

In order to ensure we supply safe and reliable beef products, we will continue upgrading the Traceability System, which provides consumers with a detailed history of individual beef products, and release related information on our website.

In product supply, where our approach is guided by providing "backyard solutions" to business partners, we are helping to minimize inventory losses and ensure product traceability by supplying smaller batches and supporting our partners' merchandise management systems. This goes hand in hand with steps to help business partners in the area of sales promotion. Efforts in this area

include the development of a sales manual that makes use of 3D images to enhance understandability, and the active proposal of “backyard solutions” for retailers’ meat counters.

In the **Processed Foods and Other Products Division**, we will work to boost sales in the prepared food category with the launch of a range of new products, such as basic chicken dishes *Kid’s Nuggets* and *Kid’s Karaage*, and a *Binchotanyaki Hamburgers* (charcoal-roasted hamburgers) pack that features five different vegetables in the patty mix. In the large-volume customer sales channel, which includes retailers such as supermarkets, active efforts to increase sales will focus on the daily-delivered food category, and two product lines in particular: the authentic *La Pizza* series of chilled pizzas, launched in the fall of 2003 and to be expanded with a new product, *Bacon Toast*; and the *Kyosho no Sai* series. In the prepared and daily-delivered food segments in the large-volume and food service sales channels, where growth is expected, we aim to boost sales and earnings moving forward. Our strategy will be to source cost-competitive “kitchen solution” products from overseas suppliers, and create carefully tailored proposals to match the needs of each sales segment and channel, such as food vendors and bakery chains.

In production, efforts will be focused on upgrading our overseas supply framework and reducing material costs.

Based on the above initiatives, we are forecasting operating income of ¥10.0 billion, up 36.7% year on year, on net sales of ¥510.0 billion, 3.5% higher than the year under review. We are also projecting ordinary income of ¥10.8 billion, an increase of 31.6%, and net income of ¥6.0 billion, a rise of 62.3%.

Cautionary Note: Forward-Looking Statements

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



MASAMI ITO President

Medium-Term Plan (Three-Year Plan)

MEDIUM- AND LONG-TERM STRATEGY AND PERFORMANCE TARGETS

The Itoham Group has formulated a new Medium-Term Plan covering the three-year period from fiscal 2005 through fiscal 2007 (April 1, 2004 ~ March 31, 2007). The entire Group is working together to achieve the aims of this plan. In order to enhance asset efficiency and boost cost performance, as well as ensure maximum return on investments, Itoham has established return on assets (ROA) and return on equity (ROE) as the two key performance indicators in the Medium-Term Plan. This will encourage the company to focus on management that gives greater consideration to the needs of shareholders and investors. The plan also sets out targets for fiscal 2007 of operating income of ¥15.0 billion and ordinary income of ¥16.0 billion, on consolidated nets sales of ¥570.0 billion. Itoham is also aiming to achieve ROA of 6.6% and ROE of 6.8% for the same period.

MANAGEMENT VISION

1. Become a company capable of steadily increasing corporate brand equity

Continually raise customer satisfaction, while at the same time carrying out management that emphasizes shareholders and disclosing information in a timely manner. Also endeavor to coexist with local communities by placing high priority on the natural environment and activities that make a positive contribution to society.

2. Consistently generate profits to maximize the Group's corporate value

Work to enhance marketing capabilities, create business models and develop new products that respond to market shifts while at the same time increasing product safety and quality by strengthening technological capabilities in each business division. Also, build an earnings structure capable of withstanding negative developments in the operating environment by creating a low-cost management base and taking steps to enhance asset efficiency and cost performance.

3. Create a workforce prepared to take on challenges and a vibrant corporate culture

Effectively utilize, train and enhance the abilities of the Itoham workforce, attach greater emphasis to individual skills, and make wider use of the abilities of female personnel to create a more vibrant corporate culture. At the same time, make the company leaner and more responsive by building a flatter and more streamlined organization.

ISSUES THE ITOHAM GROUP NEEDS TO ADDRESS

The company's operating environment is expected to become increasingly difficult, while the market for meat products is also anticipated to undergo drastic change. In this environment and in line with our new Medium-Term Plan, we will endeavor to transform Itoham into a highly profitable company and create new business models. To achieve this, we will actively roll out a range of business initiatives based on the basic strategy outlined below.

BASIC STRATEGY

1. Formulate a marketing strategy tailored to the new operating landscape

Build a lineup of value-added products by cultivating and reinforcing brands, and upgrading internal frameworks. In addition, put in place a new business model by devising a globally oriented procurement, production and sales strategy.

2. Reform the profit structure by driving intensive cost reduction

In order to put in place a robust business base capable of withstanding negative developments in the company's operating environment, increase productivity by ensuring the optimal use of resources. Specifically, this will involve the consolidation and reduction of production facilities, and the restructuring of, or withdrawal from, unprofitable businesses. Steps will also be taken to pare back personnel costs and reduce assets and interest-bearing debt in an effort to cut fixed expenses, while IT will be employed to enhance the efficiency of business processes.

3. Enhance responsiveness and reform internal organizations and systems

Streamline organizations, create a flatter management structure and speed up the decision-making process. At the same time, fix in place a results-based personnel system, and effectively utilize and train the workforce.

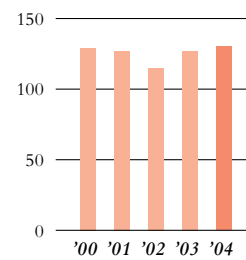
TARGETS FOR FISCAL 2007	
Net sales	¥570.0 billion
Operating income	¥15.0 billion
Ordinary income	¥16.0 billion
ROA	6.6 %
ROE	6.8 %

At a Glance

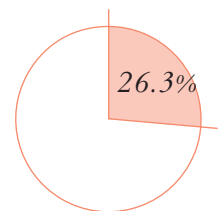
HAM AND SAUSAGE DIVISION



Net Sales
(billions of yen)



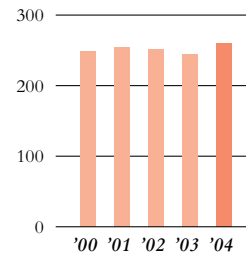
Sales Composition
(%)



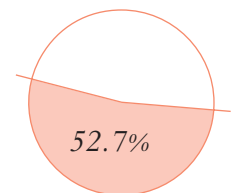
FRESH MEAT DIVISION



Net Sales
(billions of yen)



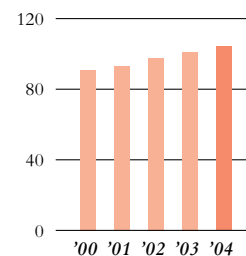
Sales Composition
(%)



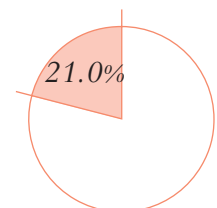
PROCESSED FOODS AND OTHER PRODUCTS DIVISION



Net Sales
(billions of yen)



Sales Composition
(%)



BUSINESS OVERVIEW

This division produces and sells ham, sausages and bacon. Backed by sophisticated technology, it consistently turns out safe, high-quality products. In production activities, the division employs a high-level quality assurance system underpinned by strict hygiene control standards. Furthermore, six of the division's domestic production plants have been awarded ISO 14001 certification, the internationally recognized standard for environmental management. On the sales front, the Ham and Sausage Division is aiming to capture the leading market share in all its product categories by rolling out a sales strategy that focuses on core products. Meanwhile, in the market for ham and sausage gift products, strong support from customers has lifted Itoham to the No. 1 market position in the industry. In fiscal 2004, production and sales of ham and sausages also got underway in China.

FIVE-YEAR REVIEW AND BUSINESS RESULTS

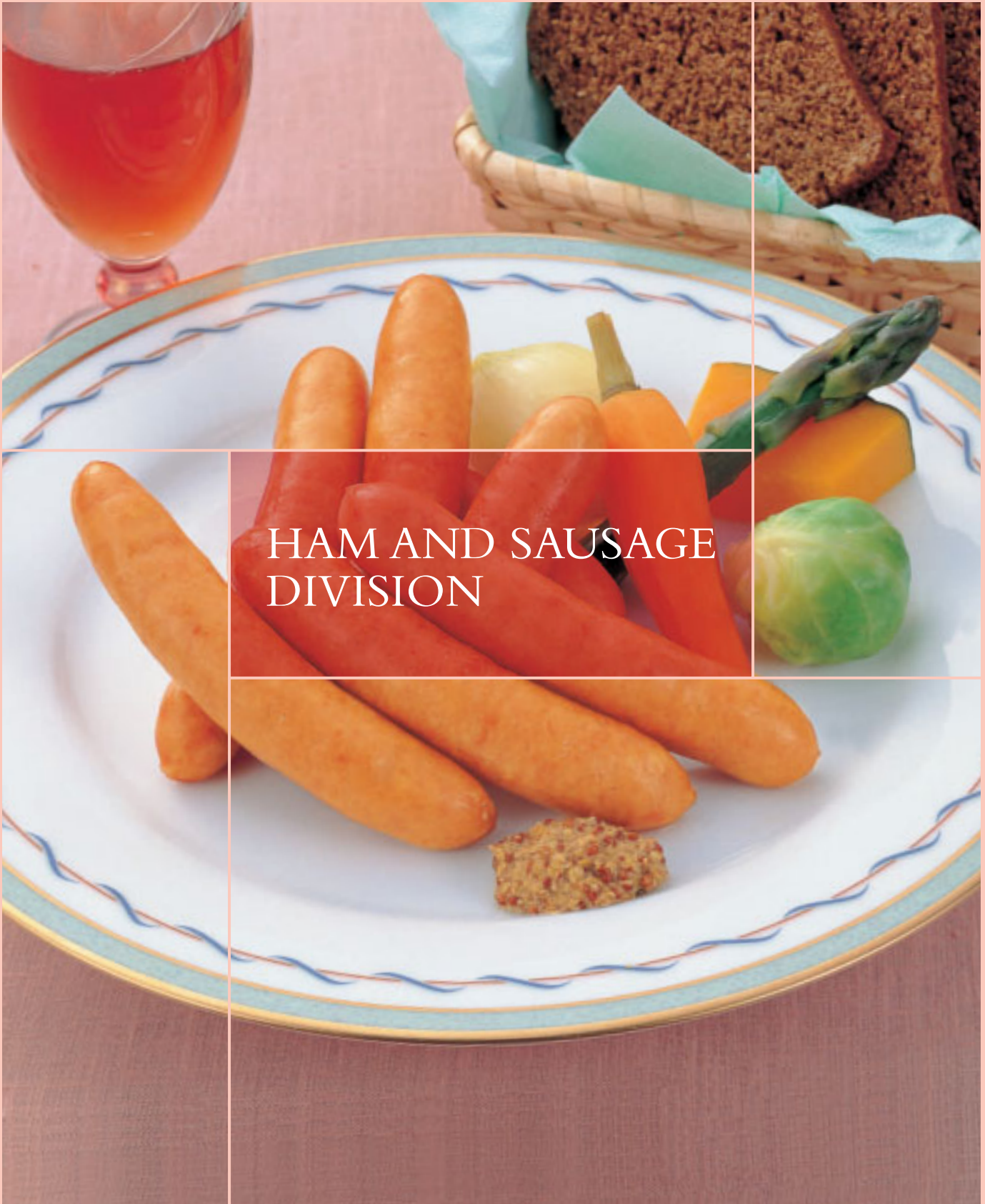
In addition to a maturing market, the industry has been faced with anemic personal consumption and intensifying competition, while consumers have been reluctant to spend due to concerns about the future direction of the economy. This has led to falling sales in recent years. Against this backdrop, we have remained focused on boosting sales of core products such as *Alt Bayem* and the *Morning Fresh* series, while in gift products, flagship brands such as *Densho no Aji*, *Houjyun*, and *Jyukusei* have been well supported in the market. These efforts have driven a recovery in sales since the previous fiscal year. Itoham is now also working to enhance cost-competitiveness by introducing the Itoham Production System (IHPS) to boost productivity.

Itoham owns directly managed and contract feedlots in Japan and overseas. These facilities employ strict hygiene management standards across all areas of operations—from the transport of livestock through to the final product. This is particularly the case with Itoham's feedlots in Australia and New Zealand, which have received ISO 9001 and ISO 14001 certification, internationally recognized standards for quality and environmental management, respectively. Thanks to its proprietary feedlots overseas, Itoham's production costs are lower and operations are much less susceptible to fluctuations in market prices for meat. This means Itoham can consistently supply high-quality products at competitive prices. Moreover, Itoham has a strong lineup of high value-added domestically produced products that enable it to respond to the diverse needs of consumers. In order to ensure beef products are safe and reliable, this division is also working to upgrade its traceability framework.

Sales of fresh meat have been on a downward trend due to persistent instability in the market, primarily arising from incidents of BSE both in Japan and overseas, outbreaks of avian flu and the imposition of import safeguards. In this difficult operating environment, the division has actively worked to boost sales, focusing on beef raised and produced at Itoham's overseas feedlots such as *Blue Ribbon Beef* and *Rockdale Beef*, and high value-added products such as Japanese regional beef and *Berkshire* pork. With the introduction of a Traceability System, the division has also worked to increase confidence in the safety and reliability of beef products. Together, these initiatives led to an increase in division sales during the year under review.

In the Processed Foods Division, Itoham has developed a range of healthy, safe and high-quality products that are easy to prepare. Starting with chicken dishes, Itoham has created a strong selection of products that cater to consumers' changing lifestyles, including hamburger patties, pizza meals, charcoal-roasted meat, and dairy products. The division is also enhancing its lineup of "kitchen solution" products and menu proposals, which are carefully tailored to the prepared food and daily-delivered food categories in the large-volume sales channel and the food service channel. In the Other Products component of this division, Itoham is developing its pharmaceutical products and restaurant businesses.

With the market for processed food products expanding rapidly as advances in distribution and production technology match consumer needs, the Processed Foods Division is focusing on the *Ganso Aburiyaki Chicken* (slow-roasted chicken) series, *Binchotanyaki Hamburgers* (charcoal-roasted hamburgers) and other core products to steadily increase sales. However, competition continues to intensify, and this was compounded by outbreaks of avian flu during the year under review, which brought down sales of chicken products. The result was lower sales year on year in the Processed Foods Division. Overall division sales however were slightly up, thanks to an increase in sales by other businesses, primarily pharmaceutical products and restaurant operations.



This division's objective is to capture the leading share in the ham and sausage product categories by maximizing Itoham's proven technologies and proprietary product development capabilities, and by selling products carefully developed to satisfy customer needs. *Alt Bayern* wieners, certified to Japanese Agricultural Standard (JAS) regulations, perfectly illustrate this approach. Made from top-quality pork that is cured for over 72 hours using traditional techniques, these wieners are juicy and aromatic, and preserve the full flavor of the original pork. Another example of the kind of product we are focusing on is the *Pole Wiener*, which was awarded the Long Seller Prize in 2003 for the 22nd time by the Japan Food Journal. Celebrating its 70th anniversary this year, the *Pole Wiener* was originally launched as a wiener wrapped in cellophane, and was based on a product idea suggested by Itoham's founder, Denzo Ito. The *Pole Wiener* has been an Itoham mainstay since its launch. In September 2003, we began online sales of the *Pole Wiener*, primarily in response to requests from consumers living outside the Kansai region who were having difficulty finding it in local shops. To visit the online store, point your browser to:

<http://itoham.mediagalaxy.ne.jp/pole/>

Other popular products made by this division include the *Morning Fresh* series, the *Sawayaka Thin-Slice Pack* series, *Pork Bits* and *Cheese-In*, a cheese-filled wiener.

In ham and sausage gift products, we continue to retain our position as the leader in the market, thanks to popular Itoham products such as *Densho no Aji*, *Houjyun*, and *Jyukusei*.

In sales promotion activities, the division completed a one-year study into household eating habits. Data from the study was analyzed and used to improve the accuracy of our Table Scene Promotion (TSP) 52 sales promotion strategy. Specifically, we introduced a more seasonal theme to sales areas and offered meal suggestions that cut across sales boundaries. In this way, we are working to satisfy a wider range of customer needs by creating new menus, and helping retailers to create more appealing sales areas.



ALT BAYERN



POLE WIENER



SAWAYAKA THIN-SLICE
PACK SERIES(LOIN HAM)

HIGHLIGHT



Production Plant in China



Start of Production and Sales in China

Itoham has formed a comprehensive partnership with Jiangsu Yurun Food Industry Group Co., Ltd., a leading Chinese producer of foodstuffs, and Mitsui & Co., Ltd. Through this partnership, Itoham became the first Japanese food producer to begin the production and sale of ham and sausages in China in July 2003. Itoham has also established its own dedicated plant in the country to supply Itoham-branded products to major urban centers in northeastern China, particularly Beijing.



This division is developing a quality-oriented brand strategy designed to win the trust of customers by focusing on product safety and reliability.

Itoham operates proprietary feedlots in Australia and New Zealand, two countries renowned for their excellent cattle raising environments. Beef produced at these feedlots is marketed under our premium *Blue Ribbon Beef* label, the first imported beef product to be supplied by a leading Japanese meat producer that offers complete traceability. Australia and New Zealand are both entirely free of BSE and are considered to be two of the safest countries in the world for the production of beef. Since imports of U.S. beef to Japan were banned following the discovery of BSE in the U.S. last year, Itoham has been taking steps to further increase output at its Australian and New Zealand feedlots to ensure stable supplies. Moreover, with the traceability of domestic beef becoming an increasingly important issue in Japan, Itoham is working to boost production of Japanese regional beef, primarily high value-added beef which can be controlled and monitored by Itoham. Other efforts to make sure we supply safe beef products that customers can trust will include actively promoting the Traceability System, which provides consumers with a detailed history of individual beef products.

In pork products, Itoham is the leading volume supplier of *Berkshire* pork in Japan. Sankyo Meat Co., Ltd., an Itoham Group company based in Kagoshima Prefecture, plays a central role in raising Berkshire pigs at its dedicated feedlot, a facility that boasts state-of-the-art technologies. These pigs are given high-grade feed and fattened over a period of around 240 days, an approach that preserves the full flavor and richness of the pork. Overseas, Itoham also produces a range of other pork brands, including *Kenkoton* and *Delphi Pork* in the U.S. and *Mugijitate* in Canada.

During the year, the chicken industry was faced with outbreaks of avian flu in a number of producing regions. In response, this division has been diversifying its supply sources to spread operating risk. Specifically, imports from Brazil and other countries have been boosted to ensure a stable supply of chicken.

In other developments, Itoham has been upgrading support for business partners with a new tool centered on “backyard solutions” to help reduce the load on retailers. The tool—Super Lady—comes with a range of software support functions, including a standardized 3D manual, and is designed to help retailers save time in cutting and displaying meat for their meat counters. By providing solutions that help to improve efficiency, Itoham is actively supporting all aspects of its partners’ retailing operations.



ROCKDALE BEEF PTY. LTD.
Proprietary Feedlot
in Australia



FIVE STAR BEEF LTD.
Proprietary Feedlot
in New Zealand



BERKSHIRE PORK

HIGHLIGHT

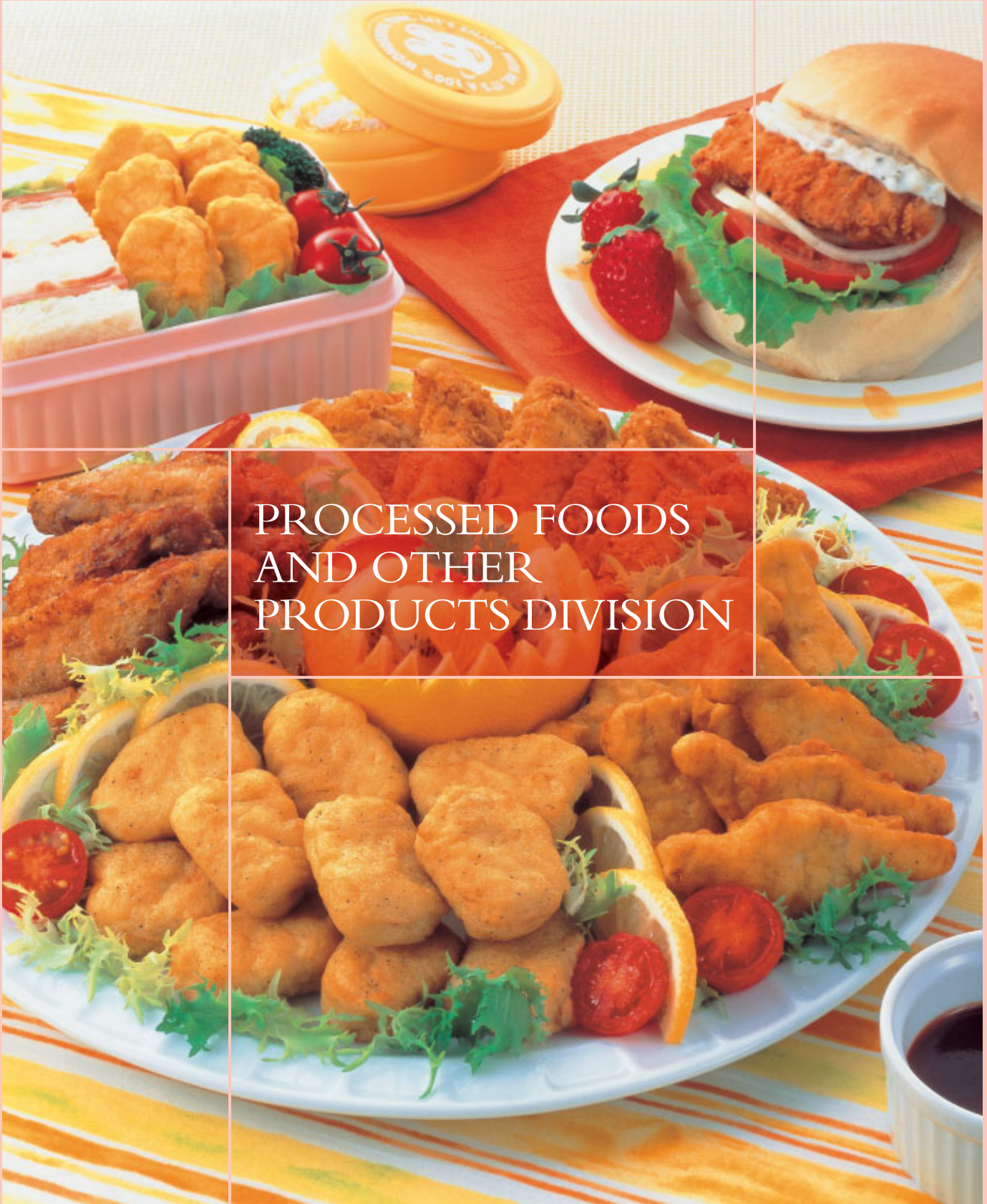


Traceability System

Itoham Launches Traceability System

In August 2003, Itoham launched a proprietary Traceability System called the Itoham Safety and Reliability System, which allows consumers to look up information on any Japanese regional beef (high value-added beef brand) or overseas Itoham beef brand. By inputting the beef recognition number shown on the product label in a search window on the Itoham website, users can view information such as when and where the cattle were born, when they were transported, and what kind of feed they were raised on. To use this system, point your browser to:

<http://itoham.medialgalaxy.ne.jp/farm/anzen/index.html>



Japanese lifestyles are witnessing massive change as women increasingly enter the workplace, the number of elderly increases and living patterns diversify. These shifts are driving far-reaching change in the prepared food, food service, and home-cooked food markets. Meanwhile, customer tastes are diversifying with demands for healthy and safe food, easily prepared dishes, small-volume items and authentic flavors, to name just some. In its Processed Foods Division, Itoham has a product lineup capable of satisfying these needs.

In chicken dishes, Itoham can offer a number of varied products to meet customer needs, including *Ganso Aburiyaki Chicken* (slow-roasted chicken) and *Chicken Nuggets*. In the hamburger category, our *Binchotanyaki Hamburgers* (charcoal-roasted hamburgers) are a popular product. Preservative-free, these hamburgers use only top-quality ingredients and are grilled slowly at low temperatures to preserve the full flavor and richness of the meat.

In 2002, this division launched the *Kyosho no Sai* series of ready-prepared meals that make it easy to recreate authentic restaurant dishes at home. A group of top chefs and food experts were called on to help develop the range: Rokusaburo Michiba, Japan's renowned master chef in Japanese cuisine (Japanese dishes); Yutaka Ishinabe, Japan's renowned master chef in French cuisine (Western dishes); Shinya Tasaki, a well-known sommelier (Western dishes); and, Tei Keirin, head chef at Chinese restaurant Hong Kong Garden in Nishi Azabu, Tokyo.

Going forward, Itoham will work to rapidly identify changes in eating habits and styles. This information will be used to develop new products and services, as well as offer customers truly tastier and healthier options. In this way, we aim to play a part in making life more enjoyable and comfortable for families.



GANSO ABURIYAKI CHICKEN
(SLOW-ROASTED CHICKEN)



BINCHOTANYAKI HAMBURGERS
(CHARCOAL-ROASTED
HAMBURGERS)



KYOSHO NO SAI SERIES

NEW PRODUCTS



La Pizza series

The *La Pizza* series of chilled pizzas: authentic pizzas that make no compromise on ingredients or recipes.

When we set out to create real Napoli pizzas for our home-prepared *La Pizza* series, we insisted on achieving the right mix of flour and yeast to create the best possible pizza dough. We then slowly raised the dough at a low temperature, and then heated it under a high flame to give a crispy finish. Using these methods, we have managed to create pizzas that are crunchy on the outside but soft in the middle. And with a 10-inch base, there is enough to go around for the whole family.

Social Contribution and Environmental Protection Activities

In April 2003, Itoham established a Social Contribution Promotion Committee. Centered on this committee, Itoham carries out activities to protect the natural environment and works to coexist with local communities by promoting initiatives that make a positive contribution to society.

ACTIVITIES TO PROTECT THE NATURAL ENVIRONMENT

Participating in beach clean-up projects

Itoham has run the Suma Beach Clean-Up Project in Kobe City, Hyogo Prefecture, since the fall of 2001. A similar project, the Koshien Beach Clean-Up Project, was launched by Itoham in Nishinomiya City in the same prefecture in 2003. In addition to these Itoham-run initiatives, the company also began taking part in the Funabashi Sanbanze Clean-Up, in Funabashi City, Chiba Prefecture, last year.



Participants in beach clean-up activities



Families of Itoham employees also actively take part in forest management activities

Supporting Kobe Forest School

Itoham supports a joint volunteer woodland project between local citizens, companies and government organizations. Itoham donates funds and provides volunteers to take part in this project, which carries out forest management activities on the Rokko Mountains near Kobe.

SUPPORT FOR UNICEF

Itoham collects donations for UNICEF at approximately 250 of its nationwide business locations. Itoham then matches whatever it collects with its own money and donates the total to UNICEF.

VOLUNTEER ACTIVITIES

Social Contribution Promotion Program

To raise employee awareness and encourage active participation in local communities, the Group held an Itoham Social Contribution Promotion Program between September and October 2003. During this period, Itoham's nationwide business locations took part in social contribution activities, including tidying up main roads near Itoham offices, participating in beach cleaning activities, collecting donations for UNICEF and collecting used postage stamps.



Tidying up roads near Itoham business premises



Itoham employees personally delivering relief parcels



The Funabashi Plant undergoing an ISO inspection



The Itoham 2004 Environmental Report

LOCAL COMMUNITY AND SOCIAL CONTRIBUTION ACTIVITIES

Disaster area support

Itoham provides relief donations and Itoham products to help people who have been affected by natural disasters. Recent examples include support for:

- ★ The flood-hit area of Minamata City in Kyushu following heavy rains in July 2003
- ★ Five local towns damaged by an earthquake in northern Miyagi Prefecture in July 2003
- ★ Three local towns in Hokkaido that were flooded after Typhoon Etau in August 2003
- ★ Southeastern Iran, which was hit by a major earthquake measuring 6.3 in magnitude in December 2003

ISO 14001 CERTIFICATION AT ITOHAM FACILITIES

As part of its efforts to implement effective environmental protection activities and help realize a sustainable society, the Itoham Group is working to gain ISO 14001 certification, a recognized international standard for environmental management, for all its operating facilities. Locations that have already gained this certification also seek to consistently improve their environmental management systems. In May 2003, Itoham's Funabashi Plant gained ISO 14001 certification. All of Itoham's production plants have now been awarded this status, along with three domestic affiliates and two overseas production facilities.

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

PUBLICATION OF ENVIRONMENTAL REPORT

Itoham published its 2004 Environmental Report in June 2004. Please visit the Environmental Preservation Initiatives page on the Itoham website to request a copy. Point your browser to: <http://www.itoham.co.jp>

Financial Section

Contents

<i>19</i>	<i>Five-Year Consolidated Financial Highlights</i>
<i>20</i>	<i>Consolidated Financial Summary</i>
<i>22</i>	<i>Financial Review</i>
<i>24</i>	<i>Consolidated Balance Sheets</i>
<i>26</i>	<i>Consolidated Statements of Income</i>
<i>27</i>	<i>Consolidated Statements of Shareholders' Equity</i>
<i>28</i>	<i>Consolidated Statements of Cash Flows</i>
<i>29</i>	<i>Notes to Consolidated Financial Statements</i>
<i>36</i>	<i>Independent Auditors' Report</i>

Five-Year Consolidated Financial Highlights

ITOHAM FOODS INC. and Consolidated Subsidiaries

Years ended or as of March 31

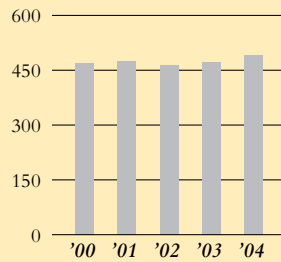
	Millions of yen					Thousands of U.S. dollars (Note)
	2000	2001	2002	2003	2004	2004
Net sales	¥470,453	¥475,519	¥465,639	¥473,891	¥492,661	\$4,661,378
Cost of sales	364,362	370,946	372,775	374,200	386,664	3,658,473
Selling, general and administrative expenses	93,418	93,369	91,862	95,923	98,682	933,693
Operating income	12,673	11,204	1,002	3,768	7,315	69,212
Non-operating income	206	803	1,276	1,212	889	8,411
Ordinary income	12,879	12,007	2,278	4,980	8,204	77,623
Special profit (loss)	(1,689)	(8,975)	(2,088)	(3,653)	(1,428)	(13,511)
Income before income taxes and minority interests	11,190	3,032	190	1,327	6,776	64,112
Provision for income taxes						
Current	4,781	5,442	1,510	1,539	2,425	22,944
Deferred	27	(4,181)	(611)	(563)	587	5,554
Minority interests	(3)	(13)	2	(38)	(67)	(634)
Net income (loss)	6,379	1,758	(707)	313	3,697	34,980
Net income (loss) per share (in yen and U.S. dollars)	28.39	8.08	(3.32)	1.49	17.59	0.166
Total assets	241,655	245,531	235,362	219,383	229,400	2,170,499
Working capital	57,038	58,171	33,544	51,693	53,231	503,652
Depreciation	9,426	8,707	8,520	7,095	6,574	62,201
Shareholders' equity per share (in yen and U.S. dollars)	567.33	578.04	570.15	559.71	589.86	5.58
Return on equity	5.1%	1.4%	(0.6)%	0.3%	3.1%	
Cash flows from operating activities	20,125	9,381	(6,515)	22,783	9,108	86,177
Cash flows from investing activities	(1,353)	(5,239)	(6,686)	(3,390)	(4,853)	(45,917)
Cash flows from financing activities	(11,613)	(6,061)	(1,981)	(11,423)	(2,281)	(21,582)
Cash and cash equivalents at end of year	35,717	33,836	18,807	26,708	28,619	270,782

Note: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥105.69=US\$1, the rate prevailing on March 31, 2004.

Consolidated Financial Summary

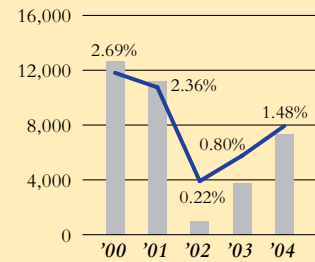
ITOHAM FOODS INC. and Consolidated Subsidiaries

NET SALES



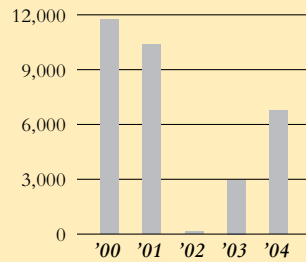
(billions of yen)	Mar. 2000	01	02	03	2004
Net sales	470	475	465	473	492

OPERATING INCOME, RATIO OF OPERATING INCOME TO NET SALES



(millions of yen, %)	Mar. 2000	01	02	03	2004
Operating income	12,673	11,204	1,002	3,768	7,315
Ratio of operating income to net sales	2.69	2.36	0.22	0.80	1.48

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



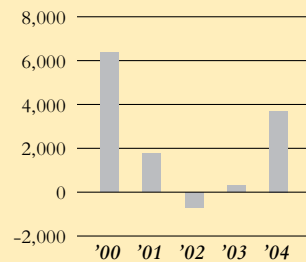
(millions of yen)	Mar. 2000	01	02	03	2004
Operating income, including interest and dividend income, net of interest and discount expenses	11,724	10,376	139	2,960	6,750

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



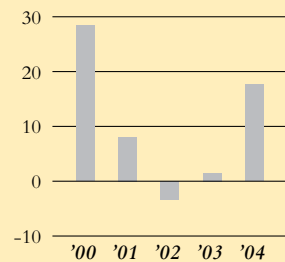
(%)	Mar. 2000	01	02	03	2004
Ratio of operating income, including interest and dividends, to average total capital	5.54	4.78	0.54	1.77	3.39

NET INCOME (LOSS)



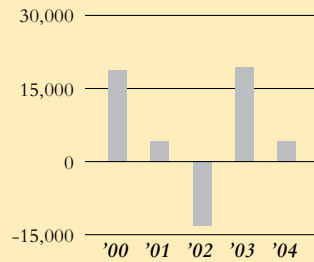
(millions of yen)	Mar. 2000	01	02	03	2004
Net income (loss)	6,379	1,758	(707)	313	3,697

NET INCOME (LOSS) PER SHARE



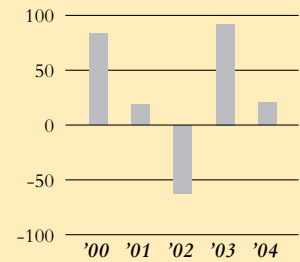
(yen)	Mar. 2000	01	02	03	2004
Net income (loss) per share	28.39	8.08	(3.32)	1.49	17.59

FREE CASH FLOWS



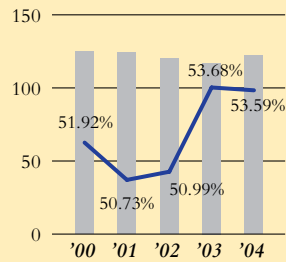
(millions of yen)	Mar. 2000	01	02	03	2004
Free cash flows	18,772	4,142	(13,201)	19,393	4,254

FREE CASH FLOWS PER SHARE



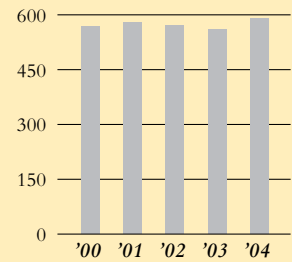
(yen)	Mar. 2000	01	02	03	2004
Free cash flows per share	83.54	19.05	(62.03)	92.15	20.24

SHAREHOLDERS' EQUITY, RATIO OF SHAREHOLDERS' EQUITY TO TOTAL ASSETS



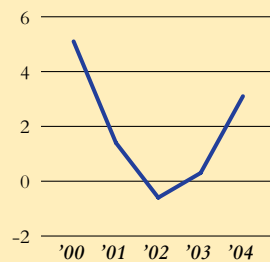
(billions of yen, %)	Mar. 2000	01	02	03	2004
Shareholders' equity	125	124	120	117	122
Ratio of shareholders' equity to total assets	51.92	50.73	50.99	53.68	53.59

SHAREHOLDERS' EQUITY PER SHARE



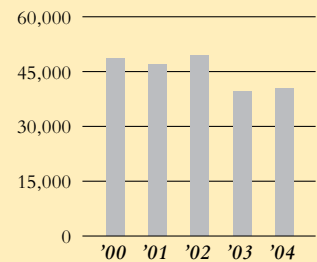
(yen)	Mar. 2000	01	02	03	2004
Shareholders' equity per share	567.33	578.04	570.15	559.71	589.86

RETURN ON EQUITY



(%)	Mar. 2000	01	02	03	2004
Return on equity	5.1	1.4	(0.6)	0.3	3.1

INTEREST-BEARING DEBT



(millions of yen)	Mar. 2000	01	02	03	2004
Interest-bearing debt	48,483	46,923	49,402	39,630	40,237

Financial Review

NET SALES

Although there were some positive signs in the Japanese economy during the year under review, the labor market and income environment remained weak. With no recovery in personal consumption, uncertainty continued to cloud the economic outlook.

Amid difficult conditions, the meat industry faced strong demands for products guaranteeing even higher levels of safety and reliability. This was due to a number of issues that colored the operating landscape during the year, including a ban on beef imports from the U.S. following an outbreak of BSE, and incidents of avian flu both in Japan and overseas.

Against this backdrop, the Itoham Group placed top priority on winning the confidence and trust of customers by providing safe and reliable products to build Itoham brand equity. Meanwhile, we took actions to create a more customer-facing company by focusing on three key themes: reinforcing marketing capabilities, realizing a low-cost operating base, and promoting innovation.

In the Ham and Sausage Division, we worked to increase market share by reducing the number of items in the product lineup and focusing on core products. This went hand in hand with initiatives to lower production costs and pare back selling expenses. In the Fresh Meat Division, we focused on developing “backyard solutions” and increasing the number of products with real brand power, and in the Processed Foods Division, we endeavored to boost product development and sales capabilities.

As a result of these and other steps, Itoham posted a 4.0% rise in net sales to ¥492.7 billion.

In the Ham and Sausage Division, sales increased 1.3% to ¥129.6 billion, primarily due to efforts focused on core products and strong demand for Itoham gift products.

In the Fresh Meat Division, sales grew 6.2% to ¥259.6 billion on the back of demand for our overseas premium beef brands and rising

sales of high value-added products such as Japanese regional beef and Berkshire pork.

In the Processed Foods and Other Products Division, sales of processed foods edged down 1.0% to ¥75.4 billion. This was mainly the result of falling sales of chicken products in the wake of outbreaks of avian flu both in Japan and overseas. Sales of other products, however, chiefly those sold by the pharmaceutical and restaurant businesses, increased 10.8% to ¥28.1 billion, lifting total division sales by 2.0% to ¥103.5 billion.

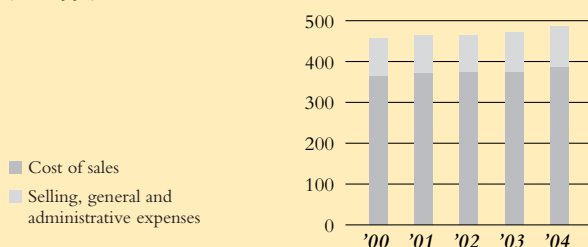
COSTS, EXPENSES AND EARNINGS

Cost of sales rose ¥12.5 billion year on year, to ¥386.7 billion, in line with the increase in sales. Despite higher raw materials expenses due to the imposition of import safeguards, outbreaks of avian flu and other factors, Itoham recorded a 6.3% increase in gross profit, to ¥106.0 billion, thanks to ongoing efforts to reduce production costs using the Itoham Production System (IHPS). The gross profit ratio increased by 0.5 of a percentage point to 21.5%. Although selling, general and administrative (SG&A) expenses increased 2.9%, to ¥98.7 billion, the ratio of SG&A expenses to net sales improved 0.2 of a percentage point to 20.0%. Operating income increased 94.1%, to ¥7.3 billion, while the ratio of operating income to net sales rose 0.7 of a percentage point, to 1.5%.

In non-operating items, net financial income and expenses improved by ¥0.2 billion compared to the previous period, primarily due to lower interest expense following the redemption of convertible corporate bonds. Key positive factors in other income and expenses included a special gain of ¥5.8 billion on transfer of the substitutional portion of the social welfare pension insurance scheme. Also, due to higher stock prices at the end of the year, the company recorded a ¥0.4 billion increase in gain on sale of marketable and investment securities, net, and a ¥1.0 billion decline in write-down of investment securities. Negative

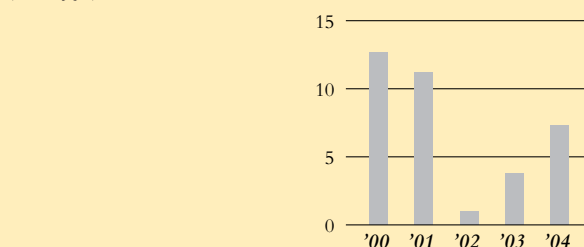
Costs and Expenses

(billions of yen)



Operating Income

(billions of yen)



factors in other income and expenses included the following: ¥3.3 billion for additional retirement indemnity for early retirement and other factors; ¥1.2 billion losses on the revision of the retirement benefit plan due to the company changed its tax-qualified pension plan to a defined contribution plan; and a ¥1.4 billion increase in losses on disposal of property, plant and equipment related to the closure of a factory. Due to the above, the company recorded other expenses, net, of ¥0.5 billion, a ¥1.9 billion improvement on the previous year.

Income before income taxes and minority interests grew 410.5% to ¥6.8 billion. Net income for fiscal 2004 was ¥3.7 billion, compared to ¥0.3 billion in the previous period.

FINANCIAL POSITION

Total assets as of March 31, 2004 totaled ¥229.4 billion, ¥10.0 billion higher than at the end of the previous year.

Current assets increased ¥7.9 billion to ¥124.2 billion. This was chiefly attributable to increases in cash and time deposits of ¥5.4 billion and in trade notes and accounts receivable of ¥1.4 billion, as well as a rise in inventories of ¥4.8 billion due to increases in finished products and resale inventories. Meanwhile, marketable securities declined ¥3.6 billion, as the short-term investments in discount bank debentures in the previous period reached maturity.

Investments and non-current assets grew ¥7.1 billion to ¥39.1 billion, mainly due to an increase in investment securities of ¥6.1 billion on the back of higher stock prices at the end of the year.

Capital investments totaled ¥5.4 billion, reflecting investments to improve production capacity at existing plants and other factors. Property, plant and equipment was ¥64.9 billion, ¥5.5 billion lower than a year earlier, mainly due to a factory closure.

On the other side of the balance sheet, current liabilities rose ¥6.3 billion to ¥71.0 billion. This was primarily attributable to an increase in bank loans of ¥2.4 billion, and a rise in notes and accounts payable of

¥4.5 billion due to higher trade accounts payable and the booking of employee retirement benefits payable.

Long-term liabilities fell ¥1.5 billion to ¥35.0 billion, mainly reflecting a decline in employees' severance and retirement benefits.

Shareholders' equity increased ¥5.2 billion, to ¥122.9 billion, chiefly due to an increase in retained earnings of ¥2.0 billion accompanying the rise in net income. Net unrealized holding gains on securities also increased ¥3.7 billion. The ratio of shareholders' equity to total assets was 53.6% and the current ratio was 1.75.

CASH FLOWS

Cash and cash equivalents at the end of the year stood at ¥28.6 billion, ¥1.9 billion higher than a year ago. Although there were cash outflows for the acquisition of property, plant and equipment, an increase in inventories and other factors, this was outweighed by increases in income before income taxes and minority interests, and notes and accounts payable, as well as other factors.

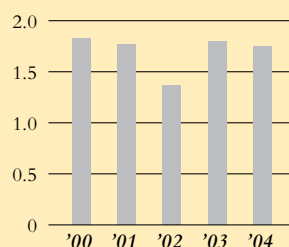
Net cash provided by operating activities was ¥9.1 billion, compared with ¥22.8 billion provided in the previous year. This mainly reflected income before income taxes and minority interests of ¥6.8 billion, and depreciation and amortization of ¥6.7 billion, against an increase in inventories of ¥3.4 billion.

Net cash used in investing activities was ¥4.9 billion, against ¥3.4 billion used in the previous period. This reflected mainly cash outflows of ¥5.4 billion for acquisitions of property, plant and equipment for expanding production at existing factories, against inflows of ¥1.8 billion from sales of investment securities.

Net cash used in financing activities was ¥2.3 billion, against net cash used of ¥11.4 billion in fiscal 2003. This mainly reflected ¥1.7 billion for dividends paid, and ¥0.7 billion for the purchase of treasury stock.

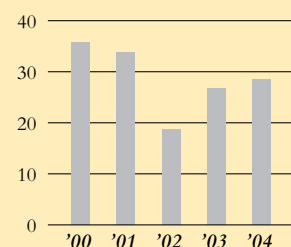
Current Ratio

(Times)



Cash and Cash Equivalents

(billions of yen)



Consolidated Balance Sheets

ITOHAM FOODS INC. and Consolidated Subsidiaries — March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and time deposits (Notes 3, 7)	¥ 28,943	¥ 23,591	\$ 273,848
Marketable securities (Note 4)	20	3,644	189
Receivables:			
Trade notes and accounts	49,726	48,366	470,489
Other	191	328	1,807
Allowance for doubtful receivables	(420)	(404)	(3,974)
	49,497	48,290	468,322
Inventories (Note 5)	42,504	37,668	402,157
Deferred tax assets (Note 13)	1,484	1,583	14,041
Other current assets	1,775	1,568	16,795
Total current assets	124,223	116,344	1,175,352
Investments and non-current assets:			
Investments in:			
Unconsolidated affiliates	6,589	5,827	62,343
Other (Notes 4, 7)	19,451	14,075	184,038
Long-term receivables	2,121	1,167	20,068
Long-term deferred tax assets (Note 13)	637	3,099	6,027
Other	11,845	9,796	112,073
Allowance for doubtful receivables	(1,588)	(2,020)	(15,025)
	39,055	31,944	369,524
Property, plant and equipment:			
Land (Note 7)	20,968	23,441	198,392
Buildings and structures (Note 7)	66,211	68,601	626,464
Machinery and equipment	89,017	90,905	842,246
Breeding livestock	122	114	1,154
Construction in progress	334	154	3,160
	176,652	183,215	1,671,416
Accumulated depreciation	(111,787)	(112,855)	(1,057,687)
	64,865	70,360	613,729
Intangible assets	1,257	735	11,894
	¥ 229,400	¥ 219,383	\$ 2,170,499

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	2004	2003	2004
Current liabilities:			
Bank loans	¥ 8,545	¥ 6,183	\$ 80,850
Long-term debt due within one year (Note 6)	1,147	2,057	10,852
Notes and accounts payable:			
Trade	37,959	35,431	359,154
Construction	947	1,017	8,960
Other	14,453	12,398	136,749
	<u>53,359</u>	<u>48,846</u>	<u>504,863</u>
Accrued expenses	4,649	4,730	43,987
Income taxes payable	1,524	1,184	14,420
Deferred tax liabilities (Note 13)	56	63	530
Other	1,712	1,588	16,198
Total current liabilities	<u>70,992</u>	<u>64,651</u>	<u>671,700</u>
Long-term liabilities:			
Long-term debt due after one year (Note 6)	30,545	31,390	289,006
Employees' severance and retirement benefits (Note 8)	2,492	4,124	23,578
Directors' and statutory auditors' retirement benefits	802	917	7,588
Long-term deferred tax liabilities (Note 13)	710	93	6,718
Other long-term liabilities	475	43	4,494
Total long-term liabilities	<u>35,024</u>	<u>36,567</u>	<u>331,384</u>
Minority interests	454	394	4,296
Contingent liabilities (Note 9)			
Shareholders' equity (Note 14):			
Common stock:			
Authorized—342,013,000			
Issued—210,482,533	22,415	22,415	212,082
Capital surplus	24,021	24,021	227,278
Retained earnings	72,306	70,292	684,133
Net unrealized holding gains on securities	5,870	2,155	55,540
Foreign currency translation adjustments	(919)	(1,089)	(8,695)
Treasury stock, at cost, 2,078,103 shares in 2004 (66,260 shares in 2003)	<u>(763)</u>	<u>(23)</u>	<u>(7,219)</u>
Total shareholders' equity	<u>122,930</u>	<u>117,771</u>	<u>1,163,119</u>
	<u>¥229,400</u>	<u>¥ 219,383</u>	<u>\$2,170,499</u>

Consolidated Statements of Income

ITOHAM FOODS INC. and Consolidated Subsidiaries — Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales	¥492,661	¥ 473,891	\$4,661,378
Cost and expenses:			
Cost of sales	386,664	374,200	3,658,473
Selling, general and administrative expenses	98,682	95,923	933,693
Operating income	7,315	3,768	69,212
Other income (expenses):			
Interest and dividend income	291	257	2,753
Interest expense	(856)	(1,065)	(8,099)
Gain on sale of marketable and investment securities, net	382	6	3,614
Loss on disposal of property, plant and equipment	(1,745)	(323)	(16,510)
Gain on transfer of substitutional portion of social welfare pension insurance scheme (Note 8)	5,810	—	54,972
Losses on the revision of the retirement benefits plan (Note 8)	(1,247)	—	(11,799)
Write-down of investment securities	(169)	(1,155)	(1,599)
Write-down of property, plant and equipment (Note 11)	(1,100)	(1,055)	(10,408)
Equity in earnings of associated companies	615	1,067	5,819
Additional retirement indemnity for early retirement	(3,290)	—	(31,129)
Provision for doubtful receivables	(7)	(487)	(66)
Other, net	777	314	7,352
	(539)	(2,441)	(5,100)
Income before income taxes and minority interests	6,776	1,327	64,112
Provision for income taxes (Note 13)			
Current	2,425	1,539	22,944
Deferred	587	(563)	5,554
Minority interests	(67)	(38)	(634)
Net income	¥ 3,697	¥ 313	\$ 34,980
	Yen		U.S. dollars
Net income per share	¥ 17.59	¥ 1.49	\$ 0.166
Dividends per share	8.00	8.00	0.076

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

Consolidated Statements of Shareholders' Equity

ITOHAM FOODS INC. and Consolidated Subsidiaries — Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Common stock:			
Balance at beginning of year	¥22,415	¥ 22,415	\$212,082
Balance at end of year	¥22,415	¥ 22,415	\$212,082
Capital surplus:			
Balance at beginning of year	¥24,021	¥ 24,021	\$227,278
Balance at end of year	¥24,021	¥ 24,021	\$227,278
Retained earnings:			
Balance at beginning of year	¥70,292	¥ 71,676	\$665,077
Net income for the year	3,697	313	34,980
Cash dividends paid—¥ 8.00 per share	(1,683)	(1,684)	(15,924)
Other	—	(13)	—
Balance at end of year	¥72,306	¥ 70,292	\$684,133
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 2,155	¥ 2,882	\$ 20,390
Increase (decrease) for the year	3,715	(727)	35,150
Balance at end of year	¥ 5,870	¥ 2,155	\$ 55,540
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (1,089)	¥ (989)	\$ (10,303)
Net increase (decrease)	170	(100)	1,608
Balance at end of year	¥ (919)	¥ (1,089)	\$ (8,695)
Treasury stock, at cost:			
Balance at beginning of year	¥ (23)	¥ (2)	\$ (218)
Purchase of treasury stock	(740)	(21)	(7,001)
Balance at end of year	¥ (763)	¥ (23)	\$ (7,219)
Number of shares of common stock issued:		2004	2003
At beginning of year		210,482,533	210,482,533
At end of year		210,482,533	210,482,533

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

Consolidated Statements of Cash Flows

ITOHAM FOODS INC. and Consolidated Subsidiaries — Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,776	¥ 1,327	\$ 64,112
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,683	7,204	63,232
Increase (decrease) in employees' severance and retirement benefits	(1,632)	357	(15,441)
Increase (decrease) in allowance for doubtful receivables	(414)	234	(3,917)
Interest and dividend income	(291)	(257)	(2,753)
Interest expense	856	1,065	8,099
Equity in earnings of associated companies	(615)	(1,067)	(5,819)
Write-down of investment securities	169	1,155	1,599
Loss (gain) on sale of property, plant and equipment	409	(219)	3,870
Loss on disposal of property, plant and equipment	1,224	467	11,581
Write-down of property, plant and equipment	1,100	1,055	10,408
Decrease (increase) in notes and accounts receivable	(994)	3,949	(9,405)
Decrease (increase) in inventories	(3,428)	10,032	(32,435)
Increase (decrease) in notes and accounts payable	2,523	(6,674)	23,872
Increase (decrease) in accrued consumption taxes	(1,083)	1,379	(10,247)
Other, net	365	2,378	3,453
	11,648	22,385	110,209
Interest and dividends received	412	482	3,898
Interest paid	(862)	(1,086)	(8,156)
Income taxes paid	(2,347)	(664)	(22,206)
Income taxes refunded	257	1,666	2,432
Net cash provided by operating activities	9,108	22,783	86,177
Cash flows from investing activities:			
Investments in time deposits	(183)	(243)	(1,731)
Proceeds from time deposits	230	366	2,176
Acquisitions of property, plant and equipment	(5,423)	(4,695)	(51,310)
Proceeds from sale of property, plant and equipment	883	1,507	8,355
Acquisitions of intangible assets	(699)	(156)	(6,614)
Payments for purchases of investment securities	(526)	(1,037)	(4,977)
Proceeds from sales of investment securities	1,752	602	16,577
Disbursement of loans receivable	(1,470)	(737)	(13,909)
Collection of loans receivable	658	849	6,226
Other, net	(75)	154	(710)
Net cash used in investing activities	(4,853)	(3,390)	(45,917)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	1,857	(1,087)	17,570
Proceeds from long-term debt	334	14,771	3,160
Repayments of long-term debt	(2,043)	(744)	(19,330)
Repayments of bonds	—	(3,000)	—
Repayments of convertible bonds	—	(19,655)	—
Payments for purchase of treasury stock	(740)	(20)	(7,001)
Dividends paid	(1,683)	(1,683)	(15,924)
Dividends paid to minority shareholders of consolidated subsidiaries	(6)	(5)	(57)
Net cash used in financing activities	(2,281)	(11,423)	(21,582)
Effect of exchange rate changes on cash and cash equivalents	(63)	(69)	(597)
Net increase in cash and cash equivalents	1,911	7,901	18,081
Cash and cash equivalents at beginning of year	26,708	18,807	252,701
Cash and cash equivalents at end of year (Note 3)	¥28,619	¥ 26,708	\$270,782

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

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. ITOHAM FOODS INC. (the "Company") and its domestic subsidiaries haven't adopted the new Japanese accounting standard for impairment of fixed assets. The new standard must be adopted by the year ended March 31, 2006.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant subsidiaries, 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.

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 based on past experience plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(4) Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Held-to-maturity debt securities are stated at amortized cost. 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.

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

If the market value of held-to-maturity debt securities, equity securities issued by non-consolidated 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 non-consolidated 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.

(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

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in 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. 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.

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

(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 ¥1,070 million (\$10,124 thousand) and ¥1,056 million for the years ended March 31, 2004 and 2003, 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 the temporary differences.

(14) Foreign currency translation

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

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.

(15) Amounts per share

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

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

3. STATEMENTS OF CASH FLOWS

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits on the consolidated balance sheets	¥28,943	¥ 23,591	\$273,848
Time deposits with maturities exceeding 3 months	(324)	(386)	(3,066)
Highly liquid investments whose original maturities are within 3 months	20	3,644	189
Investments with maturities exceeding 3 months	(20)	(141)	(189)
Cash and cash equivalents on the consolidated statements of cash flows	¥28,619	¥ 26,708	\$270,782

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2004 and 2003:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Book value	¥—	¥ 300	\$—
Fair value	—	301	—
Difference	¥—	¥ 1	\$—

Securities with available market values not exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Book value	¥300	¥–	\$2,838
Fair value	300	–	2,838
Difference	¥ 0	¥–	\$ 0

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

Securities with book values (market values) exceeding acquisition cost

March 31, 2004	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥6,576	¥16,638	¥10,062	\$62,220	\$157,423	\$95,203

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

March 31, 2004	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥401	¥310	¥(91)	\$3,794	\$2,933	\$(861)

Securities with book values (market values) exceeding acquisition cost

March 31, 2003	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 5,073	¥ 9,246	¥ 4,173

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

March 31, 2003	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,598	¥ 2,115	¥ (483)
Other	123	123	–
Total	¥ 2,721	¥ 2,238	¥ (483)

B. The following tables summarize book values of securities with no available market values as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
(a) Held-to-maturity debt securities			
Bonds issued at a discount	¥ –	¥ 3,500	\$ –
Non-listed foreign bonds	500	500	4,731
(b) Available-for-sale securities			
Money market fund	¥ –	¥ 3	\$ –
Non-listed equity securities	1,543	1,705	14,599
Other	179	227	1,694

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2004 and 2003 mature 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		
March 31, 2004			
Government bonds	¥ –	¥300	¥ –
Corporate bonds	20	10	–
Others	–	–	500
Total	¥20	¥310	¥500

	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
March 31, 2004	Thousands of U.S. dollars		
Government bonds	\$ –	\$2,838	\$ –
Corporate bonds	189	95	–
Others	–	–	4,731
Total	<u>\$189</u>	<u>\$2,933</u>	<u>\$4,731</u>

	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
March 31, 2003	Millions of yen		
Government bonds	¥ –	¥ 301	¥ –
Corporate bonds	18	40	–
Others	3,623	–	500
Total	<u>¥ 3,641</u>	<u>¥ 341</u>	<u>¥ 500</u>

D. Total sales of available-for-sale securities in the years ended March 31, 2004 and 2003 amounted to ¥1,383 million (\$13,085 thousand) and ¥172 million and the related gains amounted to ¥382 million (\$3,614 thousand) and ¥1 million, respectively.

5. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products and resale inventories	¥28,137	¥ 24,428	\$266,222
Raw materials and cattle	14,367	13,240	135,935
	<u>¥42,504</u>	<u>¥ 37,668</u>	<u>\$402,157</u>

6. LONG-TERM DEBT

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Secured:			
Banks, 0.790% – 2.750%, maturing serially through 2012	¥ 1,612	¥ 1,842	\$ 15,252
Unsecured:			
Banks, 0.710% – 4.170%, maturing serially through 2015	15,080	16,605	142,682
2.175% bonds due 2005	10,000	10,000	94,616
2.11% bonds due 2008	5,000	5,000	47,308
	<u>31,692</u>	<u>33,447</u>	<u>299,858</u>
Less amounts due within one year	1,147	2,057	10,852
	<u>¥30,545</u>	<u>¥ 31,390</u>	<u>\$289,006</u>

The aggregate annual maturities of long-term debt outstanding at March 31, 2004, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,147	\$ 10,852
2006	11,104	105,062
2007	903	8,544
2008	10,874	102,886
2009 and thereafter	7,664	72,514
	<u>¥ 31,692</u>	<u>\$ 299,858</u>

The Companies have overdraft contracts and the credit commitments with nine banks and two insurance companies with unused credit available to the Companies at March 31, 2004 of ¥24,947 million (\$236,039 thousand).

7. PLEDGED ASSETS

At March 31, 2004 assets pledged as collateral for short-term bank loans of ¥731 million (\$6,916 thousand) and secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 503	\$ 4,759
Buildings and structures net of accumulated depreciation	2,405	22,755

At March 31, 2004, time deposits of ¥120 million (\$1,135 thousand) and investment securities of ¥300 million (\$2,838 thousand) were pledged for transaction guarantees and gift certificates of ¥120 million (\$1,135 thousand).

8. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥ 37,355	¥ 75,093	\$ 353,439
Unrecognized actuarial differences	(12,113)	(36,573)	(114,609)
Unrecognized prior service costs	562	605	5,317
Fair value of pension assets	(26,206)	(35,250)	(247,951)
Prepaid pension costs	2,894	249	27,382
Employees' severance and retirement benefits	¥ 2,492	¥ 4,124	\$ 23,578

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs – benefits earned during the year	¥ 2,684	¥ 2,702	\$ 25,395
Interest cost on projected benefit obligation	1,646	2,029	15,574
Expected return on plan assets	(1,172)	(1,439)	(11,089)
Amortization of actuarial differences	2,289	1,723	21,658
Amortization of prior service costs	(43)	(43)	(407)
Severance and retirement benefit expenses	5,404	4,972	51,131
Gain on transfer of substitutional portion of social welfare pension insurance scheme	(5,810)	–	(54,972)
Total	¥ (406)	¥ 4,972	\$ (3,841)

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries are from 2.0% to 2.5% (2.5% in the prior year) and 4.0%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the income statement using the straight-line method over 12 to 15 years, and past service costs are recognized as an expense in equal amounts over 15 years.

• Transferring to Defined Contribution Plan

In conformity with the enactment of “Defined Contribution Plan Law,” the Company changed from a tax-qualified pension plan to a defined contribution plan on May 1, 2003.

The Company applied “Accounting Treatment upon Transferring Retirement Remuneration Plans” (Financial Standards Implementation Guidance No. 1).

As a result, in the year ended March 31, 2004, expenses associated with the revision of the plan in the amount of ¥1,247 million (\$11,799 thousand) are charged to other expenses and shown separately in the consolidated statements of income.

• Return of the substitutional portion of Social Welfare Pension Insurance

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its consolidated domestic subsidiaries decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on March 1, 2004 to be released from its future obligation for payments for the substitutional portion of Social Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Company and its consolidated domestic subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, “Practical Guideline for Accounting of Retirement Benefits (Interim Report),” and the effect of transferring the substitutional portion was recognized on the date of permission by the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2004, the Company recorded a gain on transfer of substitutional portion of Social Welfare Pension Insurance Scheme amounting to ¥5,810 million (\$54,972 thousand), which was calculated based on the amount of the substitutional portion of the projected benefit obligation as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥18,820 million (\$178,068 thousand) as at March 31, 2004.

9. CONTINGENT LIABILITIES

At March 31, 2004 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥ 890	\$ 8,421
Other companies	1,222	11,562
	¥2,112	\$19,983

10. 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 general policy not to use derivatives for speculation.

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

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

Hedging instruments: Forward currency exchange contracts
Hedged items: Foreign currency trade payables and future commitments and not for speculation or dealing purposes

The following is a summary of only the derivative contract which does not meet the Japanese criteria for hedge accounting. The net changes in market value are recorded in the consolidated statements of income for the years ended March 31, 2004 and 2003.

Forward currency exchange transactions

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Purchase U.S. dollars			
Contracted amount	¥ 538	¥ 538	\$ 5,090
(Over one year)	(538)	(538)	(5,090)
Current market amount	520	576	4,920
Unrealized gains (losses)	¥ (18)	¥ 38	\$ (170)

11. WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT

The write-down of property, plant and equipment in the year ended March 31, 2004 of ¥1,100 million (\$10,408 thousand) related to land for sale that was reduced to fair value.

The write-down of property, plant and equipment in the year ended March 31, 2003 of ¥1,055 million was in accordance with the "Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets" for a U.S. subsidiary.

12. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2004 and 2003 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Furniture and fixtures	Other	Total	Total
March 31, 2004				
Original lease obligation				
(including finance charges)	¥5,983	¥4,821	¥10,804	\$102,223
Payments remaining:				
Payments due within one year			¥1,651	\$15,621
Payments due after one year			3,514	33,248
Total			¥5,165	\$48,869

	Millions of yen		
	Furniture and fixtures	Other	Total
March 31, 2003			
Original lease obligation			
(including finance charges)	¥ 4,297	¥ 4,102	¥ 8,399
Payments remaining:			
Payments due within one year			¥ 1,431
Payments due after one year			2,528
Total			¥ 3,959

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2004 and 2003 were ¥1,903 million (\$18,005 thousand) and ¥1,455 million, respectively.

13. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Allowance for doubtful receivables	¥ 680	¥ 660	\$ 6,434
Bonuses accrued	1,212	1,112	11,468
Enterprise taxes	61	78	577
Directors' retirement benefits	321	341	3,037
Write-down of investment securities	1,226	1,086	11,600
Write-down of property, plant and equipment	452	—	4,277
Liability for employees' severance and retirement benefits	2,496	3,700	23,616
Accumulated losses	2,297	2,409	21,733
Unrealized gain on land	19	264	180
Other	653	930	6,178
	9,417	10,580	89,100
Less valuation allowance	(2,395)	(2,702)	(22,661)
Total deferred tax assets	7,022	7,878	66,439
Deferred tax liabilities:			
Deferred gains on real properties	(1,378)	(1,634)	(13,038)
Net unrealized holding gains on securities	(4,085)	(1,526)	(38,651)
Other	(204)	(192)	(1,930)
Total deferred tax liabilities	(5,667)	(3,352)	(53,619)
Net deferred tax assets	¥ 1,355	¥ 4,526	\$ 12,820

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2004 and 2003 are as follows:

	2004	2003
Statutory tax rate	41.1%	42.4%
Non-deductible expenses	3.5	18.2
Non-taxable dividend income	(1.4)	(7.1)
Inhabitants' per capita taxes	2.3	11.9
Equity in earnings of associated companies	3.7	(34.1)
Less valuation allowance	(8.5)	36.4
Effect of change in enacted tax rate	—	9.8
Other	3.7	(3.9)
Effective income tax rate	44.4%	73.6%

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 41.1% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred tax assets (net of deferred tax liabilities) decreased ¥39 million while deferred taxes expensed during the fiscal year increased ¥87 million and the unrealized holding gains on available-for-sale securities increased ¥47 million compared with what would be reported using the currently applicable tax rate of 42.4%.

14. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached to 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

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. 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 for the years ended March 31, 2004 and 2003 were less than 10% of consolidated net sales.

16. RELATED PARTY TRANSACTIONS

Principle transactions between the Company and related parties for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Insurance premium paid	¥205	¥ 173	\$1,940
Purchase of cardboard boxes	—	11	—
Purchase of software	172	89	1,627

17. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 25, 2004, the appropriation of the Company's retained earnings for the year ended March 31, 2004 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥ 8.00 per share)	¥1,667	\$15,773

Independent Auditors' Report

To the Board of Directors of
ITOHAM FOODS INC.

We have audited the accompanying consolidated balance sheets of ITOHAM FOODS INC. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOHAM FOODS INC. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 25, 2004

KPMG A2SA & Co.

Itoham Corporate History

1928	Forerunner of Itoham founded as a private food processing enterprise in Osaka
1934	Develops sausages packaged in cellophane
1946	Food processing company established as a limited partnership in Kobe
1947	Develops and begins mass production of pressed ham
1948	Restructures and becomes a public company
1956	Begins the development of ham and sausage products using mutton
1957	Becomes first in the industry to import mutton raw ingredients (3,000 tons)
1959	Establishes the Meguro Plant in Tokyo
1960	Establishes the Nishinomiya Plant in Hyogo Prefecture
1961	Changes company name to Ito Ham Provisions Co., Ltd. Lists on the Second Section of the Tokyo and Osaka stock exchanges, and on the Kobe stock exchange (closed October 1967)
1965	Establishes the Toyohashi Plant in Aichi Prefecture
1967	Itoham shares moved to the First Section of the Tokyo and Osaka stock exchanges Establishes the Kyushu Plant in Saga Prefecture
1968	Establishes the Tokyo Plant in Kashiwa, Chiba Prefecture
1969	Launches an independent cold chain logistics system with the introduction of refrigerated delivery vehicles
1970	Participates in the Japan World Exposition
1974	Establishes Ito Cariani Sausage Company, Inc. in San Francisco Launches <i>Palky</i> , a skinless wiener product
1979	Launches <i>Cheese-In</i> , a wiener product with a cheese center
1981	Establishes the Ito Memorial Foundation and the Ito Cultural Foundation
1983	Launches a new corporate symbol Begins sales of Fromageries Bel Coop. dairy products
1984	Begins sales of food and wines supplied by French restaurant La Tour d'Argent Changes company name to Itoham Foods Inc.
1985	Begins sales of the <i>Bayern</i> brand of wieners Launches the <i>Arabiki Gourmet Wiener</i>
1987	Begins sales of Marie Laurencin wines
1988	Launches <i>Pork Bits</i> , a wiener product Establishes Itoham Foods (Australia) Pty. Ltd.
1989	<i>Pork Bits</i> win a Nikkei Superior Products and Services Award
1990	Sets up the Itoham Central Research Institute in Ibaraki Prefecture
1991	Launches the <i>Houjyun</i> series of ham products
1993	Begins sales of the <i>Arabiki Frank</i> wiener Launches a roast beef product prepared using <i>Sous Vide</i> vacuum sealing and cooking technology
1994	Brings the Rokko Logistics Center on line in Kobe
1995	Begins sales of the <i>Sawayaka Thin-Slice Pack</i> series of ham and meat products
1997	Opens the Alt-Ito Building in Tokyo as the company's base in the metropolitan area
1998	Starts introducing low-emission compressed natural gas vehicles into fleet Opens the Hong Kong Garden restaurant in Tokyo Launches the <i>Alt Bayern</i> wiener line, which meets specified Japanese Agricultural Standard (JAS) regulations for cured meat products
1999	<i>Alt Bayern</i> wins a Nikkei Superior Products and Services Award
2001	Signs a Corporate Marketing Partnership agreement with Universal Studios Japan™ <i>Cheese-In</i> wins the Minister for Education, Culture, Sports, Science and Technology prize
2004	<i>Pole Wiener</i> wins the Long Seller Prize awarded by the Japan Food Journal

Corporate Data

Company Name
ITOHAM FOODS INC.

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

Tel
0798-66-1231

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

Common Stock
¥22,415 million

Number of Employees
5,777 (Consolidated)

Consolidated Subsidiaries
45

Equity-method Affiliates
11

Major Office and Plants
Tokyo Office
Nishinomiya Plant
Tokyo Plant
Toyohashi Plant
Kyushu Plant

Major Domestic Subsidiaries
Itoham Daily Inc.
Itoham Food Solutions Co., Ltd.
Itoham Kanto Sales Inc.
Itoham Kansai Sales Inc.
Itoham Kanto Meat Sales Inc.
Itoham Kansai Meat Sales Inc.

Major Overseas Subsidiaries
Ito Cariani Sausage Company, Inc.
American Peptide Company, Inc.
Itoham Foods (Australia) Pty. Ltd.

Board of Directors

Chairman of the Board
Kenichi Ito

President
Masami Ito

Senior Managing Director
Chikara Kasai*

Managing Directors
Nario Ishida*
Shinichi Yamada*

Directors
Minoru Nose*
Toshiyuki Fujiyama*
Takashi Ninomiya*
Satoru Hirayama*
Tsuguharu Kawano*
Shingo Iwamoto*

Standing Auditors
Yoshio Hayashi
Takao Kobayashi

Auditors
Kenichiro Kensho
Shinobu Okamoto

Corporate Executive Officers
Yoshitaka Tanaka
Kazumi Ihara
Ryuichi Miyagawa
Takashi Takechi
Shiro Ito
Hideo Mori
Takashi Ishii
Satoru Tanaka

*Corporate Executive Officer

(As of June 25, 2004)

(As of March 31, 2004)

Stock Information

SHARES

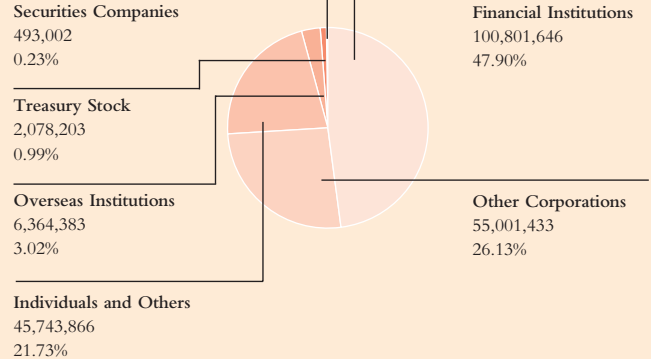
Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533
Number of shareholders	18,179
Shareholder coupon system:	
1. Qualification	Shareholders with 1,000 or more shares
2. Coupon amount	Itoham products worth ¥5,000

MAJOR SHAREHOLDERS

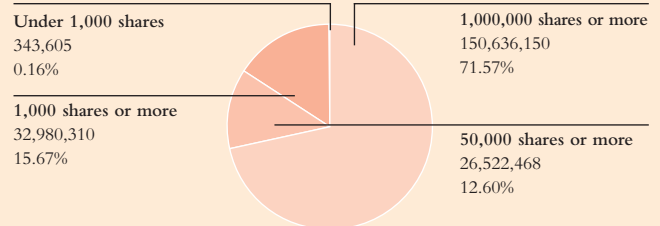
	Number of Shares Held (thousands of shares)	Percentage of Total (%)★
Japan Trustee Services Bank, Ltd. (Trust Account)	25,515	12.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	17,068	8.2
Ito Memorial Foundation	12,000	5.8
Toei Shoji Co., Inc.	10,005	4.8
Kenichi Ito	8,251	4.0
Mitsubishi Corporation	7,656	3.7
Marubeni Corporation	7,099	3.4

★Ratio of voting rights

BREAKDOWN OF SHAREHOLDERS BY TYPE

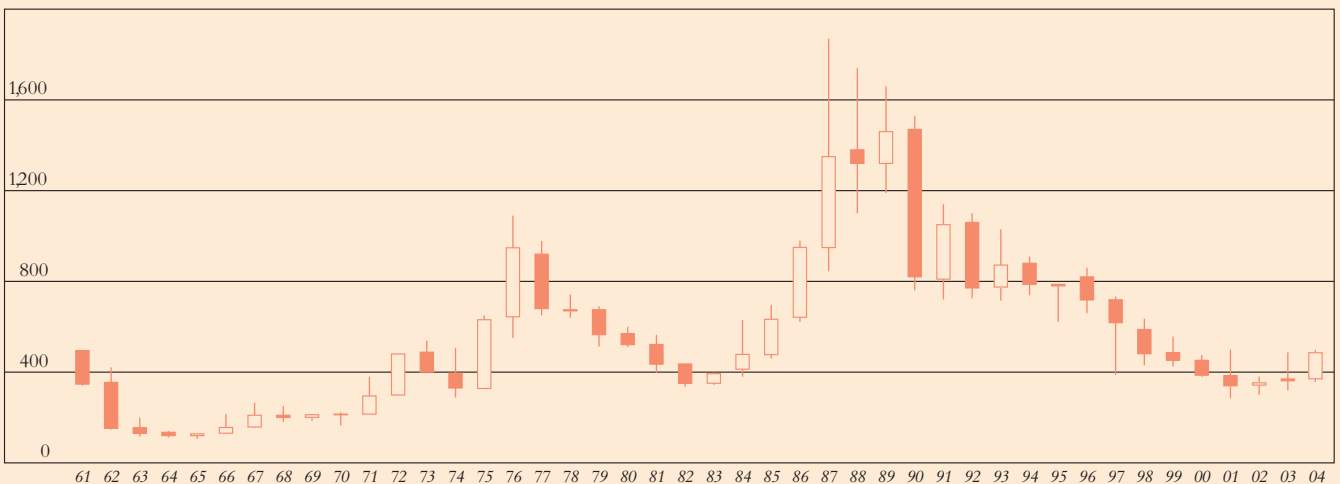


BREAKDOWN OF SHAREHOLDERS BY SIZE OF HOLDING



(As of March 31, 2004)

COMMON STOCK PRICE RANGE



Calendar year		94	95	96	97	98	99	00	01	02	03	04
Itoham Common Stock (¥)	High	910	788	860	733	635	557	495	500	381	487	498
	Low	739	621	660	388	430	425	379	285	300	320	356
Trading Volume (thousands of shares)		30,237	33,956	37,741	42,862	37,830	62,290	78,006	90,433	56,636	88,391	40,262

*Note: The figures for the 2004 calendar year only are for the 3-month period from January 2004 through March 2004.



ITO HAM FOODS INC.

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

Tel: 0798-66-1231

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



Printed in Japan on recycled paper