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## **Announcement of Basic Agreement on Management Integration through Establishment of Joint Holding Company (Joint Share Transfer) by Itoham Foods Inc. and Yonekyu Corporation**

Itoham Foods Inc. (hereafter Itoham) and Yonekyu Corporation (hereafter Yonekyu) hereby announce that the conclusion of Basic Agreement on Management Integration (hereafter Integration) through establishment of Joint Holding Company by Joint Share Transfer (hereafter Share Transfer) was resolved today by respective Board of Directors Meeting held on September 15, 2015.

### **1. Background and Objective of the Integration**

With the economic stimulus of Abenomics, personal spending as a whole has shown steady growth and there is brightness within big-ticket items. On the other hand, there is still strong demand for low prices for food and daily living articles. Along with the restructuring of the retail sector and the uncertainty of the TPP negotiations, there will continue to be fierce competitions among companies as well as changes in the market situations, which leaves less room for optimism. Our industry faces tough situation where increased global demand for meat and a weaker yen are causing high meat prices, increasing raw material costs. The domestic market is showing an expansion in the ready-made sector with more women in the work force and increases in single person household. The overseas market is showing increased demand in meat related products, especially in Asia, as the number of middle-income class expands. It is necessary to explore markets that show growth potentials.

Under these circumstances, Itoham Group, now in its final year of “CNV 2015” mid-term management plan, has endeavored to adopt to changes in the market, strengthen its corporate and product brand images, increase its cost competitiveness and increase its standing as a national brand manufacturer to accelerate its growth strategy. In March this year, Itoham affiliated ANZCO Foods by increasing its share holding. With the affiliation, sales into the global market, especially in Asia, have increase dramatically. Along with increased sales and profits, it has become a huge step in Itoham’s management vision of “becoming the most trusted meat manufacturer in Asia.” Itoham will build on this base and continue to increase its overseas sales. In the domestic front, Itoham will supply products with value as a national brand manufacturer and strive to realize a continuous growth as a group. Itoham had recognized that the challenge lies in the need for high mobility in making proposals to the dine-out/ready-made sectors, increased cost competitiveness and stronger value chain in the meat division to ensure steady growth in the future.

On the other hand, Yonekyu, now in its 5<sup>th</sup> mid-term management plan, is taking on, as a group, the task of sorting out its business operations and restructuring / strengthening. Yonekyu has expanded its business by increasing manufacturing lines, expanding meat production business and strengthening sales structures. It has also improved its profitability by reorganizing its operations, improving productivity, improving logistics efficiency and tight profit and loss management. These efforts have cumulated in record profits last fiscal year. This year, being the 50<sup>th</sup> year of operation, Yonekyu is actively executing its operations based on its management philosophy of “creating enjoyable dining experience for every consumer and furthermore enriching their lives through such experiences” to realize continuous growth. Yonekyu had recognized that the challenge lies in the necessity to increase production capacity and sales foothold without jeopardizing cost competitiveness in order to realize the above themes.

Through the recognition of the respective challenges, Itoham and Yonekyu have been discussing under the common recognition for the need to establish a “Further Aggressive Management Strategy.” Itoham and Yonekyu have concluded that it was necessary to increase business size, and at the same time, bring together the strength of both companies to create a synergy effect, and have agreed upon the Integration.

The following synergy effect is foreseen.

Firstly, Itoham’s strength is in its consumer products for the processed food division and beef and pork in the meat division. Itoham has production, logistics and sales bases throughout Japan. Yonekyu’s strength is in its products for establishment use for the processed food division and pork and poultry for the meat division. Yonekyu’s production bases are located in Kanto, Tokai area. By strengthening and complementing the distinguished characteristics, production and sales volume would increase. And by improving capacity utilization of the supply chain beginning from production to sales and securing cost competitiveness, a further aggressive business development would be possible.

Secondly, by utilizing the scale merit created by the Integration, it may be possible to secure outside materials including raw materials for production efficiently and at a lower cost thus improving profitability.

Thirdly, cost reductions by means of reorganizing and maximizing the efficiency of the logistics and back-office operations as well as product development and creation of new values that may have had limits when done individually would be possible allowing for further cost reductions and stronger product presentations.

Under these principles, Itoham and Yonekyu will take on various measures to with challenging spirit through these tough environments to ensure continuous growth and increase corporate value by continuing to supply products with value.

## 2. Outline of the Integration

### (1) Procedure of Share Transfer

Joint share transfer where Itoham and Yonekyu become wholly owned subsidiaries and the Incorporated Joint Holding Company becomes the wholly owning parent company.

### (2) Schedule of Share Transfer

Board resolution on conclusion of Basic Agreement on Management Integration (both companies)	September 15, 2015
Conclusion of Basic Agreement on Management Integration (both companies)	September 15, 2015
Board resolution on Share Transfer Plan (both companies)	Early November, 2015 (Scheduled)
Record Date regarding the extraordinary shareholders meeting (both companies)	Mid November, 2015 (Scheduled)
Extraordinary shareholders meeting to approve	Mid January, 2016 (Scheduled)

integration (both companies)	
Delisting of stocks (both companies)	March 28, 2016 (Scheduled)
Incorporation of Joint Holding Company	April 1, 2016 (Scheduled)
Listing of Joint Holding Company	April 1, 2016 (Scheduled)

Schedule may change as necessary.

### (3) Share allocation related to Share Transfer

	Itoham	Yonekyu
Share Transfer Ratio	1	3.67

#### (note 1) Details of share allocation related to this Share Transfer

1 share of common stock of the Joint Holding Company for 1 share of Itoham common stock, 3.67 shares of common stock of the Joint Holding Company for 1 share of Yonekyu common stock will be allocated. Should there be a situation where the share of the Joint Holding Company allocated to current Itoham and Yonekyu shareholders has a fraction of a share, The Joint Holding Company will, pursuant to Article 234 of the Companies Act of Japan and other relevant laws and regulations, pay the relevant shareholder a cash amount corresponding to the fractional shares attributed to such fraction.

The Share Transfer Ratio as stated above may change through discussions between the companies should there be major changes in conditions where the calculation is based.

One unit of the shares of the Joint Holding Company shall consist of 100 shares.

#### (note 2) Number of Newly Issued Joint Holding Company Shares to be delivered through the Share Transfer (Scheduled)

297,277,894 shares of common stock

The number of newly issued Joint Holding Company shares to be delivered through the Share Transfer has been calculated based on the total number of issued and outstanding shares of Itoham (247,482,533 shares as of March 31, 2015) and those of Yonekyu (28,809,701 shares as of February 28, 2015), provided however, that Itoham and Yonekyu plan to cancel all of their treasury shares, to the extent practicable, as of the day immediately preceding the effective date of the Share Transfer. Accordingly, the treasury shares Itoham held as of March 31, 2015 (43,306,802 shares) and Yonekyu held as of February 28, 2015 (3,441,264 shares) have not been included in calculating the above number.

Because Itoham and Yonekyu plans to cancel treasury shares repurchased by them by the day preceding the date of Share Transfer, to the extent practicable, the number of newly issued Joint Holding Company shares to be delivered through the Share Transfer may change.

#### (note 3) Notes regarding to shares less than one unit

Should the shareholders of Itoham or Yonekyu be allocated less than one unit shares of the Joint Holding Company, the shareholder will not be able to sell the said share at the Tokyo Stock Exchange or other financial instruments exchanges. In such case, the shareholder may request the Joint Holding Company to purchase those shares less than one unit.

#### (4) Handling of Share Warrants and Bonds with Subscription to Shares

In regards to share warrants issued by Itoham, share warrants of the Joint Holding Company will be allocated based on the contents and the share transfer ratio. Yonekyu has not issued share warrants. Both Itoham and Yonekyu have not issued bonds with subscription to shares.

#### (5) Payout of Dividend

Payout of dividend for Itoham for the year ending March, 2017 is expected to be 10 yen per share at the end of the financial year as stated in the first quarter financial results. Payout of dividend for Yonekyu for the year ending March, 2017 is expected to be 50 yen per share at the end of the second quarter and 18 yen per year at the end of the financial year as stated in the first quarter financial results.

#### (6) Management Structure after Share Transfer

Mamoru Horio, the President of Itoham will serve as the Representative Director of the Joint Holding Company at incorporation. Directors are expected to be appointed on a 2 to 1 ratio between Itoham and Yonekyu.

#### (7) Preparation Committee

To prepare for the Share Transfer rapidly and smoothly and to realize the synergy effect as soon as possible, an Integration Preparation Committee organization will be organized with the President of Itoham at its head. Subcommittees will be set up as required to discuss practically and make decisions required to enact the share transfer.

### 3. Calculation of Share Transfer Ratio

#### (1) Reasoning behind the calculation

In order to ensure the fairness of the calculation of the Share Transfer Ratio in the Share Transfer as stated in section 2 (3) above, Itoham and Yonekyu requested Mizuho Securities Co., Ltd. (hereafter Mizuho) and PwC Advisory Co., Ltd. (hereafter PwC), respectively, to conduct a calculation of the Share Transfer Ratio. The Share Transfer Ratio stated above was deemed appropriate by the board of directors after taking into account the calculations provided by Mizuho and PwC, financial situations, assets and future outlook of each companies, and the basic agreement on management integration was made.

#### (2) Relationship with the Appraisers

Neither Mizuho (financial advisor for Itoham) nor PwC (financial advisor for Yonekyu) are a related party to Mitsubishi Corporation (hereafter Mitsubishi), largest stockholder of Itoham and parent company of Yonekyu, and hold no interest in this Share Transfer

#### (3) Basis of Valuation

In order to ensure the fairness of the calculation of the Share Transfer Ratio in the Share Transfer, Itoham and Yonekyu requested Mizuho and PwC, respectively, to conduct a calculation of the Share Transfer Ratio.

After analyzing the financial information of both Itoham and Yonekyu and the terms and conditions of the Share Transfer, Mizuho conducted the calculation, settling on the market price analysis as the primary basis of calculation as both Itoham and Yonekyu are traded on the Tokyo Stock Exchange. Furthermore, in order to conduct a more comprehensive analysis, the Discounted Cash Flow analysis (DCF analysis) was used. The results derived from each method of analysis are as follows. The Share Transfer Ratio shows the calculation range of Yonekyu shares of common stock as against one share of Itoham common stock.

With the market price analysis, valuation date of September 14, 2015 was employed and analyzed the closing prices of the stock of both companies during the periods one, three and six months prior to the valuation date.

Valuation Method	Share Transfer Ratio
Market price analysis	3.24 ~ 3.64
DCF analysis	2.89 ~ 4.12

Mizuho, when submitting their share transfer ratio calculation report and conducting the analysis upon which such report was based, primarily used information furnished by Itoham

and Yonekyu and information that was publicly available in their original form. In using such information, Mizuho assumed the accuracy and completeness of all such information and materials, and did not independently verify such accuracy and completeness. Mizuho did not independently value, appraise or assess the assets and liabilities (including any off-balance-sheet assets and liabilities and other contingent liabilities) of both companies and their affiliated companies and did not engage any third party institution for an appraisal or valuation assessment. In addition, Mizuho assumed that the information used to develop the financial forecasts of both companies was reasonably prepared based on the best estimates of and judgment by the management of both companies and does not include this share transfer.

After analyzing the financial information of both Itoham and Yonekyu and the terms and conditions of the Share Transfer, PwC conducted the calculation, settling on the market price analysis as the primary basis of calculation as both Itoham and Yonekyu are traded on the Tokyo Stock Exchange. Furthermore, in order to conduct a more comprehensive analysis, the discounted cash flow analysis (DCF analysis) was used. The results derived from each method of analysis are as follows. The Share Transfer Ratio shows the calculation range of Yonekyu shares of common stock as against one share of Itoham common stock.

With the market price analysis, valuation date of September 14, 2015 was employed and analyzed the closing prices of the stock of both companies during the periods one and three months prior to the valuation date.

Valuation Method	Share Transfer Ratio
Market price analysis	3.57 ~ 3.64
DCF analysis	3.60 ~ 4.23

PwC, when submitting their share transfer ratio calculation report and conducting the analysis upon which such report was based, primarily used information furnished by Itoham and Yonekyu and information that was publicly available in their original form. In using such information, PwC assumed the accuracy and completeness of all such information and materials, and did not independently verify such accuracy and completeness. PwC did not independently value, appraise or assess the assets and liabilities (including any off-balance-sheet assets and liabilities and other contingent liabilities) of both companies and their affiliated companies and did not engage any third party institution for an appraisal or valuation assessment. In addition, Mizuho assumed that the information used to develop the financial forecasts of both companies was reasonably prepared based on the best estimates of and judgment by the management of both companies and does not include this share transfer.

#### (4) De-listing of Itoham and Yonekyu shares

Itoham and Yonekyu will apply to list the shares of the newly-established Joint Holding Company on the Tokyo Stock Exchange. Shares of the Joint Holding Company are expected to be listed on April 1, 2016, the expected date of incorporation. Moreover, because Itoham and Yonekyu will each become a wholly-owned subsidiary of the Joint Holding Company as a result of the Share Transfer, shares of Itoham and Yonekyu are scheduled to be de-listed from the Tokyo Stock Exchange on March 28, 2016. The actual date on which the shares will be de-listed will be determined in accordance with the regulations of the Tokyo Stock Exchange.

Though common stocks of both companies will not be trades at the Tokyo Stock Exchange after de-listing, liquidity of shares will be maintained as the common stocks of the Joint Holding Company will be traded at the Tokyo Stock Exchange.

#### (5) Measures to ensure fairness

In order to ensure the fairness to its shareholders from a financial point of view of the Share Transfer Ratio, Itoham and Yonekyu appointed Mizuho and PwC respectively as a

third-party financial advisor and obtained Share Transfer Ratio Analysis Report providing analyses of the Share Transfer Ratio to use as basis for the agreement of Share Transfer Ratio. A written opinion (so called "fairness opinion") to show that the Share Transfer Ratio is fair to the shareholders from a financial point of view has not been received.

In order to ensure the fairness and adequacy of decision making of the board of directors, Itoham obtained legal advice on method and process of its decision making and other procedures relating to the Share Transfer (including legal advice regarding fiduciary duties of directors) from the law offices of Nakamura Tsunoda & Matsumoto and Nagashima Ohno & Tunematsu and respectively as legal advisors independent of the companies.

#### (6) Measures to prevent conflict of interests

Following measures to prevent conflict of interests were taken as Mitsubishi is the largest shareholder of Itoham with 20.06% of shares (as of August 31, 2015) and the parent company of Yonekyu with 62.54% of shares (as of August 31, 2015, includes indirectly held shares).

Within Itoham, Director Kazuhiko Misonou being a temporary transferred employee from Mitsubishi had recused himself from deliberation and resolution of share transfer as well as not being involved in negotiations between Itoham and Yonekyu regarding the share transfer.

Furthermore, Itoham has consulted with Mr. Nobuhiko Munakata, Itoham's outside director and an independent executive as stated under article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange (hereafter independent executive) who has no conflict of interest with Yonekyu and Mitsubishi as well as Itoham's outside company auditors without any conflict of interests with Yonekyu and Mitsubishi, independent executives Mr. Akifumi Imamura and Mr. Shigetarou Nakayama regarding the fairness of the share transfer to the minority stockholders.

Messrs. Munakata, Imamura and Nakayama have studied the Share Transfer Ratio Analysis Report provided by Mizuho documents and explanation from parties involved and concluded that the share transfer does not disadvantage minority shareholders based on the objective of the share transfer, expected changes in Itoham corporate value, method and process of its decision making and other procedures relating to the Share Transfer and the fairness of the share transfer ratio and have provided to the Itoham Board Meeting a written statement dated September 14, 2015.

In case of Yonekyu, Director Hideto Okuda being a temporary transferred employee from Mitsubishi had recused himself from deliberation and resolution of share transfer as well as not being involved in negotiations between Itoham and Yonekyu regarding the share transfer.

Mr. Kiyotaka Kikuchi, Yonekyu's standing auditor, being an employee of Mitsubishi had receded from deliberation and resolution of share transfer as well as not being involved in negotiations between Itoham and Yonekyu regarding the share transfer.

Furthermore, the board of Yonekyu set up a third-party committee comprised of Mr. Kota Yamaguchi, an outside attorney with independency on this issue, Ms. Yuko Tanemoto, an outside director of Yonekyu and an independent executive and Mr. Yasuo Ichito, outside company auditor and independent executive and inquired based on (1) the objective of the management integration, (2) method and process of negotiations and (3) fairness of the share transfer ratio, whether decision to agree to the share transfer disadvantages minority shareholders.

The third-party committee held 4 meetings between August 18, 2015 and September 15, 2015 to discuss the issue. The committee studied the Share Transfer Ratio Analysis Report provided by PwC, documents and explanation from parties involved, legal advises received from Nagashima, Ohno & Tunematsu and concluded that the share transfer does not disadvantage minority shareholders based on the objective of the share transfer, expected changes in Itoham corporate value, method and process of its decision making and other procedures relating to the Share Transfer and the fairness of the share transfer ratio and has provided to the Yonekyu Board Meeting a written statement.

#### 4. Profile of Relevant Parties to Share Transfer

(1) Company Name	Itoham Foods Inc.	Yonekyu Corporation
(2) Location of Registered Head Office	3-2-1, Bingo-cho Nada-ku, Kobe, Hyogo	1259 Okanomiya Terabayashi, Numazu Shizuoka
(3) Name and Title of Representative	Mamoru Horio, President	Yonekyu: President and Chief Executive Officer
(4) Principal Business	-Manufacture and sale of processed meat products -Processing and sale of meat -Manufacture and sale of processed/precooked food products	- Production and sale of meat (beef, pork, poultry) and meat processed foods (ham, sausages and delicatessen food, etc.)
(5) Paid-in Capital	28,427million yen (as of March 31, 2015)	8,634million yen (as of February 28, 2015)
(6) Date of Incorporation	June 29, 1948	February 26, 1969
(7) Total Number of Issued and Outstanding Shares	247,482,533 shares (as of March 31, 2015)	28,809,701 shares (as of February 28, 2015)
(8) Fiscal Year End	March 31	March 31
(9) Number of Employees	(non-consolidated) 1,740 (consolidated) 5,562	(non-consolidated) 839 (consolidated) 1,700
(10) Major Customers	Major retailers and food wholesalers, etc.	Major retailers and food wholesalers, etc.
(11) Major Banks	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Sumitomo Mitsui Trust Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd. SURUGA bank, Ltd.

(12) Major Shareholders and Shareholding Ratio	Mitsubishi Corporation	20.06%	Mitsubishi Corporation	62.54%
	Yonekyu Employee Shareholding Association		Yonekyu Employee Shareholding Association	1.47%
	Japan Trustee Services Bank, Ltd.	4.94%	Sumitomo Mitsui Banking Corporation	1.39%
	The Ito Foundation	4.85%	Japan Trustee Services Bank, Ltd. (trust account 4)	1.02%
	The Master Trust Bank of Japan Ltd.	4.46%	Japan Trustee Services Bank, Ltd. (trust account 9)	0.75%
	S Planning Ltd.	3.32%	Japan Trustee Services Bank, Ltd. (trust account)	0.71%
	Mizuho Bank, Ltd.	2.55%	The Master Trust Bank of Japan Ltd. (trust account)	0.32%
	Sumitomo Mitsui Banking Corporation	2.55%	Osamu Saito	0.29%
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.55%	Kazuhiro Noaki	0.29%
	Ito Culture Foundation	2.51%	JP MORGAN CHASE BANK 385151 (as of February 28, 2015)	0.28%
	Marubeni Corporation (as of March 31, 2015)	1.43%		

(13) Relationship between the Relevant Parties

Capital relationship	There is no capital relationship between the Relevant Parties that is worthy of special mention
Personnel relationship	There is no personnel relationship between the Relevant Parties that is worthy of special mention
Transactional relationship	Itoham and Yonekyu transact with each other relating to sales and purchase of raw materials
Status of relationship with related parties	Yonekyu is a subsidiary of Mitsubishi Corporation which is other affiliated company of Itoham, and therefore a Related Party of Itoham.

(14) Operating Results and Financial Condition for the Latest Three Fiscal Period

Fiscal Year End	Itoham (Consolidated)			Yonekyu (Consolidated)		
	March 2013	March 2014	March 2015	February 2013	February 2014	February 2015

Net Assets	116,841	119,904	134,294	36,050	37,349	41,443
Total Assets	205,350	202,931	260,000	61,146	62,834	71,839
Net Assets per share (yen)	530.32	556.64	618.38	1,418.86	1,470.02	1,631.49
Net Sales	438,827	463,395	481,130	142,372	144,154	155,082
Operating Income	5,659	4,900	3,764	484	1,989	5,240
Ordinary Income	5,631	5,888	6,571	322	1,837	5,878
Net Income	4,145	4,810	11,522	△221	896	4,010
Net Income per share (yen)	18.09	22.35	54.37	△8.64	35.33	158.10
Annual Dividend per share (yen)	5.00	7.00	8.00	18.0	18.0	18.0

(millions of yen, except as otherwise specified)

#### 5. Profile of the Joint Holding Company to be established through Share Transfer

Except “name and title of Representative” of the Joint Holding Company has been decided to set as “Mamoru Horio, President and Representative Director”, the company name, address of head office and other details of the Joint Holding Company will be determined prior to approval of the Share Transfer Plan by the Board of Directors of Itoham and Yonekyu.

#### 6. Overview of Accounting Treatment

It is expected that the purchase method will be applied as the accounting treatment of the Share Transfer since it falls under “purchase” stipulated in the Accounting Standard for Business Combination, and that goodwill will arise for the consolidated accounting period of the Joint Holding Company. The amount of goodwill has not been determined at the present stage and will be announced as soon as it is determined.

#### 7. Forecast

The business policy, business plan and forecast for operating results, etc. of the Joint Holding Company will be contemplated by both companies and will be announced as soon as they are determined.