

ITOHAM FOODS INC.

Annual Report 2003

The Itoham Group's Management Policy

グループ経営の基本方針

The Itoham Group's management policy is to create corporate value over the long term. Since its establishment, the Itoham Group has promoted a corporate philosophy of "Service to society through business."

Our basic philosophy embodies our commitment to "Supply high-quality products and customer-centric services that contribute to healthy lifestyles and foster a rich food culture." The following five points represent the basic approach we have adopted to realize our aims.

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

Underpinned by this basic approach, the Itoham Group will move forward as a vibrant and active company and develop a Group management style capable of making a meaningful contribution to society.

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

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

以上の基本姿勢のもと、伊藤ハムグループは「活力ある魅力的な企業として躍進し、社会に貢献できるグループ経営」を推進いたします。

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Consolidated Financial Highlights

連結財務ハイライト

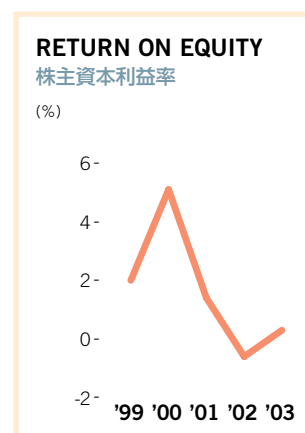
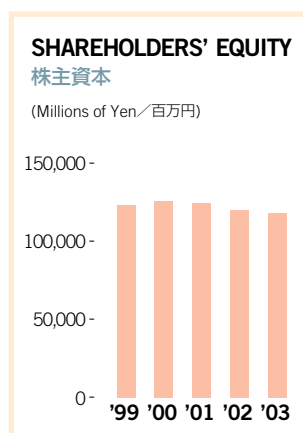
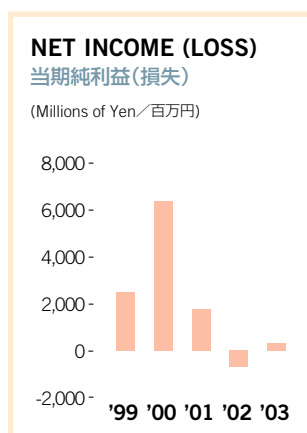
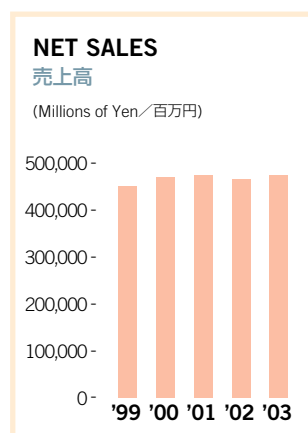
ITOHAM FOODS INC. and Consolidated Subsidiaries

Years ended or as of March 31

		Millions of yen		Thousands of U.S. dollars (Note)
		2003	2002	2003
For the year:				
Net sales	売上高	¥473,891	¥465,639	\$3,942,521
Operating income	営業利益	3,768	1,002	31,348
Net income (loss)	当期純利益(損失)	313	(707)	2,604
At year-end:				
Shareholders' equity	株主資本	¥117,771	¥120,003	\$ 979,792
Total assets	総資産	219,383	235,362	1,825,150
Return on equity	株主資本利益率	0.3%	(0.6)%	
Return on assets	総資本経常利益率	2.2%	0.9 %	
		Yen		U.S. dollars (Note)
Per share data:				
Net income (loss)	一株当たり当期純利益(損失)	¥ 1.49	¥ (3.32)	\$ 0.012
Shareholders' equity	一株当たり株主資本	559.71	570.15	4.66

Note: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥120.20=US\$1, the rate prevailing on March 31, 2003.

注記：為替換算は2003年3月31日における為替レート(1ドル=120円20銭)で計算しております。



Message From the President

社長メッセージ

I am greatly honored to have been appointed as the new president of Itoham Foods Inc. on October 1, 2002. I hope my efforts to lead the company will garner the same level of support you were able to offer my predecessor, Kenichi Ito.

2002年10月1日、社長に就任いたしました伊藤正視でございます。
会長に就任いたしました前社長伊藤研一様のご支援ご鞭撻を賜りますようお願い申し上げます。



MASAMI ITO
President

FISCAL 2003 BUSINESS RESULTS

From the early part of the year, there were signs of a turnaround in some sectors of the Japanese economy on the back of a recovery in exports and stronger production. However, subsequent uncertainty about the direction of the global economy and concerns about stability in financial markets hampered any full-scale recovery in capital investment and the labor market. Consequently, personal consumption remained weak and the deflationary environment in Japan continued.

The meat industry also felt the impact of anemic personal consumption and the trend toward lower priced products, but it also had to contend with a range of other issues. These included lingering consumer concerns about the safety of beef products following the first domestic outbreak of bovine spongiform encephalopathy (BSE) in 2001, and growing mistrust of the food industry due to the discovery of a number of deliberate food mislabeling incidents. As a result, the primary concern of customers is now food products that they can trust and are safe to eat.

Against this backdrop, the Itoham Group placed top priority on providing the “safe and reliable, fresh and high-quality” products that customers deserve. At the same time, we endeavored to win the trust of customers, and continued to drive forward business restructuring. This restructuring was mainly directed at enhancing marketing capabilities, building a low-cost operating structure, and encouraging innovation.

2003年3月期の業績の概況

当期の我が国の経済は、年初来の輸出の増加や生産の回復等により、景気に一部持ち直しの動きが見られましたが、その後は世界経済への先行き懸念や金融不安の影響により、設備投資や雇用情勢の本格的な回復の兆しは見ておりません。そして、これらの影響を受けて個人消費も引き続き低迷しており、デフレ不況が続いております。

当業界を取り巻く市場環境におきましても、個人消費の低迷と低価格化が続いており、さらに一昨年の国内におけるBSE(牛海綿状脳症)の発生による牛肉の安全性に対する不安感と偽装表示に端を発した食品会社に対する信頼性の低下などにより、安全で安心できる食品の提供が強く求められております。

このような状況の中で当社グループは、お客様に「安全・安心」で「品質・鮮度」の高い商品をお届けすることを第一に考え、お客様の信頼を得るよう努めてまいりました。また社内においては、「マーケティング力の強化」「ローコスト経営」「イノベーションの推進」をテーマに、業務改革を推進してまいりました。

In the Ham and Sausage, and the Processed Foods Divisions, we aggressively worked to upgrade sales capabilities as we sought to expand sales. We also worked to pare production costs and selling expenses by channeling resources into core products and reducing the number of products in our lineup. In the Fresh Meat Division, we focused on increasing sales centered on value-added, high-quality products, such as premium domestic beef brands, Itoham original beef brands, Berkshire pork, and *Jidori* (high-quality chicken). Steps were also taken to cut back existing inventories.

As a result of the above efforts, Itoham posted a significant increase in operating income to ¥3,768 million, compared with ¥1,002 million in fiscal 2002. This was achieved on net sales of ¥473,891 million, 1.8% higher than the previous period. Ordinary income more than doubled to ¥4,980 million. Net income was ¥312 million, reversing the net loss of ¥707 million in fiscal 2002, despite a special loss of ¥4,085 million. This primarily resulted from a valuation write-down of investment securities caused by declining share prices.

OUTLOOK FOR FISCAL 2004

Despite some positive signs of a recovery in Japan on the back of a sustained turnaround in the global economy centered on the U.S., a degree of uncertainty will remain in the year ahead. Stronger results by businesses in some sectors of Japanese industry will continue, but this will not be sufficient to alleviate the difficult conditions in the employment and income environments. Consequently, Itoham expects personal consumption to remain weak and the difficult operating climate to continue in fiscal 2004.

Underpinned by our strong commitment to corporate ethics, defined in our corporate philosophy and management policy, Itoham has always worked to respond to the needs of society, such as growing concerns about food safety, the demands of an ageing population, and the needs of people with food allergies. Going forward, we will redouble our efforts in this area in order to help drive a recovery in confidence in the meat industry.

Against this background, we will work to enhance corporate value over the long term through Group-oriented management that gives the highest priority to profitability and efficiency, based on the objectives in our Medium-Term Plan. Guided by our Group mission, and with the needs of the customer always our number one priority, we will actively develop products and carry out operational activities aimed at delivering society and customers the food solutions they demand. And by remaining committed to providing “safe and reliable, fresh and high-quality” products that customers want, we will work to further enhance trust in the Itoham Group.

ハム・ソーセージ部門と調理加工食品部門については、販売力強化を積極的に進め、拡販を図るとともに重点販売商品の上位集中化とアイテム数削減により、生産コスト及び販売費の低減に鋭意努力してまいりました。また、生肉部門については、国産銘柄牛、当社オリジナルブランド牛、そして黒豚、地鶏など付加価値の高い商品を中心に拡販を図るとともに、在庫水準の低減に取り組んでまいりました。

この結果、当期の売上高は4,738億9千1百万円(前期比1.8%増)となりました。利益につきましては、営業利益は37億6千8百万円(前期比276.0%増)、経常利益は49億8千万円(前期比118.6%増)となりました。また、株式市場の下落に伴う投資有価証券評価損等、特別損失を40億8千5百万円計上したことから当期純利益は3億1千2百万円(前期は7億7百万円の当期純損失)となりました。

2004年3月期の見通し

次期の見通しにつきましては、米国を中心とする海外経済の回復持続により、景気が持ち直しに向かうことが期待されるものの不確実な要素があります。また、一部国内企業の業績にも回復が見られますが、雇用・所得環境は依然として厳しいことから、個人消費の伸びは期待できず、引続き厳しい経営環境になると推測されます。

一方、お客様の「食」の安全性に対する意識の高まりと、高齢化社会到来やアレルギー体質の方への配慮などに、当社は社是及び経営理念に基づき高い倫理意識を持って対応してまいりましたが、今後もより一層当業界に対する信頼性の回復に努めてまいります。

このような事業環境の中、伊藤ハムグループは中期経営計画に基づき、採算と効率に重点を置いたグループ経営に取り組み、長期的な企業価値の向上を目指してまいります。また、当社グループのミッション(使命)に基づき、「顧客第一主義」を念頭に置いて、ソリューションをテーマとした商品開発及び営業活動を積極的に行い、お客様が求める「安全・安心」と「品質・鮮度」の高い商品をお届けし、当社に対する信頼を強固なものにしてまいります。

In the **Ham and Sausage Division**, in an environment characterized by growing demand for lower-priced products, we aim to win the leading market share in all our product categories, focus our sales strategy on core products (such as *Alt Bayern*), and develop a range of powerful new products from the standpoint of the customer. Customer concerns about food safety and health have prompted us to sell products such as *Alt Bayern* and *Pork Bits* that are free of preservatives, but we will make a renewed commitment to customers by raising our standards in this area even higher, centered on core products. Steps will also be taken to boost profitability based on a steady reduction in the number of products in our lineup—this will realize greater efficiency in both sales and logistics.

In sales promotion activities, we will improve support to help sales areas become more successful, based on effective enhancements to our TSP (Table Scene Promotion) 52 approach. This will mean reflecting the changing seasons in sales areas and offering meal suggestions that cross sales area boundaries.

In production, steps will be taken to enhance cost competitiveness by improving productivity at Itoham Group plants. Efforts in this area will be centered on promoting the Itoham Production System (IHPS). At the same time, we will maintain and raise quality levels in all processes—from the procurement of raw materials through to shipment.

In the **Fresh Meat Division**, expanding sales of our own premium beef brands will be a key objective. Aggressive sales activities will be supported by efforts to build the brand equity of *Blue Ribbon Beef*, a high-quality beef product raised at Itoham feedlots overseas. Meanwhile, in Japan, with ever-greater importance attached to accurate producer region labeling of domestic beef products, we will work to ensure a stable supply of *wagyu* (Japanese premium beef) that we can carefully control and monitor. 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 meat products. In pork products, we will expand sales of Berkshire pork as the top-volume supplier of this brand in Japan. And by selling more, we aim to enhance cost competitiveness so we can offer Berkshire pork in a more attractive price range. Finally, in chicken products, we are building brand equity centered on *Awaodori* (high-quality chicken).

ハム・ソーセージ部門については、低価格志向の強い消費環境の中、それぞれのカテゴリーにおいてシェアNO.1を目指し、「アルトバイエルン」を中心とする重点商品の集中販売と、お客様の視点に立った強い商品の開発に取り組みます。また、お客様の安全・健康志向に伴い、現在でも「アルトバイエルン」や「ポークビッツ」など、保存料不使用の商品を発売しておりますが、今後も重点商品を中心に安全性を見極めながら、これを進めてまいります。さらに、販売と物流の一層の効率化を図るため、アイテム数削減を推し進めて収益力の向上に努めてまいります。

販売促進面では、TSP(テーブル・シーン・プロモーション)52をさらに精度アップさせ、季節感の演出、クロス販売による食の提供をメニューに具現化し、売れる売場づくりをサポートしてまいります。

生産面では、コスト競争力をさらに強化するため、IHPS(伊藤ハム・プロダクション・システム)を中心に工場の生産性向上を推進いたします。また、原材料の調達から製品に至るまでのプロセス全般での高いレベルの品質の維持・向上を図ってまいります。

生肉部門については、自社ブランド牛肉の拡販を最重要課題とし、海外自社牧場にて生産肥育された「ブルーリボンビーフ」を中心にブランド力強化を図り、積極的な販売を行います。また、国内牛肉では産地表示が重要性を帯びている中、安定した供給を図るため預託牛を含め、自社でコントロールできる和牛を拡大してまいります。さらに、「トレーサビリティ」にも積極的に取り組み、お客様に安全な牛肉を供給する体制づくりを目指してまいります。豚肉では、国内随一の供給量を誇る「黒豚」の販売量を拡大し、数量増加によるコストダウンを図ることで、価格面での優位性をさらに高めます。鶏肉では、「阿波尾鶏」を中心にブランド力をさらに強化してまいります。

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**, our approach will be to increase sales in the daily delivered food category at large-volume customers, such as major supermarkets, as we continue to actively push our new *Kyoshou no Sai* series. And with forecasts predicting a big increase in demand for prepared and daily delivered food from large-volume customers and customers in the foodservice channel, such as food vendors and bakery chains, we plan to boost sales and profits by strengthening our lineup of “kitchen solution” products and menus to match the needs of each sales segment and channel.

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

Based on the above initiatives, we are forecasting a recovery in operating income to ¥9.0 billion, a 5.5% increase in net sales to ¥500 billion, ordinary income of ¥10.0 billion, more than double the past year’s figure, and net income of ¥4.5 billion, up from ¥312 million in the year under review.

Cautionary Note: Forward-Looking Statements

The above forecasts are based on management’s assumptions and beliefs in light of the information available at the day of publication. We caution readers that actual results could differ materially from forecasts due to a number of factors outside the control of the Itoham Group.



MASAMI ITO President

伊藤正視 取締役社長

お得意先のバックヤード・ソリューションを軸とした商品面では、商品のロス率の低減やトレーサビリティへの対応として、小分け商品の提供を行い、商品管理をサポートしてまいります。また販売促進面では、新しい販促ツールとして3D(三次元映像)を活用した作業マニュアルを開発し、精肉売場でのバックヤード・ソリューションをテーマとした提案を積極的にを行い、売場全体をサポートしてまいります。

調理加工食品ほか部門については、量販店の日配部門での拡販を目指し、引き続き「巨匠の彩」を積極販売してまいります。また今後も市場成長の見込める量販店の惣菜・日配部門、業務用市場においてはベンダーやベーカリーなど、部門・チャネル毎に木目細かなキッチン・ソリューション型の商品・メニュー提案を強化することにより売上と利益の拡大を目指してまいります。

生産面では、海外供給元の拡充と原料・資材の調達コストの削減を推進してまいります。

以上により次期の業績につきましては、売上高5,000億円(前期比5.5%増)、営業利益90億円(前期比138.9%増)、経常利益100億円(前期比100.8%増)、当期純利益は45億円(前期比1,342.3%増)を予定しております。

【業績予想に関する留意事項】

上記の業績予想につきましては、発表日現在において入手可能な情報に基づき作成したものであり、実際の業績は今後様々な要因によって予想数値と大きく異なる場合があります。

Medium-Term Plan (Three-Year Plan)

中期経営計画(3ヶ年計画について)

In May 2001, the Itoham Group formulated a Medium-Term Plan for the three-year period from fiscal 2002 through fiscal 2004. The entire Group is currently pushing ahead with the plan, the main points of which are described below.

MANAGEMENT VISION

1. Remain a company driven by high-quality management

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

2. Construct a company with a strong corporate brand

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

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

We will establish strong corporate governance to raise the quality of management, clarify specific management indicators and ensure timely disclosure of information while seeking to raise market capitalization.

BASIC STRATEGY

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

To enhance the Group's corporate value, Itoham is pushing forward with a program of selection and concentration in its business spheres. This involves cutting back or withdrawing from unprofitable business activities. In response to falling sales prices in the maturing ham, sausage and processed foods market, Itoham will also strive to enhance competitiveness. This will include a review of its domestic production structure, including its relationship with overseas production centers and contract businesses and a consolidation and reduction of sales bases within the Group.

伊藤ハムグループは、2001年5月に2001年度から2003年度までの3ヶ年のグループ中期経営計画を策定し、グループ全体を挙げて中期経営計画の推進を図っております。

経営ビジョン

1. 経営品質の高い会社

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

2. コーポレートブランド(企業イメージ)の高い会社

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

3. 株主を重視した透明性の高い会社

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

基本戦略

1. 食肉・食肉加工品を中心として、採算と効率に重点を置いたグループ経営

グループとしての企業価値を高めるため、事業領域の「選択と集中」を推進し、不採算事業の縮小・撤退を行います。また、食肉加工品市場の成熟化と販売単価の下落に対応し、海外での協力体制を視野に入れた国内の生産体制の見直しと、グループ内の販売拠点の統廃合を行い、事業競争力の強化を図ってまいります。

2. Strengthen sales capabilities

Itoham will upgrade both its marketing functions and its product planning and development structure, to enhance its position in the markets for hams and sausages, fresh meat and processed foods—products that make up its core business. Itoham has clearly identified promising segments with growing markets and expanding sales channels. To capture demand in these areas, the organization will be revamped and resources reallocated to grow products that stand out in the marketplace. Moreover, an IT-based support system will be instrumental in achieving greater efficiency in supply and sales systems, enabling the company to offer more products to customers.

3. Reform profit structures

To construct a strong, highly profitable operating base, Itoham will reduce interest bearing debt, streamline peripheral divisions and eliminate excess production capacity to lower both fixed costs, such as personnel expenses, and distribution costs.

4. Other business initiatives

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

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

2. 販売力の向上

コアビジネスとしての食肉・食肉加工品事業の基盤強化のために、マーケティング機能を充実し、商品の企画・開発体制の強化を目指してまいります。また、伸長する市場・チャネルなどの有望セグメントを明確に選定して、組織の再編と差別化商品育成のため、経営資源の重点配分を行います。さらに、効率的な供給・販売体制を構築するために、IT活用によるサポートシステムを整備し、お客様への提案営業を推進いたします。

3. 利益構造の改善

収益率の高い強固な経営基盤をつくり上げるために、有利子負債の圧縮、間接部門の集約化、過剰な生産設備の解消を行い、人件費などの固定費及び物流コストの削減に取り組んでまいります。

4. その他の経営施策

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

- (1) 事業戦略実行型への組織の再編
- (2) 間接部門の業務の効率化とコストダウン
- (3) 人的資産価値の向上を目指した人事制度の改革
- (4) 資産(ROA)と資本(ROE)効率の改善
- (5) 物流コストの削減
- (6) ITによる購買業務の集中と効率化
- (7) 環境マネジメントへの対応
- (8) 品質・危機管理体制の強化
- (9) 透明性の高い広報・IR活動

Maintaining Fair and Honest Business Practices

– Full Legal Compliance and Contributing to Society –

公正で誠実な企業活動が続けるために ～コンプライアンスの実践と社会への貢献～

“Service to society through business” is the Itoham Group’s corporate philosophy. Denzo Ito, Itoham’s founder who reestablished the company in 1946, was a staunch advocate of this philosophy. He believed that businesses more concerned about their own corporate interests than the needs of society had, in his words, “no right to exist.” His commitment to that belief is one reason it remains such a strong part of the corporate culture of the Itoham Group today. Mindful of this legacy, the Group consistently strives to balance its activities with the greater needs of society. In doing so, both management and regular employees can take pride in their work, as the Itoham Group continues to mold itself into an enterprise capable of making a meaningful contribution to society.

The food industry, however, has been plagued by a rash of scandals in recent years, including outbreaks of mass food poisoning, deliberate food mislabeling, falsified shelf-life dates, and the use of unapproved food additives. Each time one of these scandals makes headlines, consumer mistrust of the food industry grows, and regrettably, undermines popular brands and relationships of trust painstakingly built over time. Of course, corporate ethics and corporate wrongdoing are not issues confined to one industry, which is why corporate compliance has become an important issue facing society today.

The Itoham Group has moved to deepen awareness of corporate compliance through the publication of its *Guidelines for Corporate Ethics and Personal Conduct*, which define standards for all members of the Itoham Group. These guidelines are also essential to the enactment of Group management policy, detailing Itoham’s basic views concerning regulations and procedures that must be strictly observed in the execution of Group business activities. Underpinned by these guidelines, Itoham is confident that its compliance measures and its efforts to make an important contribution to society will ultimately increase the corporate value and enhance the long-term viability of the entire Itoham Group.

伊藤ハムグループは「事業を通じて社会に奉仕する」を社是としています。これは伊藤傳三創業社長が、1946年会社の復興を果たした時、「私利私欲におぼれ、社会性を持たない事業は存在価値がない」という高い志のもとに定められたもので、今日までその創業の精神を受け継いできました。これからも社会との調和に努め、「役員や従業員全員が誇りを持って行動し、社会に貢献できる企業」でありたいと考えています。

しかし、昨今食品業界において集団食中毒、食肉の偽装表示、品質保持期限の改ざん、無認可添加物の使用等々の不祥事が相次いでいます。こうした不祥事が起きるたびにお客様の食品に対する不信が高まり、長期にわたり積み上げてきたブランドや信頼までもが失われていくのは大変残念なことです。また、食品業界に限らず、企業倫理や企業の不正問題が取りざたされ、今や企業の「コンプライアンス（企業倫理の遵守）」は大きな社会問題となっています。

伊藤ハムグループではコンプライアンス意識を一層高めるため、一人ひとりの行動の規範となる『企業倫理規範と行動指針』を策定しました。この規範は企業活動を進めるうえで遵守すべき基本的な考え方を示したもので、経営方針を実践するためにも不可欠なものです。これに沿ってコンプライアンスを実践し、社会的貢献に努めることによって、企業価値の向上と企業の持続性がはかれるものと確信しています。



Compliance Handbook
コンプライアンスハンドブック

Itoham’s *Compliance Handbook*, containing *Guidelines for Corporate Ethics and Personal Conduct*, distributed to all managers and regular employees

『企業倫理規範と行動指針』が掲載された「コンプライアンス・ハンドブック」。役員および従業員全員に配布しています。

ITOHAM: BEING A RESPONSIBLE CORPORATE CITIZEN

In November 2002, the Itoham Group formulated its Philosophy on Social Contribution Activities and accompanying Policies Governing Activities. From April 2003, based on these documents, the Group has implemented its social contribution activities.

1. Philosophy on social contribution activities

Based on Itoham's basic philosophy, the Group places high priority on concern for the natural environment and coexistence with local communities. As a good corporate citizen, Itoham tirelessly promotes activities that make a positive contribution to society.

2. Policies governing activities

- * To engage in activities that will enhance the lives of people everywhere in the areas of food and health.
- * To contribute to and build relationships of trust with local communities as a responsible corporate citizen.
- * To support the work of UNICEF and the activities of domestic and international disaster relief organizations.
- * To aid environmental conservation activities that protect rivers, forests and other vital elements of the natural environment.
- * To support volunteer activities engaged in and initiated by Itoham Group employees.

3. Major activities in fiscal 2004

* Support for UNICEF

UNICEF is a United Nations agency that carries out a wide range of health and education programs designed to protect the rights of children across the globe and help them to realize their full potential. The Itoham Group supports the work of UNICEF through matching gift donations, whereby the Group donates a sum equal to the contribution made by Itoham employees to the UNICEF fund.

* Protecting the Rokko mountains environment

Commemorating 100 years of tree planting and environmental protection in the Rokko mountains near Kobe in 2002, and to educate and encourage future generations to take over the mantle into the next century, Itoham is sponsoring environmental protection activities run by local citizens.

* Promotion of volunteer activities

Itoham encourages its employees to make a meaningful contribution to their communities by heightening their awareness of social issues through participation in volunteer activities.

PROMOTING ISO 14001 CERTIFICATION

The Itoham Group is promoting the acquisition of ISO 14001 certification, a respected international standard for environmental management. As of May 2003, the following Itoham facilities had already acquired certification.

Certified Itoham Site	Registration Date	Certified Itoham Site	Registration Date
Nishinomiya Plant	February 2000	Hokushin Process Center	March 2003
Tokyo Plant	September 2000	Funabashi Plant	May 2003
Toyohashi Plant	November 2000	Sankyo Meat Packers Inc.	March 2002
Rokko Plant	October 2001	Rockdale Beef Pty. Ltd.	March 2000
Kyushu Plant	February 2002	Five Star Beef Ltd.	January 2001

社会貢献活動への取り組み

伊藤ハムグループは、2002年11月に社会貢献活動理念と活動方針を策定しました。2003年4月以降、地球環境への配慮と地域社会との共生を目指して、継続的に社会貢献活動に取り組んでいます。

1. 社会貢献活動理念

伊藤ハムグループの基本理念のもと、良き企業市民として、地球環境への配慮と社会との共生を大切にして、社会貢献活動を継続的に推進します。

2. 活動方針

- * 「食と健康」の分野で、世界の人々のお役に立つ活動を行います。
- * 地域社会に、その良き一員として貢献し、信頼関係を築きます。
- * ユニセフ活動及び国内外の被災地救済活動を支援します。
- * 森林や河川などの自然環境保護活動を支援します。
- * 従業員の意思と責任に基づく、ボランティア活動を支援します。

3. 2003年度の主な活動内容(計画)

* ユニセフ活動支援

ユニセフは、子どもの権利を守り、子どもが持って生まれた能力を發揮できるよう、健康や教育の分野で活動する国際連合の機関です。従業員の募金と会社の同額援助によるマッチングギフトにより、ユニセフを支援します。

* 六甲山系での森林保全・育成活動の支援

昨年、緑化100周年を迎えた六甲山系で、これからの100年の森林保全と育成をめざして神戸市が市民との協働ですめる「こうべ市民演習林」(仮称)の活動を支援します。

* ボランティア活動の推進

従業員のボランティア活動のサポートを通じ、社会人としての、より高いマインド形成と、地域社会への貢献を果たします。

ISO14001認証取得の推進

伊藤ハムグループでは、環境管理の国際規格であるISO14001の認証の取得を目指しています。

2003年5月時点の取得状況は以下の通りです。

認証取得サイト名	登録年月	認証取得サイト名	登録年月
伊藤ハム 西宮工場	2000年 2月	北神加工	
東京工場	2000年 9月	センター	2003年 3月
豊橋工場	2000年11月	船橋工場	2003年 5月
六甲工場	2001年10月	サンキョーミート	2002年 3月
九州工場	2002年 2月	ロックデールビーフ社	2000年 3月
		ファイブスタービーフ社	2001年 1月

At a Glance

事業一覧

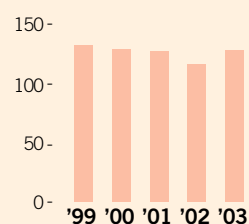
HAM AND SAUSAGE DIVISION

ハム・ソーセージ部門



Net Sales/ 売上高

billions of yen



BUSINESS OVERVIEW

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

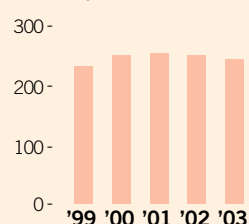
FRESH MEAT DIVISION

生肉部門



Net Sales/ 売上高

billions of yen



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

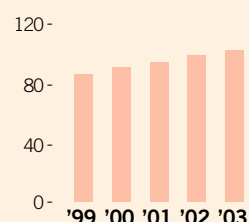
PROCESSED FOODS AND OTHER PRODUCTS DIVISION

調理加工食品ほか部門



Net Sales/ 売上高

billions of yen



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

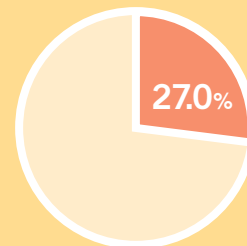
Note: Due to a reorganization of some product categories in the Ham and Sausage Division during the year under review, a number of products have been reclassified as processed foods and other products. The comparative figures used in the analysis of net sales are based on calculations using these new classifications.

注記: 当期よりハム・ソーセージの一部について商品区分の見直しを行い、調理加工食品ほかにて区分変更を行っております。なお、前期比は新区分に基づき算定しております。

FIVE-YEAR REVIEW AND BUSINESS RESULTS	業務内容	過去5年間の市場の動向と業績の推移
<p>In addition to a maturing market, the industry has been faced with anemic personal consumption and intensifying competition. 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, in the fiscal year under review we worked to boost sales of core products such as <i>Alt Bayern</i> and the <i>Morning Fresh</i> series of sliced ham packs. In gift products, we achieved a significant increase in market share thanks to flagship products such as <i>Densyo no Aji</i> and <i>Houjyun</i>, and a recovery in sales of <i>Kobe Rokko Roast Beef</i>, which were hurt by the outbreak of BSE in the previous year. As a result of the above, Itoham succeeded in raising sales year on year in this division.</p>	<p>ハム、ソーセージ、ベーコン等の製造販売を行っており、高い技術力のもと安全で品質の高い優れた商品を提供し続けています。製造に関しては、HACCPシステムを整えた工場を国内8ヶ所に設けています。また販売に関しては、大手百貨店やスーパーとの信頼関係によって、ハム・ソーセージのギフト市場では業界No.1の座を獲得しています。</p>	<p>市場の成熟化に加え、景気に対する先行き不安から個人消費は低迷し、販売競争が激化する中、近年は売上高が伸び悩んでいました。このような厳しい環境において当期は「アルトバイエルン」「朝のフレッシュ」等を中心に重点商品の集中販売を積極的に実施しました。また、ギフトについては「伝承の味」「芳醇」等の主力ブランドに加え、前年にBSEの影響を受け落ち込んだ「神戸六甲ローストビーフ」に回復傾向がみられたことにより、大幅にシェアを拡大しました。この結果、当期は売上高を伸ばすことに成功しました。</p>
<p>The fresh meat market has experienced persistent instability due to fallout from the BSE problem, the imposition of import safeguards on pork on a number of occasions, deliberate mislabeling by some food companies and other difficult issues. Faced with this difficult operating environment, we took an aggressive sales stance, focusing on high value-added products such as <i>wagyu</i> (premium Japanese beef), Berkshire pork and <i>Jidori</i> (high-quality chicken), in order to drive a recovery in demand. However, these efforts have failed to offset falling sales volumes of beef and other negative factors, leading to falling sales for the past two fiscal years.</p>	<p>国内及び海外に直営牧場や契約牧場を有し、生体搬入時から最終商品になるまでHACCPに基づく厳しい衛生管理基準により、安全・安心を追求した商品を生産しています。海外の直営牧場で生産していることから、他社より低コストで生産でき、相場の影響を受けにくいことより高品質で低価格の商品の供給を実現しています。さらに国内産の高級商品も豊富に取り揃えており、あらゆるお客様のニーズに対応しています。</p>	<p>BSE問題や、豚肉の数度のSG発動などによる不安定な状況に加え、食品会社の偽装表示問題の発生等により厳しい市場環境が続いています。このような状況の中、「和牛」「黒豚」「地鶏」を中心とした付加価値の高い商品を軸に積極的な営業を展開し、需要の回復を図りましたが、牛肉の販売量の落ち込み等により前年から売上高は減少傾向にあります。</p>
<p>Although the market for processed food products has expanded rapidly as advances in distribution and production technology have matched consumer needs, the industry has had to deal with intensifying competition. Sales initiatives by the Processed Foods Division have mainly been focused on core products, including the <i>Ganso Aburiyaki Chicken</i> (slow-roasted chicken) series and <i>Binchotanyaki Hamburgers</i> (charcoal-roasted hamburgers). These efforts led to a slight increase in sales year on year. And thanks to growing sales in other businesses, namely pharmaceutical products and restaurant operations, overall sales in this division are trending upward.</p>	<p>調理加工食品部門では、ミールソリューションやホームミールリプレイスメントの概念から、簡便性が高く、かつ高品質の商品を開発しています。チキン惣菜をはじめ、ハンバーグ、ピザ類、焼肉食材、乳製品などハイクオリティ・ハイコンビニエンスの商品の品揃えを強化し、変化するお客様のニーズに合った商品を提供しています。また、ほかに医薬品事業、外食事業なども展開しています。</p>	<p>調理加工食品は消費者のニーズと流通・生産技術の発展がマッチして市場が急速に拡大し、食品業界全体での販売競争が激化しています。このような状況の中、「元祖あぶり焼チキン」「備長炭焼ハンバーグ」などの重点販売商品の集中販売に取り組みました。この結果、売上高は微増しています。医薬品事業、外食事業など、その他の事業の売上高も増加し、部門全体においても増加しています。</p>

HAM AND SAUSAGE DIVISION

ハム・ソーセージ部門



Sales Composition
売上高構成比

FIFTH ANNIVERSARY OF ALT BAYERN

アルトバイエルン発売5周年

Itoham's popular *Alt Bayern* wiener range marked its fifth year of sales since it first hit the market in July 1998. *Alt Bayern* is made from top-quality pork, cured for over 72 hours using Itoham's traditional techniques. This ensures a juicy and aromatic wiener that preserves the full flavor of the original pork.

1998年7月の発売以来、皆様からご愛顧頂いているアルトバイエルンが、今年で5周年を迎えます。上質の豚肉を伊藤ハム独自の72時間伝承熟成製法で仕上げた肉本来の旨みと風味が生きたジューシーで香り豊かなウイナーソーセージです。



EVER-POPULAR ITOHAM GIFT PRODUCTS

—Showing your appreciation with a gift from Itoham—

Itoham hams are made from the finest ingredients, each one carefully crafted through a rigorous process with particular attention paid to quality.

大好評伊藤ハムのギフト

あなたの「ありがとう」の気持ちの代わりに、
私たちのハムに「できること」があります。

Itoham believes that gifts really are a measure of trust. And expressing heartfelt appreciation for others is what the winter gift-giving season is all about. Over the last five years, Itoham estimates that discriminating customers have chosen an average of 4.5 million gift sets per year as their way of saying “thank you,” a fact of which Itoham is particularly proud. Itoham is working to put even more care and appreciation into each and every one of its hams.



上質の素材から、ていねいにていねいに、ひとつひとつの工程に厳しい目を光らせながらつくります。

私たち伊藤ハムは、ギフトは信頼のバロメーターである、と考えています。

日頃の感謝の気持ちを商品に託す。それがお歳暮です。

みなさまのお歳暮として、お選びいただいている伊藤ハムの数は、450万セット(過去5年間の平均売上数、当社調べ)。

それは、伊藤ハムがもっとも大切にしている誇りです。今年の感謝の気持ちとして、今まで以上に喜んでいただけるように、1本1本心をこめて、ていねいにつくっています。

NEW PRODUCTS

新商品の紹介



Itoham's product development and technological research programs are geared to creating new products that are both tasty and healthy for the customer.

伊藤ハムはおいしいだけでなく、カラダにやさしいハム・ソーセージをお届けするために、技術研究と商品開発を続けています。

① Fiber-Rich Pork Wieners

Six grams of essential fiber often lacking in modern diets in every 100-gram serving

② Collagen-Rich Pork Wieners

Six grams of collagen needed for healthy skin and bones in every 100-gram serving

③ Soft Sausage Mousse Ball

A delicious new taste sensation with 30% less calories* than comparable products

④ Salty'N Spicy Pork Wieners

Advanced production techniques used to create a full, all-natural flavor using only salt and spices

* Based on comparison of ingredients with sausage products in Japan's standard tables of food composition (5th Edition)

① 食物繊維がうれしいポークウインナー

不足しがちな食物繊維(100g中6g)がしっかり取れます。

② コラーゲンがうれしいポークウインナー

骨格や皮膚をつくるコラーゲン(100g中6g)を配合しました。

③ ムースボール

カロリー30%オフ(栄養成分表(五訂版)比)。そのままでもおいしい新食感です。

④ 塩とスパイスで造ったポークウインナー

自然志向のおいしさ。技術にこだわってつくりました。

OTHER POPULAR ITOHAM PRODUCTS

その他の人気商品ラインナップ



Sawayaka Thin-Slice Pack series (Loin ham)
さわやかパックうすぎり
ホワイトロース



Morning Fresh series (Bacon)
朝のフレッシュハーフベーコン



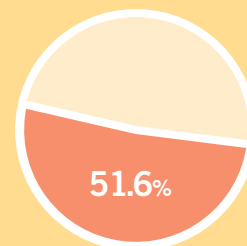
Arabiki Gourmet Wiener
あらびきグルメウインナー



Morning Fresh series (Loin ham)
朝のフレッシュロースハム

FRESH MEAT DIVISION

生肉部門



Sales Composition
売上高構成比

ITOHAM'S OVERSEAS FEEDLOTS

伊藤ハム海外直営牧場

Both feedlots have gained the ISO 9001 and ISO 14001 certifications for quality and environmental management. どちらの牧場も品質管理と環境管理の国際規格ISO9001とISO14001の認証を取得しています。

In pursuit of totally safe beef imports, Itoham operates two directly managed feedlots in Australia and New Zealand, countries renowned for their world-leading standards in food safety and hygiene.

～直営だから追及できる真に安全な輸入牛を、“世界最高の衛生基準の国”から提供します。～



ROCKDALE BEEF PTY. LTD.

Site: Leeton, Riverina Region, New South Wales, Australia

Location: Approximately 600km west-south-west of Sydney

Area: 2,000 hectares

Holding Stock: 53,000 head of cattle

Stock Type: Black Angus (Long); Black Angus, Hereford (Middle)

Feed: Own blend of non-genetically modified feed, primarily barley and corn (Meat-and-bone meal has never been used)

Handling: The entire production process, from feeder cattle to shipment, is managed by an HACCP system

ロックデールビーフ牧場

所在地: オーストラリア ニューサウスウェールズ州 リベルナ地区リートン

立地条件: シドニー西南西約600Km

敷地面積: 2,000ヘクタール

肥育頭数: 53,000頭

肥育種: ロング…ブラックアンガス種中心
ミドル…ブラックアンガス種、
ヘレフォード種を中心

飼料: 大麦、トウモロコシを中心に非遺伝子組換え飼料を自家配合(設立以来、肉骨粉は一切使用していません)

素牛から出荷までHACCPで全てを一貫管理



FIVE STAR BEEF LTD.

Site: Wakanui, Ashburton, South Island, New Zealand

Location: 100km south of Christchurch

Area: 665 hectares

Holding Stock: 15,000 head of cattle

Stock Type: Primarily Black Angus

Feed: Own blend of non-genetically modified feed, primarily barley (Meat-and-bone meal has never been used)

Handling: The entire production process is managed by the New Zealand government's Safety Beef Management System.

ファイブスタービーフ牧場

所在地: ニュージーランド南島 アッシュバートン市ワカヌイ

立地条件: クライストチャーチから南に100Km

敷地面積: 665ヘクタール

肥育頭数: 15,000頭

肥育種: ブラックアンガス種中心

飼料: 大麦を中心に非遺伝子組換え飼料を自家配合(設立以来、肉骨粉は一切使用していません)

ニュージーランド政府認定のセーフティビーフプログラムにより、生産行程を一貫管理

COMMITTED TO ENSURING HIGH LEVELS OF SAFETY AND TRUST IN DOMESTIC BEEF

国産牛肉の安全・安心をお届けするために

After the first outbreak of bovine spongiform encephalopathy (BSE) in Japan in September 2001 and subsequent issues related to the mislabeling of meat products, consumers in Japan lost confidence in domestic meat, and particularly beef products. Since then Itoham has taken a number of steps to allay consumer concerns, including the introduction of a Traceability System that provides a detailed history of cattle raised and processed by us. An Itoham Group company, Sankyo Meat Packers Inc., was also the first in the industry to independently develop and install a cow spinal cord removal system to eliminate the possibility of spinal cord residue adhering to the meat. These and a range of other steps are ensuring we provide customers with meat products that they can trust.

2001年9月の国内でのBSE発生以来のお客様の牛肉に対する「不安感」と表示問題に端を発した「不信感」を払拭するため、伊藤ハムグループでは自社で生産肥育した国産牛肉について「トレーサビリティシステム(個体履歴情報システム)」を導入しました。また、子会社のサンキョーミート(株)では「牛脊髄除去システム」の開発・導入を業界に先駆けて取り組み、「安全・安心」をお届けできる体制を整えています。



THE GROWING POPULARITY OF KAGOSHIMA BERKSHIRE PORK

好評「鹿児島黒豚」

Itoham has put in place a comprehensive production and supply system for its *Kagoshima Berkshire* pork brand, covering all stages of the sourcing process from production right through to retailing. This system underpins our position as Japan's biggest producer of *Kagoshima Berkshire* pork. Berkshire pigs are distinctive due to their entirely black bodies except for white markings in six places: the tip of their snouts, their trotters and their tails. Only members of the Kagoshima Berkshire Producer Conference are allowed to market their pigs as Kagoshima Berkshire stock, which are uniquely fed Kagoshima sweet potatoes for over two months. These pigs are generally raised over a period of between 230 and 270 days, resulting in pork with a distinctive full flavor and fine texture.

伊藤ハムグループは、黒豚のブランドである鹿児島黒豚の一貫生産供給体制をつくりあげ、生産から販売まで、日本でもっとも多くの鹿児島黒豚を取り扱っています。黒豚とは、バークシャー純粋種だけを指し、黒いカラダに鼻先、四本の足先、しっぽの先の6ヶ所が白いのが特徴です。その中でも鹿児島県黒豚生産者協議会の会員が生産したものだけが鹿児島黒豚と呼ぶことができます。鹿児島黒豚はサツマイモを60日間以上与えられています。おいしさのヒミツは旨味成分が多いことと肉のきめが細かいことです。おおむね生後230日から270日で出荷されます。



KENKOTON: ITOHAM'S ORIGINAL CHILLED PORK PRODUCT

伊藤ハムオリジナルチルドポーク「健康豚」

Itoham sources *Kenkoton* from its own feedlot in the United States, based on thorough management of the entire production process, from studding and raising, through to fattening and processing. Our pig feedlot in the United States is also run using the MD (Minimum Disease) agricultural method to ensure the production of the safest pork possible. This method includes separating the three groups of pig sties on the farm by distances of greater than 1.6km to prevent any spread of disease from the source.

米国の自社農場から出荷している「健康豚」は、種付け・育成・肥育からと畜まで100%一貫生産システムで徹底管理されています。

また、3つの豚舎群を1.6km以上離すことで、病原体から隔離するMD農法により安全・安心に肥育されています。

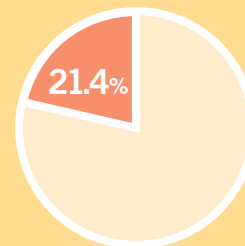


Premium Standard Farms, Inc., producing *Kenkoton*, employs the most advanced processing facilities in the United States.

「健康豚」を生産しているプレミアム・スタンダード・ファーム社。米国でも最新鋭のカット工場です。

PROCESSED FOODS AND OTHER PRODUCTS DIVISION

調理加工食品ほか部門



Sales Composition
売上高構成比

KYOSHOU NO SAI SERIES LAUNCHED

「巨匠の彩」シリーズ好評発売中

In November 2002, Itoham launched its *Kyoshou no Sai* series, founded on the concept of offering a taste only master chefs can create. Under careful supervision from four leading master chefs, we developed a range of foods based on three distinctive styles: Japanese, Western and Chinese. Dishes are easily prepared as they all use ingredients readily available at home.

伊藤ハムは料理界の巨匠にしかつけない味をつくろうと
考え「巨匠の彩」シリーズを2002年11月より発売しました。

「巨匠の彩」は、和・洋・中各料理の4人の巨匠の厳しい監修の
もと開発したメニューが、身近にある食材を加えるだけで、ご家
庭で簡単に楽しめます。



Rokusaburo Michiba (Japanese dishes)

Japan's renown master chef in Japanese cuisine

道場 六三郎(和)
初代、和の鉄人



A Japanese dish made
with pork
豚肉の柳川風



A Japanese dish made
with meat and tofu
肉豆腐



Yutaka Ishinabe (Western dishes)

Japan's renown master chef in French cuisine

石鍋 裕(洋)
初代、フレンチの鉄人



Spanish Omelet
スペイン風オムレツ



Spaghetti Carbonara
スパゲッティカルボナーラ



Shinya Tasaki (Western dishes)

Winner of the 8th World Best Sommelier Competition held in Tokyo in 1995

田崎 真也(洋)
「第8回世界最優秀ソムリエコンクール」優勝



Beef curry
ビーフカレー



Tongue Stew with Pasta
タンシチューパスタ添え



Tei Keirin (Chinese dishes)

Head chef at Japan's famous Chinese restaurant in Nishi Azabu, Tokyo, the Hong Kong Garden

鄭 恵淋(中華)
日本最大級の中国料理店、東京西麻布の「香港ガーデン」の総料理長



Sweet and Sour Pork
酢豚



Chop Suey
八宝菜

THE BINCHOTANYAKI YAKITORI (CHARCOAL-ROASTED CHICKEN) SERIES

備長炭焼やきとりシリーズ

This series is made from chickens reared on vegetable protein meal that contains vitamin E and amino acid additives. This healthy, high-quality chicken is charcoal-roasted over a unique combination of powerful and gentle flames.

ビタミンE・アミノ酸を添加した植物性の飼料で育てた、臭みが無く肉質の良い健康な鶏肉を備長炭特有のソフトな炎と強力な火力で焼き上げたこだわりの逸品です。



ITOHAM'S HEALTHY AND APPETIZING HERB-FED CHICKEN PRODUCTS

ヘルシーなおいしさが自慢のハーブ鶏チキンシリーズ

The herb-fed chicken difference

The secret of Itoham's appetizing chicken products can be found in the way we raise our chickens. We only source chickens from Itoham-certified farms that give their chickens 100% vegetable protein meal. In the 10 days before shipment, the period when chickens grow the most, herbs such as peppermint, oregano, ginger and garlic are added to their feed. This combined approach results in healthier and tastier chicken meat for our products.

ハーブ鶏とは

ハーブ鶏は、伊藤ハム指定の養鶏場で100%植物性たん白質飼料を一貫して給与し、鶏の成長率が最も高い(肉や脂肪がつく)出荷前10日間にハーブ(ペパーミント・オレガノ・ジンジャー・ガーリック)を飼料に加えて健康的に育てた鶏です。



Ganso Aburiyaki Chicken
(Herb & Lemon)
元祖あぶり焼チキン
(ハーブ&レモン)



Chicken
Mayonnaise Nuggets
マヨナゲ



Chicken Fillet
チキンフィレ



Chicken BonBon
チキンボンボン

Corporate Data

会社の概要

Company Name	ITOHAM FOODS INC.
Headquarters 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	6,242 (Consolidated)
Consolidated subsidiaries	47
Equity-method affiliates	10
Major office and plants	Tokyo Office Nishinomiya Plant Tokyo Plant Toyohashi Plant Kyushu Plant
Major domestic subsidiaries	Itoham Daily Inc. Itoham Food Solution Inc. Itoham Sales Kanto Inc. Itoham Sales Kansai Inc. Itoham Kanto Meat Sales Inc. Itoham Kansai Meat Sales Inc.
Major overseas subsidiaries	Ito Cariani Sausage Co., Inc. American Peptide Company, Inc. Itoham Foods (Australia) Pty. Ltd.
(As of March 31, 2003)	
Board of Directors	
Chairman of the Board	Kenichi Ito
President	Masami Ito
Senior Managing Directors	Naotada Tano* Shigeo Takahashi Chikara Kasai*
Directors	Nario Ishida* Kotaro Kikuchi Minoru Nose Akio Mito Toshiyuki Fujiyama Shinichi Yamada* Takashi Ninomiya* Satoru Hirayama*
*Corporate Executive Officer	
Standing Auditors	Yoshio Hayashi Takao Kobayashi
Auditors	Kenichiro Kensho Shinobu Okamoto
Corporate Executive Officers	Yoshitaka Tanaka Shingo Iwamoto Tsuguharu Kawano Atsuji Katayama Kazumi Ihara Ryuichi Miyagawa

(As of June 27, 2003)

社名	伊藤ハム株式会社
本社事務所	〒663-8586 兵庫県西宮市高畑町4番27号
TEL	0798-66-1231
ホームページアドレス	http://www.itoham.co.jp
資本金	22,415百万円
連結従業員数	6,242人
連結子会社数	47社
持分法適用関連会社数	10社
主要な事業所	東京事務所 西宮工場 東京工場 豊橋工場 九州工場
主要な国内子会社	伊藤ハムデイリー株式会社 伊藤ハムフードソリューション株式会社 伊藤ハム販売関東株式会社 伊藤ハム販売関西株式会社 伊藤ハム関東ミート販売株式会社 伊藤ハム関西ミート販売株式会社
主要な海外子会社	イトウ・カリアニソーセージINC. アメリカン・ペプタイドINC. イトウハムフーズ・オーストラリアLTD.
(2003年3月31日現在)	
役員	
代表取締役会長	伊藤 研一
代表取締役社長	伊藤 正視
専務取締役	田野 直忠* 高橋 重雄 河西 力*
取締役	石田 成雄* 菊池 康太郎 能勢 稔 三戸 斌生 藤山 俊行 山田 信一* 二宮 孝司* 平山 悟*
*は執行役員兼務	
常勤監査役	林 義雄 小林 隆夫
監査役	堅正 憲一郎 岡本 忍
執行役員	田中 仁孝 岩本 信剛 川野 二治 片山 厚次 伊原 和巳 宮川 隆一

(2003年6月27日現在)

Itoham Corporate History

社史

1928.4	Forerunner of Itoham founded as a private food processing enterprise in Osaka	大阪市北区で伊藤食品加工工業を創業
1934	Develops sausages packaged in cellophane	セロハンウインナーを開発
1946.4	Food processing company established as a limited partnership in Kobe	神戸市灘区に合名会社伊藤食品工業を設立
1947.7	Develops and begins mass production of pressed ham	寄せハム(プレスハム)を開発、大量生産化に成功
1948.6	Restructures and becomes a public company	伊藤栄養食品工業株式会社に改組
1956	Begins the development of ham and sausage products using mutton	ハム・ソーセージの原料としてマトンの使用技術を開発
1957.5	Becomes first in the industry to import mutton raw ingredients (3,000 tons)	マトン3,000tを業界で初輸入
1959.6	Establishes the Meguro Plant in Tokyo	東京都目黒区に目黒工場を新設
1960.11	Establishes the Nishinomiya Plant in Hyogo Prefecture	兵庫県西宮市に西宮工場を新設
1961.1	Changes company name to Ito Ham Provisions Co., Ltd.	伊藤ハム栄養食品株式会社に商号を変更
1961.10	Lists on the Second Section of the Tokyo and Osaka stock exchanges, and on the Kobe stock exchange (closed October 1967)	東京・大阪両証券取引所市場第二部及び神戸証券取引所(1967年10月閉鎖)に上場
1965.4	Establishes the Toyohashi Plant in Aichi Prefecture	愛知県豊橋市に豊橋工場を新設
1967.7	Itoham shares moved to the First Section of the Tokyo and Osaka stock exchanges	東京・大阪両証券取引所市場第一部に指定
1967.11	Establishes the Kyushu Plant in Saga Prefecture	佐賀県三養基郡に九州工場を新設
1968.5	Establishes the Tokyo Plant in Kashiwa, Chiba Prefecture	千葉県柏市に東京工場を新設
1969	Launches an independent cold chain logistics system with the introduction of refrigerated delivery vehicles	冷凍車の導入で独自のコールドチェーンシステムを配備
1970.3	Participates in the Japan World Exposition	日本万国博覧会に空中ビュッフェで施設参加
1974.2	Establishes Ito Cariani Sausage Co., Inc. in San Francisco	サンフランシスコにイトウ・カリアニソーセージINC.を設立
1974.9	Launches <i>Palky</i> , a skinless wiener product	スキンレスウインナー「パルキー」を発売
1979.4	Launches <i>Cheese-In</i> , a wiener product with a cheese center	チーズ入りウインナー「チーズイン」を発売
1981.7	Establishes the Ito Memorial Foundation and the Ito Cultural Foundation	伊藤記念財団・伊藤文化財団設立
1983.5	Launches a new corporate symbol	新ロゴマーク導入
1983.9	Begins sales of Fromageries Bel Coop. dairy products	フランス・ベル社の乳製品を発売
1984.4	Begins sales of food and wines supplied by French restaurant La Tour d'Argent	フランス最高級レストラン・ラ・トゥールダルジャンのワインと料理品を発売
1984.6	Changes company name to Itoham Foods Inc.	伊藤ハム株式会社に商号変更
1985.7	Begins sales of the <i>Bayern</i> brand of wieners	「バイエルン」を発売
1985.9	Launches the <i>Arabiki Gourmet Wiener</i>	「あらびきグルメウインナー」を発売
1987.9	Begins sales of Marie Laurencin wines	マリーローランサンワインを発売
1988.3	Launches <i>Pork Bits</i> , a wiener product	「ポークビッツ」を発売
1988.9	Establishes Itoham Foods (Australia) Pty. Ltd.	オーストラリアにイトウハムフーズオーストラリアLTD.を設立
1989.1	<i>Pork Bits</i> win a Nikkei Superior Products and Services Award	「ポークビッツ」が日経優秀製品・サービス賞を受賞
1990.6	Sets up the Itoham Central Research Institute in Ibaraki Prefecture	茨城県守谷市に伊藤ハム中央研究所を開設
1991.3	Launches the <i>Houjyun</i> series of ham products	芳醇シリーズを発売
1993.3	Begins sales of the <i>Arabiki Frank</i> wiener	「あらびきフランク」を発売
1994.3	Brings the Rokko Logistics Center on line in Kobe	神戸市東灘区に六甲ロジスティクスセンターを開設
1995.1	Begins sales of the <i>Sawayaka Thin-Slice Pack</i> series of products	さわやかパックシリーズを発売
1995.1	Launches a roast beef product prepared using <i>Sous Vide</i> vacuum sealing and cooking technology	スービッド製法のローストビーフを発売
1997.7	Opens the Alt-Ito Building in Tokyo as the company's base in the metropolitan area	東京都目黒区に首都圏の拠点アルト伊藤ビルを新設
1998.2	Starts introducing low-emission compressed natural gas vehicles into fleet	低公害天然ガス自動車の導入が始まる
1998.3	Opens the Hong Kong Garden restaurant in Tokyo	東京都港区に香港ガーデンがオープン
1998.7	Launches the <i>Alt Bayern</i> wiener line, which meets specified Japanese Agricultural Standards (JAS) regulations for cured meat products	特定JAS熟成規格のウインナー「アルトバイエルン」を発売
1999.1	<i>Alt Bayern</i> wins a Nikkei Superior Products and Services Award	「アルトバイエルン」が日経優秀製品・サービス賞を受賞
2001.3	Signs a Corporate Marketing Partnership agreement with Universal Studios Japan™	「ユニバーサル・スタジオ・ジャパン™」にマーケティング企業として協賛

Financial Section

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38	Independent Auditors' Report

Five-Year Consolidated Financial Highlights

Years ended or as of March 31

	Millions of yen					Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2003
Net sales	¥450,105	¥470,453	¥475,519	¥465,639	¥473,891	\$3,942,521
Cost of sales	350,386	364,362	370,946	372,775	374,200	3,113,145
Selling, general and administrative expenses	92,199	93,418	93,369	91,862	95,923	798,028
Operating income	7,520	12,673	11,204	1,002	3,768	31,348
Non-operating income (loss)	(572)	206	803	1,276	1,212	10,083
Ordinary income	6,948	12,879	12,007	2,278	4,980	41,431
Special profit (loss)	(986)	(1,689)	(8,975)	(2,088)	(3,653)	(30,391)
Income before income taxes and minority interests	5,962	11,190	3,032	190	1,327	11,040
Income taxes—current	4,383	4,781	5,442	1,510	1,539	12,804
—deferred	(951)	27	(4,181)	(611)	(563)	(4,684)
Minority interests	(55)	(3)	(13)	2	(38)	(316)
Net income(loss)	2,475	6,379	1,758	(707)	313	2,604
Net income (loss) per share (in yen and U.S. dollars)	10.87	28.39	8.08	(3.32)	1.49	0.012
Total assets	236,867	241,655	245,531	235,362	219,383	1,825,150
Working capital	51,963	57,038	58,171	33,544	51,693	430,058
Depreciation	9,935	9,426	8,707	8,520	7,095	59,027
Shareholders' equity per share (in yen and U.S.dollars)	545.19	567.33	578.04	570.15	559.71	4.66
Return on equity	2.0%	5.1%	1.4%	(0.6)%	0.3%	
Cash flows from operating activities	—	20,125	9,381	(6,515)	22,783	189,542
Cash flows from investing activities	—	(1,353)	(5,239)	(6,686)	(3,390)	(28,203)
Cash flows from financing activities	—	(11,613)	(6,061)	(1,981)	(11,423)	(95,033)
Cash and cash equivalents at end of year	28,451	35,717	33,836	18,807	26,708	222,196

Notes: 1. Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥120.20=US\$1, the rate prevailing on March 31, 2003.

2. The company started preparing a "Consolidated Statements of Cash Flows" in the year ended March 31, 2000. Figures for cash flows from operating, investing and financing activities are not available in 1999.

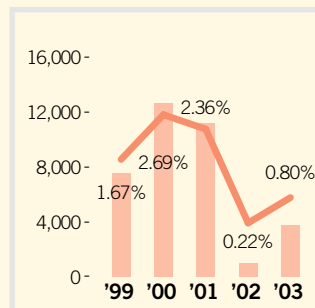
Consolidated Financial Summary

NET SALES



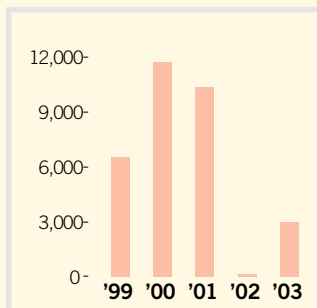
(billions of yen)	Mar. 1999	00	01	02	2003
Net sales	450	470	475	465	473

OPERATING INCOME, RATIO OF OPERATING INCOME TO NET SALES



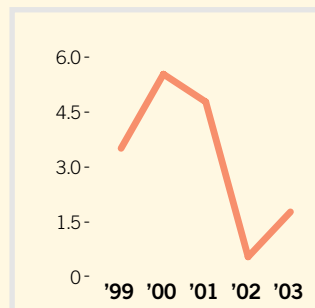
(millions of yen, %)	Mar. 1999	00	01	02	2003
Operating income	7,520	12,673	11,204	1,002	3,768
Ratio of operating income to net sales	1.67	2.69	2.36	0.22	0.80

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



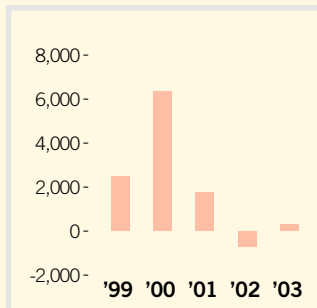
(millions of yen)	Mar. 1999	00	01	02	2003
Operating income, including interest and dividend income, net of interest and discount expenses	6,513	11,724	10,376	139	2,960

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



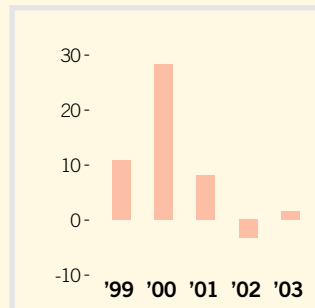
(%)	Mar. 1999	00	01	02	2003
Ratio of operating income, including interest and dividends, to average total capital	3.51	5.54	4.78	0.54	1.77

NET INCOME (LOSS)



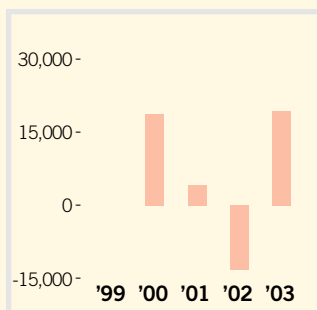
(millions of yen)	Mar. 1999	00	01	02	2003
Net income (loss)	2,475	6,379	1,758	(707)	313

NET INCOME (LOSS) PER SHARE



(yen)	Mar. 1999	00	01	02	2003
Net income (loss) per share	10.87	28.39	8.08	(3.32)	1.49

FREE CASH FLOWS



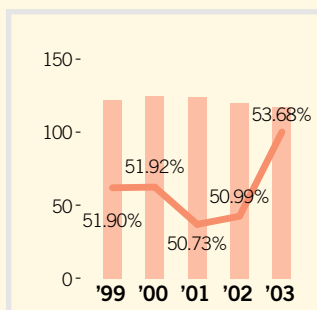
	Mar. 1999	00	01	02	2003
Free cash flows	—	18,772	4,142	(13,201)	19,393

FREE CASH FLOWS PER SHARE



	Mar. 1999	00	01	02	2003
Free cash flows per share	—	83.54	19.05	(62.03)	92.15

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



	Mar. 1999	00	01	02	2003
Shareholders' equity	122	125	124	120	117
Ratio of shareholders' equity to total assets	51.90	51.92	50.73	50.99	53.68

SHAREHOLDERS' EQUITY PER SHARE



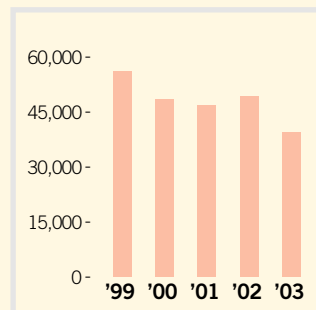
	Mar. 1999	00	01	02	2003
Shareholders' equity per share	545.19	567.33	578.04	570.15	559.71

RETURN ON EQUITY



	Mar. 1999	00	01	02	2003
Return on equity	2.0	5.1	1.4	(0.6)	0.3

INTEREST BEARING DEBT



	Mar. 1999	00	01	02	2003
Interest bearing debt	56,300	48,483	46,923	49,402	39,630

Note: The company started preparing a "Consolidated Statements of Cash Flows" in the year ended March 31, 2000. Figures for Free Cash Flows and Free Cash Flows per Share are not available in 1999.

Financial Review

NET SALES

From the early part of fiscal 2003, ended March 31, 2003, there were signs of a turnaround in some sectors of the Japanese economy on the back of a recovery in exports and stronger production. However, subsequent uncertainty about the direction of the global economy and concerns about stability in financial markets hampered any full-scale recovery in capital investment and the labor market. Consequently, personal consumption remained weak and the deflationary environment in Japan continued.

The meat industry also felt the impact of anemic personal consumption and the trend toward lower prices, but it also had to contend with a range of other issues. These included lingering consumer concerns about the safety of beef products following the first domestic outbreak of BSE in 2001, and growing mistrust of the food industry due to the discovery of a number of deliberate food mislabeling incidents. As a result, the primary concern of customers is now food products they can trust and are safe to eat.

Against this backdrop, the Itoham Group placed top priority on providing the “safe and reliable, fresh and high-quality” products that customers deserve. At the same time, we endeavored to win the trust of customers, and continued to drive forward business restructuring. This restructuring was mainly directed at enhancing marketing capabilities, building a low-cost operating structure, and encouraging innovation.

In the Ham and Sausage and the Processed Foods Divisions, we aggressively worked to upgrade sales capabilities as we sought to expand sales. We also worked to pare production costs and selling expenses by channeling resources into core products and reducing the number of products in our lineup. In the Fresh Meat Division, we focused on increasing sales centered on value-added, high-quality products, such as premium domestic beef brands, Itoham original beef brands, Berkshire pork, and *Jidori* (high-quality chicken). Steps were also taken to cut back existing inventories.

As a result of the above, net sales increased 1.8% to ¥473.9 billion.

In the Ham and Sausage Division*, sales jumped 10.7% to ¥127.9 billion, mainly reflecting success in boosting sales of gift products.

The Fresh Meat Division was buffeted by a difficult operating environment, characterized by falling sales volumes of imported beef and declining market prices for pork and chicken, which led to an overall drop in sales volume. Consequently, sales in this Division fell 2.7% year on year to ¥244.5 billion.

In the Processed Foods and Other Products Division*, steps were taken in the Processed Foods Division to overcome intensifying competition by enhancing sales capabilities in each sales channel and focusing on boosting sales of core products. As a result, sales volume grew, leading to an increase in sales of processed foods of 1.2% to ¥76.1 billion. Sales of other products, including those by pharmaceutical and restaurant businesses, increased 7.4% to ¥25.4 billion. This resulted in an overall rise in sales in this Division of 2.7% to ¥101.5 billion.

COSTS, EXPENSES AND EARNINGS

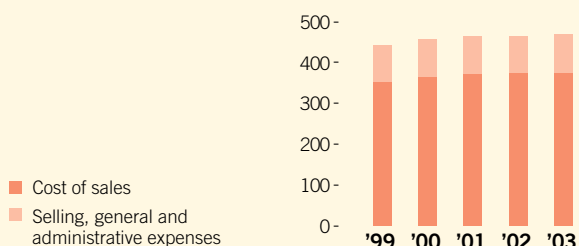
Although cost of sales increased to ¥374.2 billion in line with higher net sales, the cost of sales ratio improved 1.1 percentage points to 79.0%. Gross profit rose 7.4% to ¥99.7 billion and the ratio of gross profit to net sales increased 1.1 percentage points to 21.0%.

Selling, general and administrative (SGA) expenses were 4.4% higher at ¥95.9 billion, while the ratio of SGA expenses to net sales edged up 0.5 of a percentage point to 20.2%. Operating income surged 276.0% to ¥3.8 billion, while the ratio of operating income to net sales rose 0.6 of a percentage point to 0.8%.

In non-operating items, net financial income and expenses improved slightly compared with the previous fiscal year. This reflected decreased income due to declining market interest rates in Japan and a reduction in securities holdings, offset by a drop in interest expense due to the redemption of convertible and straight bonds. In other non-operating items, although the ¥1.1 billion write-down of inventories recorded in fiscal 2002 due to the fallout from the BSE outbreak was no longer a factor in this year's results, a number of factors resulted in net other expenses increasing ¥1.6 billion to ¥2.4 billion. These included a loss on disposal of property, plant and equipment, which was ¥0.9 billion worse than the gain in this item

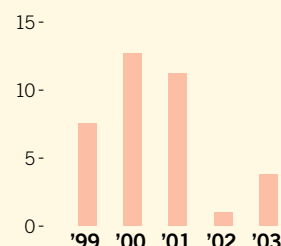
COSTS AND EXPENSES

(billions of yen)



OPERATING INCOME

(billions of yen)



in fiscal 2002, and a ¥0.1 billion increase in write-down of investment securities caused by declining share prices, as well as a write-down of property, plant and equipment at a U.S. subsidiary of ¥1.1 billion and a loss on disposal of real estate for sale of ¥0.6 billion.

Income before income taxes and minority interests was ¥1.3 billion, a 600.3% increase from the ¥0.2 billion in the previous year, net income was ¥0.3 billion, against a net loss of ¥0.7 billion in fiscal 2002, and net income per share was ¥1.49.

FINANCIAL POSITION

Total assets as of March 31, 2003 totaled ¥219.4 billion, ¥16.0 billion lower than a year ago.

Current assets declined ¥8.6 billion to ¥116.3 billion. This was mainly attributable to a decline in trade notes and accounts receivable of ¥3.7 billion and efforts to pare inventories that led to a ¥10.0 billion decline of this item. Cash and time deposits increased ¥4.3 billion and marketable securities rose ¥3.6 billion, reflecting the short-term investment in discount bank debentures.

Investments and non-current assets declined ¥2.0 billion to ¥31.9 billion mainly due to a decline in investment securities of ¥2.3 billion, excluding shares held in unconsolidated affiliates.

Capital investments totaled ¥4.5 billion, reflecting investments to improve production capacity at existing plants. Property, plant and equipment, excluding land, declined ¥5.3 billion to ¥46.9 billion, mainly due to the sale of existing vehicles as part of a lease-back program. Land fell ¥0.2 billion to ¥23.4 billion. As a result, property, plant and equipment at the end of the year stood at ¥70.4 billion, ¥5.5 billion lower than that at the previous fiscal year-end.

On the other side of the balance sheet, current liabilities decreased ¥26.7 billion to ¥64.7 billion. This was primarily attributable to a decline in long-term debt due within one year of ¥21.2 billion due to the redemption of convertible and straight bonds, a decrease in trade notes and accounts payable of ¥6.6 billion, and a rise in income taxes payable of ¥0.8 billion. Long-term debt due after one year increased ¥12.6 billion to ¥31.4 billion, mainly reflecting a rise in long-term debt such as syndicated loans.

Shareholders' equity declined ¥2.2 billion to ¥117.8 billion, chiefly due to a decrease in retained earnings of ¥1.4 billion, mainly for the payment of dividends, and a ¥0.7 billion decline in net unrealized holding gains on securities. The ratio of shareholders' equity to total assets was 53.7% and the current ratio was 1.80.

CASH FLOWS

Cash and cash equivalents at the end of the year stood at ¥26.7 billion, ¥7.9 billion higher than at the end of fiscal 2002. This mainly reflected decreases in inventories and trade notes and accounts receivable, offset by cash outflows for the purchase of property, plant and equipment and for the redemption of convertible and straight bonds.

Net cash provided by operating activities was ¥22.8 billion, compared with ¥6.5 billion used in the previous year. This mainly reflected depreciation and amortization of ¥7.1 billion, a decrease in inventories of ¥10.0 billion, and a decrease in trade notes and accounts receivable of ¥3.9 billion.

Net cash used in investing activities was ¥3.4 billion, against ¥6.7 billion used in the previous period. This reflected cash outflows of ¥4.7 billion for the acquisition of property, plant and equipment for expanding production at existing plants, against inflows of ¥1.5 billion from the sale of property, plant and equipment related to the sale of vehicles as part of a lease-back program.

Net cash used in financing activities was ¥11.4 billion, against net cash used of ¥2.0 billion in fiscal 2002. While cash of ¥14.8 billion was provided by syndicated loans and other long-term debt, this was outweighed by outflows of ¥1.7 billion in dividends paid and ¥22.7 billion for the redemption of convertible and straight bonds.

* Due to a reorganization of some product categories in the Ham and Sausage Division during the year under review, a number of products have been reclassified as processed foods and other products. The comparative figures used in the analysis of net sales are based on calculations using these new classifications.

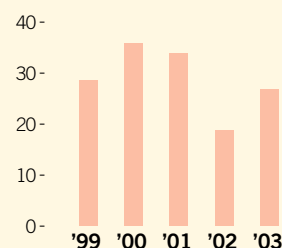
CURRENT RATIO

(Times)



CASH AND CASH EQUIVALENTS

(billions of yen)



Consolidated Balance Sheets

ITOHAM FOODS INC. and Consolidated Subsidiaries – March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and time deposits (Notes 3,7)	¥ 23,591	¥ 19,248	\$ 196,264
Marketable securities (Note 4)	3,644	3	30,316
Receivables:			
Trade notes and accounts	48,366	52,034	402,379
Other	328	154	2,729
Allowance for doubtful receivables	(404)	(426)	(3,361)
	48,290	51,762	401,747
Inventories (Note 5)	37,668	47,689	313,378
Deferred tax assets (Note 14)	1,583	1,450	13,170
Other current assets	1,568	4,775	13,045
Total current assets	116,344	124,927	967,920
Investments and non-current assets:			
Investments in:			
Unconsolidated affiliates	5,827	4,692	48,478
Other (Notes 4,7)	14,075	16,409	117,096
Long-term receivables	1,167	1,454	9,709
Long-term deferred tax assets (Note 14)	3,099	2,108	25,782
Other	9,796	11,054	81,497
Allowance for doubtful receivables	(2,020)	(1,767)	(16,805)
	31,944	33,950	265,757
Property, plant and equipment:			
Land (Note 7)	23,441	23,673	195,017
Buildings and structures (Note 7)	68,601	69,274	570,724
Machinery and equipment	90,905	93,851	756,281
Breeding livestock	114	106	948
Construction in progress	154	169	1,281
	183,215	187,073	1,524,251
Accumulated depreciation	(112,855)	(111,209)	(938,893)
	70,360	75,864	585,358
Intangible assets	735	621	6,115
	¥ 219,383	¥ 235,362	\$1,825,150

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Bank loans	¥ 6,183	¥ 7,312	\$ 51,439
Long-term debt due within one year (Note 6)	2,057	23,302	17,113
Notes and accounts payable:			
Trade	35,431	42,041	294,767
Construction	1,017	1,168	8,461
Other	12,398	9,851	103,145
	48,846	53,060	406,373
Accrued expenses	4,730	4,410	39,351
Income taxes payable	1,184	400	9,850
Deferred tax liabilities (Note 14)	63	56	524
Other	1,588	2,843	13,212
Total current liabilities	64,651	91,383	537,862
Long-term liabilities:			
Long-term debt due after one year (Note 6)	31,390	18,788	261,148
Employees' severance and retirement benefits (Note 8)	4,124	3,765	34,309
Directors' and statutory auditors' retirement benefits	917	934	7,629
Long-term deferred tax liabilities (Note 14)	93	72	774
Other long-term liabilities	43	45	358
Total long-term liabilities	36,567	23,604	304,218
Minority interests	394	372	3,278
Contingent liabilities (Note 9)			
Shareholders' equity (Note 15):			
Common stock:			
Authorized—342,013,000			
Issued—210,482,533	22,415	22,415	186,481
Capital surplus	24,021	24,021	199,842
Retained earnings	70,292	71,676	584,792
Net unrealized holding gains on securities	2,155	2,882	17,928
Foreign currency translation adjustments	(1,089)	(989)	(9,060)
Treasury stock, at cost, 66,260 shares in 2003 (5,726 shares in 2002)	(23)	(2)	(191)
Total shareholders' equity	117,771	120,003	979,792
	¥219,383	¥235,362	\$1,825,150

Consolidated Statements of Operations

ITOHAM FOODS INC. and Consolidated Subsidiaries – Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net sales	¥473,891	¥465,639	\$3,942,521
Cost and expenses:			
Cost of sales	374,200	372,775	3,113,145
Selling, general and administrative expenses	95,923	91,862	798,028
Operating income	3,768	1,002	31,348
Other income (expenses):			
Interest and dividend income	257	305	2,138
Interest expense	(1,065)	(1,168)	(8,860)
Gain on sale of marketable and investment securities, net	6	38	50
Gain (loss) on disposal of property, plant and equipment	(323)	553	(2,687)
Write-down of investment securities	(1,155)	(1,068)	(9,609)
Write-down of property, plant and equipment (Note 12)	(1,055)	–	(8,777)
Equity in earnings of associated companies	1,067	1,128	8,877
Write-down of inventories (Note 11)	–	(1,122)	–
Provision for doubtful receivables	(487)	(650)	(4,052)
Other, net	314	1,172	2,612
	(2,441)	(812)	(20,308)
Income before income taxes and minority interests	1,327	190	11,040
Income taxes—current	1,539	1,510	12,804
—deferred	(563)	(611)	(4,684)
Minority interests	(38)	2	(316)
Net income (loss)	¥ 313	¥ (707)	\$ 2,604
	Yen		U.S. dollars
Net income (loss) per share	¥ 1.49	¥ (3.32)	\$ 0.012
Dividends per share	8.00	8.00	0.067

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$186,481
Balance at end of year	¥22,415	¥22,415	\$186,481
Capital surplus:			
Balance at beginning of year	¥24,021	¥26,381	\$199,842
Common stock purchased and retired	—	(2,360)	—
Balance at end of year	¥24,021	¥24,021	\$199,842
Retained earnings:			
Balance at beginning of year	¥71,676	¥74,147	\$596,306
Net income (loss) for the year	313	(707)	2,604
Cash dividends paid—¥8.00 per share	(1,684)	(1,724)	(14,010)
Bonuses to directors	(13)	(40)	(108)
Balance at end of year	¥70,292	¥71,676	\$584,792
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 2,882	¥ 3,652	\$ 23,976
Decrease for the year	(727)	(770)	(6,048)
Balance at end of year	¥ 2,155	¥ 2,882	\$ 17,928
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (989)	¥ (2,038)	\$ (8,228)
Net increase (decrease)	(100)	1,049	(832)
Balance at end of year	¥ (1,089)	¥ (989)	\$ (9,060)
Treasury stock, at cost:			
Balance at beginning of year	¥ (2)	¥ (1)	\$ (16)
Purchase of treasury stock	(21)	(1)	(175)
Balance at end of year	¥ (23)	¥ (2)	\$ (191)
Number of shares of common stock issued:	2003	2002	
At beginning of year	210,482,533	215,482,533	
Common stock purchased and retired	—	(5,000,000)	
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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 1,327	¥ 190	\$ 11,040
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,204	8,631	59,933
Increase (decrease) in employees' severance and retirement benefits	357	(88)	2,970
Increase in allowance for doubtful receivables	234	836	1,947
Interest and dividend income	(257)	(305)	(2,138)
Interest expense	1,065	1,168	8,860
Equity in earnings of associated companies	(1,067)	(1,128)	(8,877)
Write-down of investment securities	1,155	1,068	9,609
Gain on sale of property, plant and equipment	(219)	(1,184)	(1,822)
Loss on disposal of property, plant and equipment	467	487	3,885
Write-down of property, plant and equipment	1,055	–	8,777
Decrease in notes and accounts receivable	3,949	1,429	32,854
Decrease (increase) in inventories	10,032	(5,484)	83,461
Decrease in notes and accounts payable	(6,674)	(3,735)	(55,524)
Increase (decrease) in accrued consumption taxes	1,379	(514)	11,472
Other, net	2,378	(1,389)	19,784
	22,385	(18)	186,231
Interest and dividends received	482	402	4,010
Interest paid	(1,086)	(1,065)	(9,035)
Income taxes paid	(664)	(5,834)	(5,524)
Income taxes refunded	1,666	–	13,860
Net cash provided by (used in) operating activities	22,783	(6,515)	189,542
Cash flows from investing activities:			
Investments in time deposits	(243)	(285)	(2,021)
Proceeds from time deposits	366	166	3,045
Acquisitions of property, plant and equipment	(4,695)	(8,631)	(39,060)
Proceeds from sale of property, plant and equipment	1,507	1,951	12,537
Acquisitions of intangible assets	(156)	(172)	(1,298)
Payments for purchases of investment securities	(1,037)	(567)	(8,627)
Proceeds from sales of investment securities	602	401	5,008
Disbursement of loans receivable	(737)	(412)	(6,131)
Collection of loans receivable	849	1,137	7,063
Other, net	154	(274)	1,281
Net cash used in investing activities	(3,390)	(6,686)	(28,203)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(1,087)	1,212	(9,043)
Proceeds from long-term debt	14,771	1,911	122,887
Repayments of long-term debt	(744)	(1,051)	(6,190)
Repayments of bonds	(3,000)	–	(24,958)
Repayments of convertible bonds	(19,655)	–	(163,519)
Proceeds from issuance of common stock to minority shareholders of consolidated subsidiaries	–	35	–
Common stock purchased and retired	–	(2,360)	–
Payments for purchase of treasury stock	(20)	(1)	(166)
Dividends paid	(1,683)	(1,723)	(14,002)
Dividends paid to minority shareholders of consolidated subsidiaries	(5)	(4)	(42)
Net cash used in financing activities	(11,423)	(1,981)	(95,033)
Effect of exchange rate changes on cash and cash equivalents	(69)	153	(574)
Net increase (decrease) in cash and cash equivalents	7,901	(15,029)	65,732
Cash and cash equivalents at beginning of year	18,807	33,836	156,464
Cash and cash equivalents at end of year (Note 3)	¥ 26,708	¥ 18,807	\$ 222,196

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

ITOHAM FOODS INC. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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 Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant subsidiaries, 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 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 statement of operations 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 in July and December. 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 provided 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 ¥1,056 million (\$8,785 thousand) and ¥974 million for the years ended March 31, 2003 and 2002, 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 (loss) per share of common stock shown on the consolidated statements of operations are based on the weighted average number of shares outstanding during each fiscal year.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Cash dividends per share shown in the consolidated statements of operations 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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and time deposits on the consolidated balance sheets	¥23,591	¥19,248	\$196,264
Time deposits with maturities exceeding 3 months	(386)	(444)	(3,211)
Highly liquid investments whose original maturities are within 3 months	3,644	3	30,316
Investments with maturities exceeding 3 months	(141)	—	(1,173)
Cash and cash equivalents on the consolidated statements of cash flows	¥26,708	¥18,807	\$222,196

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2003 and 2002:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Book value	¥ 300	¥ 301	\$2,496
Fair value	301	303	2,504
Difference	¥ 1	¥ 2	\$ 8

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

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

March 31, 2003		Millions of yen			Thousands of U.S. dollars		
		Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities		¥5,073	¥9,246	¥4,173	\$42,205	\$76,922	\$34,717

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

March 31, 2003		Millions of yen			Thousands of U.S. dollars		
		Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities		¥2,598	¥2,115	¥ (483)	\$21,614	\$17,596	\$(4,018)
Other		123	123	—	1,023	1,023	—
Total		¥2,721	¥2,238	¥ (483)	\$22,637	\$18,619	\$(4,018)

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

March 31, 2002		Millions of yen		
		Acquisition cost	Book value	Difference
Equity securities		¥5,103	¥10,913	¥5,810

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

March 31, 2002		Millions of yen		
		Acquisition cost	Book value	Difference
Equity securities		¥3,519	¥2,761	¥ (758)
Other		247	219	(28)
Total		¥3,766	¥2,980	¥ (786)

B. The following tables summarize book values of securities with no available market values as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
(a) Held-to-maturity debt securities			
Bonds issued at a discount	¥3,500	¥ –	\$29,118
Non-listed foreign bonds	500	500	4,160
(b) Available-for-sale securities			
Money market fund	¥ 3	¥ 3	\$ 25
Non-listed equity securities	1,705	1,496	14,185
Others	227	219	1,889

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2003 and 2002 mature as follows:

	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	¥3,641	¥341	¥500

March 31, 2003	Thousands of U.S. dollars		
Government bonds	\$ –	\$2,504	\$ –
Corporate bonds	150	333	–
Others	30,141	–	4,160
Total	\$30,291	\$2,837	\$4,160

	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
March 31, 2002	Millions of yen		
Government bonds	¥ –	¥301	¥ –
Corporate bonds	–	48	–
Others	–	218	500
Total	¥ –	¥567	¥500

D. Total sales of available-for-sale securities sold in the years ended March 31, 2003 and 2002 amounted to ¥172 million (\$1,431 thousand) and ¥262 million and the related gains amounted to ¥1 million (\$8 thousand) and ¥38 million, respectively.

E. As a result of losses from fair values and market values, impairment losses on available-for-sale-securities of ¥1,155 million (\$9,609 thousand) were recorded for the year ended March 31, 2003.

5. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished products and resale inventories	¥ 24,428	¥32,075	\$203,228
Raw materials and cattle	13,240	15,614	110,150
	¥ 37,668	¥47,689	\$313,378

6. LONG-TERM DEBT

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Secured:			
Banks, 0.900% - 2.650%, maturing serially through 2012	¥ 1,842	¥ 774	\$ 15,324
Unsecured:			
Banks, 0.710% - 3.600%, maturing serially through 2015	16,605	3,661	138,145
1.8% convertible sinking fund debentures due 2003	–	19,655	–
2.0% bonds due 2002	–	3,000	–
2.175% bonds due 2005	10,000	10,000	83,195
2.11% bonds due 2008	5,000	5,000	41,597
	33,447	42,090	278,261
Less amounts due within one year	2,057	23,302	17,113
	¥31,390	¥18,788	\$261,148

The aggregate annual maturities of long-term debt outstanding at March 31, 2003, are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 2,057	\$ 17,113
2005	1,062	8,835
2006	11,005	91,556
2007	880	7,321
2008 and thereafter	18,443	153,436
	¥33,447	\$ 278,261

The Companies have overdraft contract and the credit commitments with nine banks and two insurance companies for efficient financing. Total unused credit available to the Companies at March 31, 2003 was ¥24,939 million (\$207,479 thousand).

7. PLEDGED ASSETS

At March 31, 2003 assets pledged as collateral for short-term bank loans of ¥725 million (\$6,032 thousand) and secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 503	\$ 4,185
Buildings and structures net of accumulated depreciation	2,517	20,940

At March 31, 2003, time deposits of ¥110 million (\$915 thousand) and investment securities of ¥301 million (\$2,504 thousand) were pledged for transaction guarantees and gift certificates of ¥126 million (\$1,048 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, 2003 and 2002 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 75,093	¥ 69,007	\$ 624,734
Unrecognized actuarial differences	(36,573)	(24,842)	(304,268)
Unrecognized prior service costs	605	—	5,033
Fair value of pension assets	(35,250)	(40,988)	(293,261)
Prepaid pension costs	249	588	2,071
Employees' severance and retirement benefits	¥ 4,124	¥ 3,765	\$ 34,309

Included in the consolidated statement of operations for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service costs – benefits earned during the year	¥ 2,702	¥ 2,528	\$ 22,479
Interest cost on projected benefit obligation	2,029	2,131	16,880
Expected return on plan assets	(1,439)	(2,027)	(11,972)
Amortization of actuarial differences	1,723	677	14,335
Amortization of prior service costs	(43)	—	(358)
Severance and retirement benefit expenses	¥ 4,972	¥ 3,309	\$ 41,364

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries are 2.5% (3.0% in the prior year) and 4.0% (5.5% in the prior year), respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statement of operations using the straight-line method over 12 to 15 years, and past service costs are recognized as an expense in equal amounts over 15 years.

9. CONTINGENT LIABILITIES

At March 31, 2003 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥1,043	\$ 8,677
Other companies	1,336	11,115
	¥2,379	\$19,792

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.

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

The following is a summary of only the derivative contracts which do not meet the Japanese criteria for hedge accounting. The net changes in market value are recorded in the consolidated statements of operations for the years ended March 31, 2003 and 2002.

Forward currency exchange transactions

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Purchase U.S. dollars			
Contracted amount	¥ 538	¥1,056	\$ 4,476
(Over one year)	(538)	(794)	(4,476)
Current market amount	576	1,151	4,792
Unrealized gains	¥ 38	¥ 95	\$ 316

11. WRITE-DOWN OF INVENTORIES

The BSE outbreak depressed market prices of beef. This forced the Company to record a write-down of inventories for products whose market value fell substantially below book value at March 31, 2002.

12. WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT

The write-down of property, plant and equipment in the year ended March 31, 2003 of ¥1,055 million (\$8,777 thousand) 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.

13. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2003 and 2002 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Furniture and fixtures	Other	Total	Total
March 31, 2003				
Original lease obligation (including finance charges)	¥4,297	¥4,102	¥8,399	\$69,875
Payments remaining:				
Payments due within one year			¥1,431	\$11,905
Payments due after one year			2,528	21,032
Total			¥3,959	\$32,937

	Millions of yen		
	Furniture and fixtures	Other	Total
March 31, 2002			
Original lease obligation (including finance charges)	¥4,019	¥3,229	¥7,248
Payments remaining:			
Payments due within one year			¥1,402
Payments due after one year			1,964
Total			¥3,366

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2003 and 2002 were ¥1,455 million (\$12,105 thousand) and ¥1,261 million, respectively.

14. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Allowance for doubtful receivables	¥ 660	¥ 602	\$ 5,491
Bonuses accrued	1,112	820	9,251
Write-down of inventories	—	476	—
Enterprise taxes	78	27	649
Directors' retirement benefits	341	400	2,837
Write-down of investment securities	1,086	1,254	9,035
Liability for employees' severance and retirement benefits	3,700	3,419	30,782
Accumulated losses	2,409	2,154	20,042
Unrealized gain on land	264	245	2,196
Other	930	211	7,737
	10,580	9,608	88,020
Less valuation allowance	(2,702)	(2,219)	(22,479)
Total deferred tax assets	7,878	7,389	65,541
Deferred tax liabilities:			
Deferred gains on real properties	(1,634)	(1,742)	(13,594)
Net unrealized holding gains on securities	(1,526)	(2,109)	(12,696)
Other	(192)	(109)	(1,597)
Total deferred tax liabilities	(3,352)	(3,960)	(27,887)
Net deferred tax assets	¥ 4,526	¥ 3,429	\$ 37,654

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2003 and 2002 are as follows:

	2003	2002
Statutory tax rate	42.4%	42.4%
Non-deductible expenses	18.2	135.4
Non-taxable dividend income	(7.1)	(55.1)
Inhabitants' per capita taxes	11.9	94.4
Equity in earnings of associated companies	(34.1)	(252.3)
Less valuation allowance	36.4	519.0
Effect of change in enacted tax rate	9.8	—
Other	(3.9)	(9.5)
Effective income tax rate	73.6%	474.3%

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 (\$324 thousand) while deferred taxes expensed during the fiscal year increased ¥87 million (\$724 thousand) and the unrealized holding gains on available-for-sale securities increased ¥47 million (\$391 thousand) compared with what would be reported using the currently applicable tax rate of 42.4%.

15.SHAREHOLDERS' EQUITY

The Company purchased and retired 5,000,000 shares of its common stock in accordance with resolutions of the directors' meeting held on June 28, 2001. As a result, the number of the Company's registered authorized common stock was reduced to 342,013,000 shares at March 31, 2002. The cost of the retired shares was charged to capital surplus in the amount of ¥2,360 million.

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.

Effective October 1, 2001, 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 legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' 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.

16.SEGMENT INFORMATION

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

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

The overseas sales for the years ended March 31, 2002 and 2003 were less than 10% of consolidated net sales.

17.RELATED PARTY TRANSACTIONS

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

	Millions of yen	Thousands of U.S. dollars
Insurance premium paid	¥ 173	\$ 1,439
Purchase of cardboard boxes	11	92
Purchase of software	89	740

18.SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 27, 2003, the appropriation of the Company's retained earnings for the year ended March 31, 2003 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥8.00 per share)	¥1,683	\$14,002

Independent Auditors' Report

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

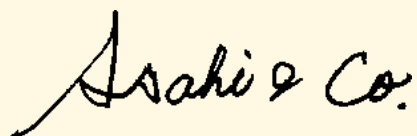
We have audited the accompanying consolidated balance sheets of ITOHAM FOODS INC. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Osaka, Japan
June 27, 2003

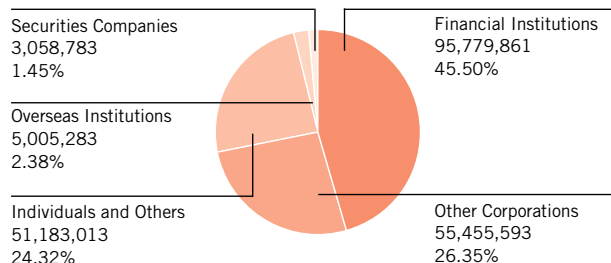


Stock Information

SHARES

Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533
Number of shareholders	19,455
Shareholder coupon system:	
1. Qualification	Shareholders with 1,000 or more shares
2. Coupon amount	Itoham product coupons worth ¥2,000

BREAKDOWN OF SHAREHOLDERS BY TYPE

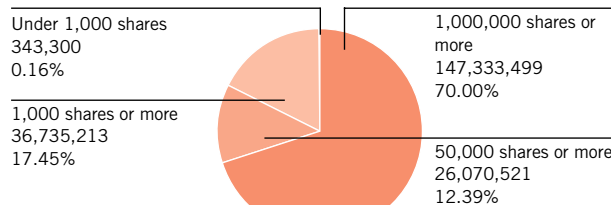


MAJOR SHAREHOLDERS

	Number of Shares Held (thousands of shares)	Percentage of Total (%)*
The Master Trust Bank of Japan, Ltd. (Trust Account)	15,975	7.6
Japan Trustee Services Bank, Ltd. (Trust Account)	13,087	6.2
Ito Memorial Foundation	12,000	5.7
Toei Shoji Co., Inc.	10,005	4.8
Kenichi Ito	8,251	3.9
Mitsubishi Corporation	7,656	3.7
Marubeni Corporation	7,099	3.4

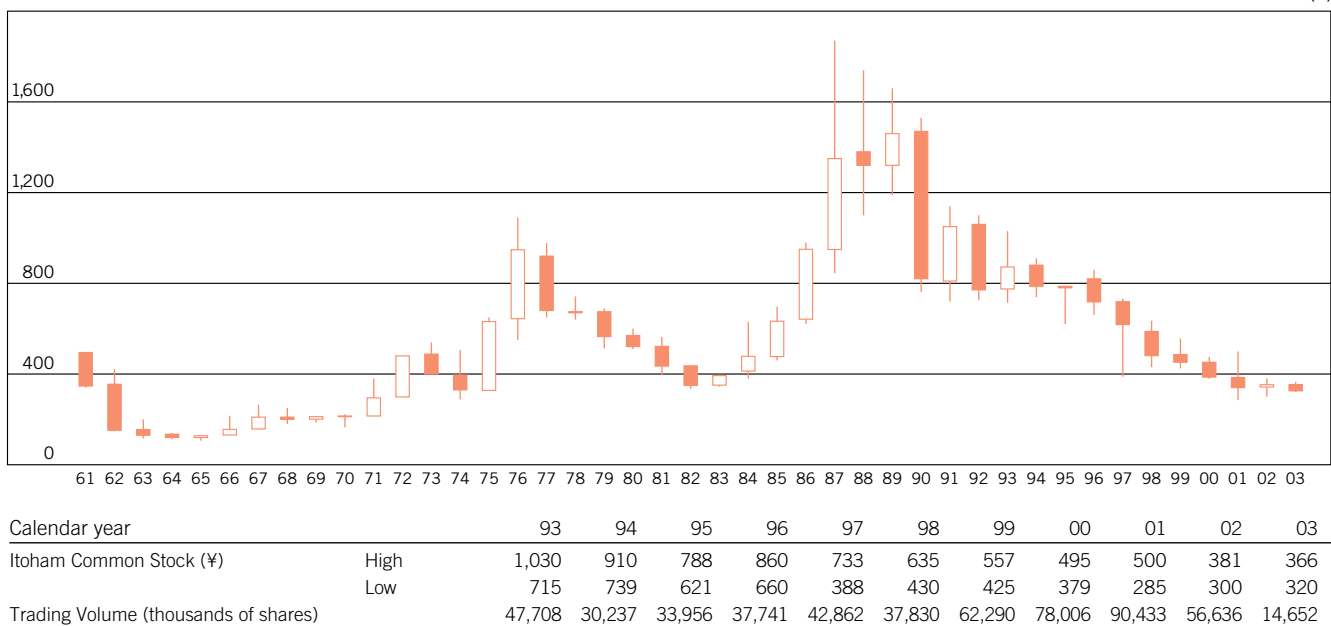
*Ratio of voting rights

BREAKDOWN OF SHAREHOLDERS BY SIZE OF HOLDING



(As of March 31, 2003)

COMMON STOCK PRICE RANGE



※ Note: The figures for the 2003 calendar year only are for the 3-month period from January 2003 through March 2003.



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