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Itoham Foods Inc.

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Itoham Announces the Itoham Group Revitalization Plan

Itoham today announced the Itoham Group Revitalization Plan to be implemented during fiscal 2007 and fiscal 2008. A summary of the plan is attached.

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1. Summary of the Revitalization Plan

● Purpose

Itoham is currently in a critical situation, having recorded substantially reduced earnings and a loss in fiscal 2006, as well as negative free cash flow for two consecutive years. The Revitalization Plan is intended to rapidly pull the Company out of this predicament and make management more robust to ensure that it recovers its former strength.

● Duration

As it is unclear what changes will be made to customs tariffs as a result of WTO negotiations, Itoham has set the duration of the Revitalization Plan at two years, ending in fiscal 2008. By the second year of the plan, the Company will draw up a new medium- to long-term management plan to be implemented from April 2008.

● Minimum targets

Non-consolidated net income of ¥1.0 billion in fiscal 2008 to enable payment of dividends

Consolidated ordinary income of ¥5.0 billion (¥7.5 billion improvement compared to fiscal 2006)

Free cash flow of ¥10.0 billion

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2-1. Factors Contributing to Deterioration in Operating Results

- External factors
 1. Surging raw material costs
Costs at end of fiscal 2006 ¥4.5 billion higher than three years previously.
 2. Changing markets
Maturing ham and sausage market
Increased competition in the processed foods market

Lower selling prices

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2-2. Factors Contributing to Deterioration in Operating Results

- Internal factors
 1. Decreased operating income
Overinvestment in the Processed Foods and Other Products Division
Entry into low-profit categories due to emphasis on sales expansion
Increased distribution costs
 2. Inadequate measures to reform unprofitable operations
Failure to deal with loss-making operations
 3. Lack of focus on cash flow management
Inventories, capital investments

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3. Fundamental Strategy and Priority Policies

- Reduce costs → reduce fixed costs (close or integrate operating bases, reduce personnel costs)
strictly implement cost reduction-oriented management,
reduce distribution costs
- Improve profitability of the processed foods business
→ enact price revisions from July 1, 2006
raise manufacturing efficiency by reducing
the number of products
- Concentrate on core businesses → sell off, withdraw from, or scale down
non-core and unprofitable businesses
- Improve earnings in the fresh meat business
→ Improve earnings at Rockdale Beef, etc.
- Secure free cash flow → increase operating income, reduce inventories,
sell off operations, real estate and other assets

*Factors contributing to higher costs

→ raw material costs, prices for commodities such as gasoline,
prices of Australian breeding cattle

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4-1. Economic Impact by Priority Policy

● Summary of Operating Income and Business Withdrawal Costs

Policy		Operating Income	Withdrawal Cost
Reduce costs		6,820	2,150
Improve profitability of the processed foods business		2,010	0
Concentrate on core businesses		665	1,020
Improve earnings in the fresh meat business	Improve earnings at Rockdale Beef	600	
	Write-downs due to exchange rate fluctuations in the previous fiscal year	1,000	
	Sub total	1,600	
Factors contributing to higher costs	Raw material costs	(1,700)	
	Prices for commodities such as gasoline	(700)	
	Higher prices for Australian breeding cattle	(900)	
Sub total		(3,300)	
Total		7,795	3,170

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4-2. Economic Impact by Priority Policy

● Secure Free Cash Flow

Policy	Target Period/Date	Cash Flow
Increase in after-tax operating income	Two-year total	2,000
Inventory reduction	March 31, 2008	8,000
Depreciation and amortization	Two-year total	13,500
Capital investments	Two-year total	(13,500)
Total		10,000

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5. Minimum Targets (Statement of Income)

(Millions of Yen)

	Minimum Targets for Fiscal 2008	
	Consolidated	Non-consolidated
Net sales	510,000	423,000
Gross profit	99,700	44,500
(% of net sales)	19.5%	10.5%
SG&A expenses	96,200	43,500
(% of net sales)	18.9%	10.3%
Operating income	3,500	1,000
(% of net sales)	0.7%	0.2%
Other income	1,500	1,500
Ordinary income	5,000	2,500
(% of net sales)	1.0%	0.6%
Special losses	(600)	(600)
Income before income taxes	4,400	1,900
Net income	2,500	1,000
(% of net sales)	0.5%	0.2%