



ITOHAM FOODS INC.
Annual Report 2006
Full of Smiles



The Itoham Group's Management Policy

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

Company Policy

"Service to Society Through Business"

Corporate Philosophy

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

Corporate Stance

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

Code of Conduct

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

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"Full of Smiles"

This year's cover message is also Itoham's corporate message, reflecting our desire to become an energetic and forward-looking company that not only supplies safe and reliable products, but also puts great importance on family fun, comfort and happiness.

Five-Year Consolidated Financial Highlights

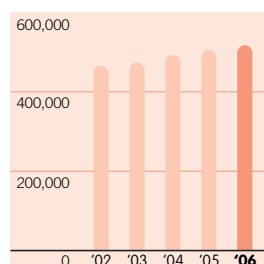
ITOHAM FOODS INC. and Consolidated Subsidiaries

Years ended or as of March 31	Millions of yen					Thousands of U.S. dollars (Note 1)
	2002	2003	2004	2005	2006	2006
Net sales	¥465,639	¥473,891	¥492,661	¥505,461	¥517,275	\$4,403,465
Cost of sales	372,775	374,200	386,664	402,429	420,571	3,580,242
Selling, general and administrative expenses	91,862	95,923	98,682	98,431	100,641	856,738
Operating income (loss)	1,002	3,768	7,315	4,601	(3,937)	(33,515)
Other income (expenses)	(812)	(2,441)	(539)	3,108	(371)	(3,158)
Income (loss) before income taxes and minority interests	190	1,327	6,776	7,709	(4,308)	(36,673)
Provision for income taxes						
Current	1,510	1,539	2,425	1,034	1,151	9,799
Deferred	(611)	(563)	587	1,748	2,859	24,338
Minority interests	2	(38)	(67)	(55)	(53)	(451)
Net income (loss)	(707)	313	3,697	4,872	(8,371)	(71,261)
Net income (loss) per share (in yen and U.S. dollars)	(3.32)	1.49	17.59	23.38	(40.17)	(0.342)
Total assets	235,362	219,383	229,400	237,866	243,050	2,069,039
Shareholders' equity	120,003	117,771	122,930	125,844	121,148	1,031,310
Ratio of shareholders' equity to total assets	50.99 %	53.68%	53.59%	52.91%	49.84 %	
Shareholders' equity per share (in yen and U.S. dollars)	570.15	559.71	589.86	603.93	581.45	4.95
Return on assets (Note 2)	0.9 %	2.2%	3.7%	2.8%	(1.1)%	
Return on equity	(0.6)%	0.3%	3.1%	3.9%	(6.8)%	
Cash flows from operating activities	(6,515)	22,783	9,108	3,804	(2,821)	(24,015)
Cash flows from investing activities	(6,686)	(3,390)	(4,853)	(5,354)	(12,833)	(109,245)
Cash flows from financing activities	(1,981)	(11,423)	(2,281)	(2,950)	5,670	48,268
Cash and cash equivalents at end of year	18,807	26,708	28,619	24,098	14,342	122,091

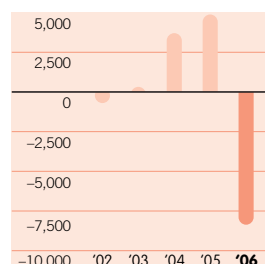
Notes 1: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥117.47=US\$1, the rate prevailing on March 31, 2006.

2: Return on assets is calculated by dividing ordinary income (loss), as recorded in the Japanese-language Consolidated Statements of Operations, by the average of total assets at the start and end of the fiscal year.

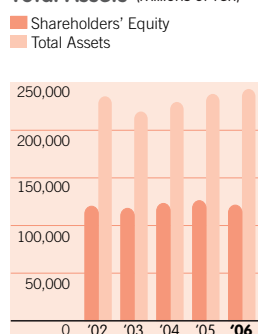
Net Sales
(Millions of Yen)



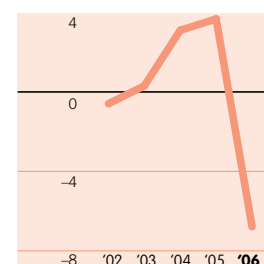
Net Income (Loss)
(Millions of Yen)



Shareholders' Equity and Total Assets (Millions of Yen)



Return on Equity
(%)



Message From the President



Chikara Kasai
President

New President's Profile

Name:	Chikara Kasai
Date of birth:	August 30, 1941
Career summary:	
April 1965	Joined Itoham
March 1993	General Manager, Tokyo Office Sales Division
June 1994	Director
March 1998	Managing Director
February 2000	Senior General Manager, Sales Division
April 2000	Executive Officer
June 2003	Senior Managing Director
June 2005	Senior Managing Executive Officer
February 2006	Senior General Manager, Meat Division
May 2006	Itoham President (Current)

It is my pleasure to address you as president of Itoham Foods Inc. following my recent selection and appointment.

The operating environment for our industry continues to present challenges, with sluggish sales resulting from a variety of factors, among them high raw material and crude oil prices. In this climate, I am keenly aware of the formidable responsibility I am taking on as I assume the post of president. However, I am fortunate to be able to draw on the achievements of my predecessors: notably the stakeholder confidence and strengths in technology and sales that they have built up over the years. Making the most of these assets, I intend to create an organization that responds promptly to sudden changes in our business environment. I will do everything within my power to meet the expectations of our stakeholders by returning the Itoham Group to a growth footing.

I hope that I can rely on your support as I pursue this new challenge.

Fiscal 2006 Business Results

Continuing from fiscal 2005, our industry faced severe challenges during the year under review in a tough operating environment characterized by low product prices, high raw material prices, and increasingly fierce sales competition.

In this climate, we responded to a market that is steadily shifting from basic cooking ingredients to prepared dishes by working to boost Itoham's share of ham and sausage products in the "ready-to-eat meals" and restaurant channels. In parallel, we are putting a product development and production

We responded to a market that is steadily shifting from basic cooking ingredients to prepared dishes by working to boost Itoham's share of ham and sausage products in the "ready-to-eat meals" and restaurant channels.

framework in place for prepared dishes and casual foods that has enabled us to propose higher added value to our customers. Moreover, as part of our drive to maintain a low-cost operating base, we have boosted sales productivity per employee by separating logistics and sales functions in our operating activities. At our production sites, in line with the transition from a basic cooking ingredient-oriented production system

to one focused on prepared dishes, new plants have been built in the Kobe and Chubu areas as dedicated facilities for prepared dishes. We have also strengthened similar capabilities at our Kyushu Plant, all as part of our plan to augment Itoham's production framework for these products. In the Ham and Sausage Division, meanwhile, we proceeded with the consolidation and reduction of production facilities, while taking steps to boost productivity through the enhancement of management capabilities, guided by our Itoham Production System (IHPS).

Due to these and other steps, Itoham net sales rose 2.3% to ¥517,275 million, an increase of ¥11,814 million from the previous fiscal year. With respect to earnings, gross profit fell by ¥6,328 million year on year, impacted by an increase of ¥18,142 million in the cost of sales due to higher prices of items procured. For the year, Itoham posted an operating loss of ¥3,937 million, down ¥8,538 million from the ¥4,601 million in operating income posted the previous year. This was primarily caused by an increase in selling, general and administrative (SG&A) expenses of ¥2,210 million that accompanied increased sales. In contrast, we booked as other income a ¥679 million gain on transfer of the substitutional portion of the social welfare pension insurance scheme. On the other hand, we also booked impairment losses on fixed assets of ¥1,792 million under other expenses, resulting in a loss before income taxes and minority interests of ¥4,308 million. This represents a reversal of ¥12,017 million from the ¥7,709 million in income posted in the previous year. Similarly, following the reversal of deferred tax assets, we posted a net loss of ¥8,371 million, representing a decline of ¥13,243 million from ¥4,872 million in net income in the previous year.

In light of the abovementioned performance, we have decided to reduce the dividend for the year under review from ¥8.00 to ¥4.00 per share.

Outlook for Fiscal 2007

No significant easing is expected in the severity of our operating environment in fiscal 2007, with low product prices, high prices for raw materials and intense sales competition likely to continue. Consequently, the struggle to remain profitable is poised to be every bit as challenging as it was during the past fiscal year. Amid this environment, we intend to radically review unprofitable operations as we take measures to lower costs in every business division and spur a recovery in gross profit. This approach will see us greatly standardize Itoham's operating structure by further consolidating and reducing production sites, and integrating our sales subsidiaries. These efforts notwithstanding, there is a limit to what Itoham can do in response to escalating prices for imported pork, cheese and other raw materials. Accordingly, we implemented incremental price increases in Ham and Sausage and Processed Foods of between 7% and 12% (10% on average) beginning July 1, 2006.

We will work to ensure we offer products with an even higher level of safety and reliability.

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

In the **Ham and Sausage Division**, we are ramping up intensive sales activities, focusing on core products in our *Alt Bayern* wieners and *Morning Fresh* series of loin ham.

Of the six Ham and Sausage sales subsidiaries in Itoham's network in Japan, we merged three of them (the Kansai, Kanto and Chubu subsidiaries) into a single company on April 1, 2006. This move has enabled the integration and reduction of administrative, accounting and other Head Office functions, leading to greater operational efficiency. At the same time, this change will make Itoham more competitive by enhancing our marketing capabilities in Japan's three key consumer regions.

In production, we will work to raise productivity at our production sites to further boost cost competitiveness by pursuing stronger Itoham Production System (IHPS) and management capabilities, as well as through extensive cost reductions.

In the **Fresh Meat Division**, we anticipate a decline in earnings from Australian-raised beef due to sharply higher procurement prices for calves at our directly managed feedlot in Australia. However, brand strategies for our *Original Beef*, *Berkshire Pork* and *Ichibantei* series of meats aimed at distinguishing Itoham products in the market, along with the enhancement of "backyard solutions," are leading to expansion in both the number of customers we supply and sales volume. Moreover, the Fresh Meat Division is being targeted with the same initiatives for separating logistics and sales functions as in the Ham and Sausage and Processed Foods fields, resulting in greater productivity per employee.

For the division's sales network, we plan to follow a pattern similar to that of our ham sales subsidiaries by integrating two of Itoham's six meat sales subsidiaries sometime during the current business year. This step will complete plans initiated by the merger of two subsidiaries in Japan's Kanto region on April 1, 2006.

In the **Processed Foods and Other Products Division**, we will divide operations into prepared dishes and casual foods, and will further clarify each category as we take initiatives to reinforce our product brands.

In the drive to rigorously manage profitability, we will work to optimize our production system for processed foods, and close and realign some of our production sites for prepared dishes. Along with these actions, we will review our pizza products, our line of cooking products and others in a bid to boost profitability. We will also promote greater selectivity in Itoham businesses, which has prompted our exit from the restaurant industry.

In the Itoham Group's medium-term plan for the three years from April 1, 2004 to March 31, 2007, we initially targeted Group sales of ¥570.0 billion and operating income of ¥15.0 billion in the plan's final year. However, in light of the adverse operating environment discussed earlier, we are forecasting net sales of ¥510.0 billion (down 1.4% year on year), an operating loss of ¥0.2 billion (improving from the previous year's loss of ¥3,937 million), and net income of ¥0.2 billion (reversing the previous year's net loss of ¥8,371 million).

河西 力

Chikara Kasai President

Cautionary Note: Forward-Looking Statements

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

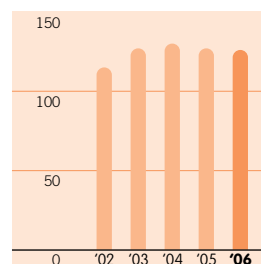
At a Glance

Ham and Sausage Division



Net Sales

(Billions of Yen)



Sales Composition

(%)

24.4%

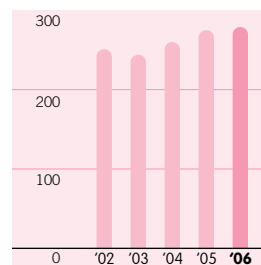


Fresh Meat Division



Net Sales

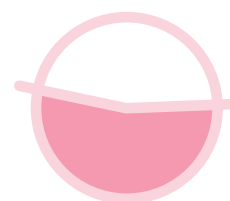
(Billions of Yen)



Sales Composition

(%)

53.9%

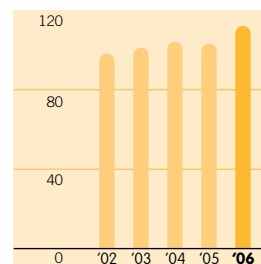


Processed Foods and Other Products Division



Net Sales

(Billions of Yen)



Sales Composition

(%)

21.7%



Business Overview

This division produces and sells ham, sausages and bacon. Backed by sophisticated technology, it consistently turns out safe, high-quality products. In production activities, the division employs a high-level quality assurance system underpinned by strict hygiene control standards. On the sales front, the Ham and Sausage Division is aiming to capture the leading market share in all its product categories by rolling out a sales strategy that focuses on core products. Itoham also offers a lineup of gift products that have won strong support from customers.

Itoham owns directly managed and contract feedlots in Japan and overseas. These facilities employ strict hygiene management standards across all areas of operations—from the transport of livestock through to the final product. With its abundant lineup of valued-added products, Itoham uses a brand strategy to achieve product differentiation and to provide enhanced “backyard solutions,” upgrading support for business partners and thereby expanding sales. In order to ensure its meat products are safe and reliable, this division is also working to upgrade its traceability framework.

A higher percentage of working women, a growing elderly population, and more diverse household schedules are among the changes that have radically transformed consumer lifestyles in Japan. In this context, the Processed Foods division strives to develop safe and healthy food products that are conveniently easy to prepare and high in quality. In the “ready-to-eat meals” and restaurant markets, two areas with particularly strong growth potential, Itoham develops such meat dishes as charcoal-roasted meats, hamburgers, and pork cutlets. Other products the division is involved in include dairy products and pharmaceutical products.

Five-Year Review and Business Results

In addition to a maturing ham and sausage market and escalating sales competition, the market has been hit by higher raw materials prices in recent years, resulting in a persistently harsh operating environment. Under these conditions, we have remained focused on actively boosting sales of core products such as *Alt Bayern* and the *Morning Fresh* series. However, a market environment characterized by a trend toward lower-priced products, combined with sluggish gift-giving seasons recently, led to a reduction in sales during the year under review.

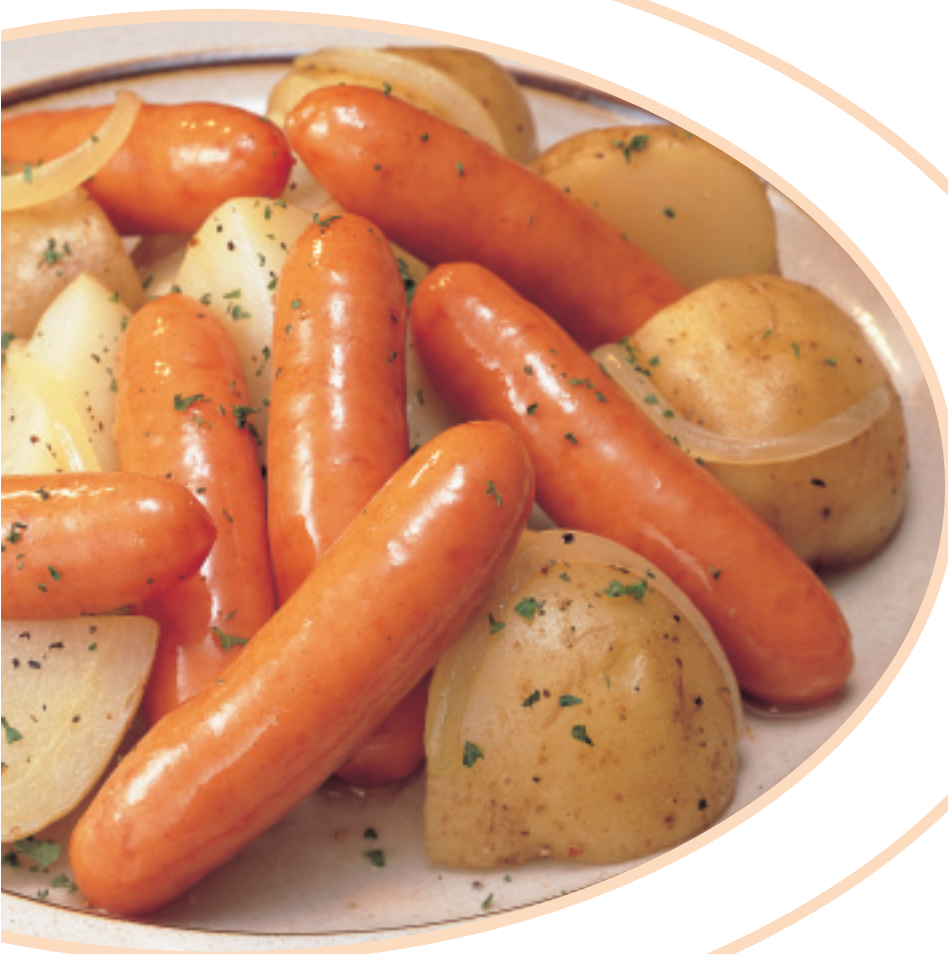
The fresh meat market has been harsh due to outbreaks of BSE and associated bans on the import of U.S. beef, cases of avian flu and the imposition of import safeguards. In this operating environment, the division has actively worked to boost sales by further strengthening brands produced at Itoham’s overseas feedlots such as *Rockdale Beef* in Australia and *Five Star Beef* in New Zealand and expanding sales of *Berkshire Pork*, for which it boasts one of the highest production volumes in Japan. Together, these initiatives resulted in higher sales for the term under review.

Sales in the Processed Foods component of this division have grown steadily on the back of expanding market size. However, in recent years, against the backdrop of escalating sales competition, sales of our mainstay charcoal-roasted beef, chicken and other products have been sluggish due to outbreaks of BSE and avian flu in Japan and overseas. Meanwhile, sales of the authentic *La Pizza* series of chilled pizzas have exhibited substantial growth. As a result, sales of this product have led to increased sales in the Processed Foods component of this division. Additionally, the contribution to sales from Other Products, which includes Itoham’s dairy products and pharmaceutical products, led to an increase in overall division sales.

Review of Operations

Our objective is to capture the leading share in the ham and sausage product categories centering on *Alt Bayern* and *Morning Fresh*. We will achieve this by maximizing Itoham's proven technologies and proprietary product development capabilities, and by selling products carefully developed to satisfy customer needs.

Ham and Sausage Division



A Strong Lineup Centered on *Alt Bayern* and *Morning Fresh*

Itoham's flagship *Alt Bayern* wieners, certified to Specific Japanese Agricultural Standard (JAS) regulations, are made from top-quality pork cured for over 72 hours using traditional techniques. The result is juicy and aromatic wieners that preserve the full flavor of the original pork. *Alt Bayern* wieners are delivered to customers free of preservatives thanks to strict temperature and quality control. They are complemented by a range of other sausage products including *Pork Bits*, popular for children's lunchboxes as they take only a minute to heat through, *Cheese-In*, which was awarded the Minister of Education, Culture, Sports, Science and Technology Prize in 2001, the 42nd time this prize was awarded, and *Pole Wiener*, which was awarded the 22nd Long Seller Prize in 2003 by the Japan Food Journal. Additionally, in autumn 2005, Itoham introduced and expanded sales of *Majiuma Arabiki*, which combines the goodness of "skinless" and

“coarsely minced pork” wieners, and *Kokuuma Arabiki Pork Wiener*, which offers a thin-skin texture and draws out the deliciousness of pork. In sliced packaged products, which contribute to a good breakfast on busy mornings, products such as the *Morning Fresh* series of loin ham and bacon have proven popular with customers.

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

Gift Products

Despite a difficult business environment characterized by a contracting market, we offered a lineup of products trusted by customers, including *Roast Beef*, prepared using *Sous Vide* vacuum sealing and cooking technology incorporating the highest standards of food safety and quality, as well as core brands such as *Densho no Aji* and *Houjyun*.



MORNING FRESH SERIES OF LOIN HAM



KOKUUMA ARABIKI PORK WIENER



HOJYUN

Highlight

***Pitatto Shinsen!* Series Receives “Convenience Award”**

On February 8, 2006, the *Pitatto Shinsen!* series received the “Convenience Award” in the food division in the “12th Annual Convenience Awards,” sponsored by Sankei Living Shimbun, Inc. Inaugurated in 1994, this award recognizes a newly launched product or service in each year that is consumer-driven. The award is selected based on votes for “this product/service is convenient” and “this product/service is a help to me” by *Living Shimbun* readers. On the market after a year in development, the *Pitatto Shinsen!* series features an innovatively constructed sealed pack that utilizes the food industry’s first re-sealable packaging, based on patent-pending technology, that enables consumers to store unused ham and bacon without resorting to kitchen wrap or transferring to another container.



Scene from the award ceremony



Fresh Meat Division

Itoham enforces strict hygiene management standards across all areas of its operations—from the raising of livestock in its proprietary and contract feedlots at home and abroad through to retailing channels. In this way the company is developing a brand strategy designed to win the trust of customers by focusing on product safety and reliability.

Beef Products—Further Enhancing Brand Strategy and Traceability System

With a continued ban on the import of U.S. beef to Japan, Itoham has been taking steps to ensure a well-developed production system is in place at its Australian and New Zealand feedlots. In May 2006, the World Organization for Animal Health (OIE) recognized Australia and New Zealand as entirely free of BSE, and both countries are considered to be two of the safest countries in the world for the production of beef. Australian-raised *Rockdale Beef* and New Zealand-raised

Five Star Beef are prime examples of reliable beef brands produced overseas in proprietary feedlots surrounded by abundant natural settings. In domestic beef, we are increasing production of high value-added Japanese regional beef utilizing the Traceability System. Information regarding the production history of overseas Itoham beef brands and Japanese regional beef is provided on our Japanese-language website. To access this information, point your browser to: <http://itoham.mediagalaxy.ne.jp/farm/anzen/kokusan/index.html>



Pork Products—The Strong Reputation of Pure Kagoshima Berkshire Pork

In pork products, Itoham is one of the leading volume suppliers of *Berkshire Pork* in Japan. Sankyo Meat Co., Ltd., an Itoham Group company based in Kagoshima Prefecture, plays a central role in raising Berkshire pigs at its dedicated feedlot, a facility that boasts state-of-the-art technologies. *Berkshire Pork* is derived exclusively from purebred Berkshire pigs which 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. Under strict management, the pigs are given high-grade feed and

fattened over a period of around 240 days. Itoham uses these pigs to supply its *Pure Kagoshima Berkshire Pork* brand. Additionally, Itoham increases the ratio of sweet potato contained in the feed mixture from the traditional 10% to 15% or more for a period of two months or longer. Adding a higher composition of starchy sweet potato to the feed mixture draws out more of the natural taste and richness of Berkshire pork, resulting in a more flavorful product. Overseas, Itoham also produces a range of other pork brands, including *Alt Pork* in the U.S. and *Mugijitate* in Canada.



ROCKDALE BEEF PTY. LTD.
(Proprietary Feedlot in Australia)



FIVE STAR BEEF LTD.
(Proprietary Feedlot in New Zealand)



BERKSHIRE PORK

Highlight

Itoham Acquires First Domestic Food Industry ISO 22000 Certification for Food Safety Management Systems

Sankyo Meat Co., Ltd., an Itoham Group company, received ISO 22000 certification, an international standard for food safety management systems, for the feedlot and the fresh meat cutting center of its Ariake Plant on December 27, 2005, becoming the first domestic facility to achieve this certification. Furthermore, Group company IH Meat Packers, Co., Ltd., won ISO 22000 accreditation for its Miyagi Meat Center on March 31, 2006. Both facilities were certified by Nippon Kaiji Kentei Quality Assurance Limited (NKKKQA). Sankyo Meat's Ariake Plant had already received certifications for ISO 9001, ISO 14001, and Specific Japanese Agricultural Standard (JAS), and was a certified processing center for beef exports to the United States and Canada. With the new acquisition of ISO 22000, the Ariake Plant has gained broader recognition as having one of the nation's most hygienic facilities and one of the best quality control systems for its feedlots and fresh meat cutting center. ISO 22000 was established as an international standard for food safety management systems in September 2005, and is a standard adapted from Hazard Analysis and Critical Control Point (HACCP) methods, which are based on ISO 9001. Itoham intends to pursue ISO 22000 certification for its bases in the Fresh Meat Division with the aim of further enhancing the functions for supplying safe and reliable products.



Ariake Plant (Sankyo Meat Co., Ltd.)



ISO 22000 certificate



Processed Foods and Other Products Division

In touch with customers' changing lifestyles, Itoham remains committed to the development of healthy and safe products that are conveniently easy to prepare and high in quality.

Developing Products That Address Changing Markets

A variety of social changes have gathered momentum in Japan, from the higher percentage of working women and a growing elderly population, to increasingly more diverse household schedules. These changes have also radically transformed the markets for “ready-to-eat meals,” restaurant dining, and meals made at home. Similarly, customer preferences have become more varied, with an emphasis on healthy and safe food, easier

preparation, smaller portions, and an insistence on more authentic taste among the emerging trends. To meet these needs, the Processed Foods division strives to develop safe and healthy food products that are conveniently easy to prepare and high in quality. To this end, in the “ready-to-eat meals” and restaurant markets, two areas with particularly strong growth potential, Itoham is focusing on the development of such meat dishes as charcoal-roasted meats, hamburgers, and pork cutlets.

Strong Lineup of Hamburger Products

In the growing evening-meal hamburger market, Itoham launched *Ichibantei Demi-Glace Sauce Hamburger* as a product that packs more flavor and value than existing products. *Ichibantei Demi-Glace Sauce Hamburger* is a juicy hamburger with homemade taste made from a combination of coarsely minced beef and pork and grilled on both sides in a demi-glace sauce, with the natural meat juices mixed in to evoke an exquisite flavor. Together with *Binchotanyaki Shiage Hamburgers* (charcoal-grilled hamburgers), Itoham's top-selling grilled hamburger product, *Ichibantei Demi-Glace Sauce Hamburger* plays an important role in Itoham's hamburger lineup.

Kyosho no Sai Series

In 2002, this division launched the *Kyosho no Sai* series of ready-prepared meals that make it easy to recreate authentic restaurant dishes at home. A group of top chefs and food experts were brought on to help develop the lineup: Rokusaburo Michiba, Japan's renowned master chef in Japanese cuisine (Japanese dishes); Shinya Tasaki, a well-known sommelier (Western dishes); and, Tei Keirin, a recognized master chef in the world of Cantonese cuisine (Chinese dishes).



PORK CUTLET



ICHIBANTEI DEMI-GLACE SAUCE
HAMBURGER



KYOSHO NO SAI SERIES

Highlight

Authentic *La Pizza* Series of Chilled Pizzas Enjoys Strong Reputation

Since its launch in 2003, the authentic *La Pizza* series of chilled pizzas has demonstrated steady sales growth. When we set out to offer our customers real Napoli pizzas to enjoy easily at home, we gave close attention to ingredients and methods, and insisted on achieving the right mix of flour and yeast to create the best possible pizza dough. We slowly raised the dough at low temperature, then heated it under a high flame to achieve our signature crust that is crunchy on the outside but soft in the middle. As evidence of their immense popularity, in 2005, Itoham's *La Pizza* series won the Outstanding Product Prize in the chilled and frozen foods category at the 23rd Hit Food Product Awards, sponsored by the Japan Food Journal.



Corporate Governance

Itoham aims to be a company that continually strengthens its corporate brand. To wholly fulfill its corporate social responsibility (CSR) and to secure the trust of all its stakeholders, Itoham has enhanced its management structure by strengthening internal control functions, including oversight and supervision, as part of an overall effort to ensure that management carries out accurate decision-making and speedy business policy execution.

Additionally, Itoham is dedicated to the continual enhancement of its comprehensive corporate governance framework. As part of these efforts, the Company intends to upgrade its training and employee education programs to foster greater awareness of compliance. It also plans to increase management transparency through the proactive disclosure of corporate information.

Management System

(1) Board of Directors

The Board of Directors currently consists of 10 members. In addition to its regular monthly meeting, the Board of Directors convenes special meetings on a timely basis when necessary. The Board of Directors makes decisions on important matters pertaining to the business and affairs of the company and determines business policy.

(2) Management Executive Committee

Itoham has 19 executive officers, including eight that serve concurrently on the Board of Directors. In addition to its regular semi-monthly meeting, the Management Executive Committee convenes special meetings on a timely basis when necessary. The committee assesses the status of the execution of the business and affairs of the company and carries out decision-making.

(3) Corporate Auditors and the Board of Auditors

Itoham has four auditors, comprising two outside auditors and two standing auditors. In addition to attending meetings of the Board of Directors and other important internal meetings, the auditors conduct rigorous audits of the Company, including direct discussions with board members, executive officers, and other key personnel regarding the execution of the business and affairs of the company.

(4) Internal Auditing

Itoham has established a Quality Assurance Section and an Internal Auditing Section within the CSR Department as an organization under the direct jurisdiction of the president. The Internal Auditing Section conducts internal audits with a broad scope that includes Group companies based on the audit plan. The section also conducts internal audits separate from the plan as necessary. Audits are conducted in full cooperation with the auditors. The Quality Assurance Section provides guidance and monitors quality control and hygiene management systems, including those at Group companies, and checks for compliance with all relevant laws and regulations.

(5) Accounting Audits

Itoham has concluded an auditing agreement with KPMG AZSA & Co. to ensure that impartial and appropriate audits are conducted with respect to compliance with the Commercial Code and the Securities Exchange Law.

(6) Compliance System

Itoham carries out activities, led by the CSR Department, aimed at increasing compliance awareness among all directors and regular employees of the Group, and ensuring that related practices become firmly entrenched in its corporate culture. Information on these activities is posted on the Itoham corporate website. The CSR Committee, chaired by a leading individual from outside the company, conducts checks of Itoham's CSR system from a third-party perspective, and makes recommendations to the Board of Directors based on the results. Additionally, Itoham has formulated Corporate Ethics, a manual which it distributes to all employees as a compliance handbook, and conducts training with regard to compliance with all relevant laws and regulations. Itoham has also taken other steps to enhance its compliance framework, including the establishment of an Internal Auditing Section, a Human Resources Department, the Itoham Workers Union, and external legal counsel for compliance-related advice and consultation.

(7) Disclosure

Itoham fundamentally believes in heightening the overall transparency of management through the proactive disclosure of information to shareholders and all other investors. As such, the Company pursues timely and impartial disclosure through investor relations (IR) activities and publications. Specific steps include posting information on the corporate website, holding briefings, and issuing press releases related to its business activities and business results.

Corporate Ethics

1. Fair and Honest Conduct

Aware of the responsibilities inherent in its role as a member of society, the Itoham Group will always conduct itself in a fair and honest manner in accordance with social norms.

2. Awareness of Ethics and Compliance

Anchored by a law-abiding spirit and a firm commitment to corporate ethics, the Itoham Group will always conduct its business activities with integrity.

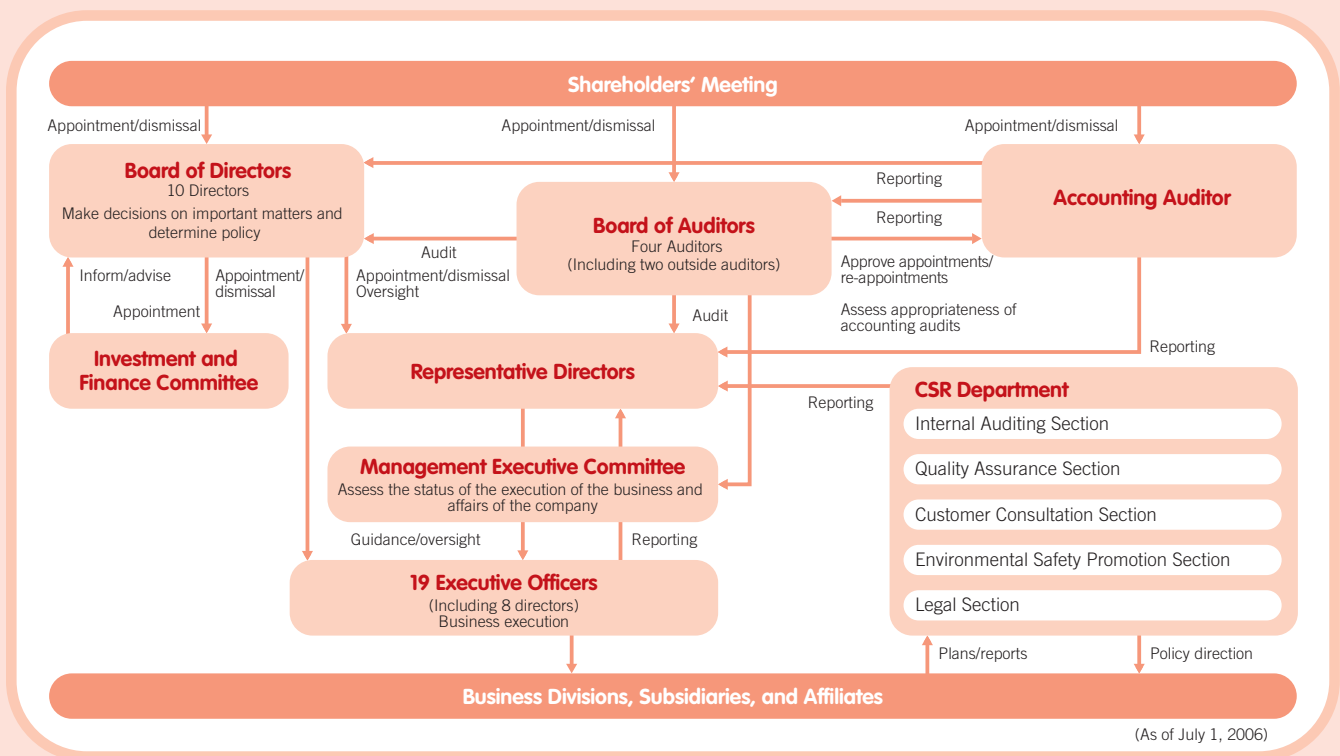
3. Strict Enforcement of Related Laws and Regulations

Based on a commitment to identifying and fully understanding laws and regulations related to its business activities, the Itoham Group will work to ensure compliance with these regulations through strict enforcement using internal regulations, related training and announcements to promote awareness.

4. Rapid Remedial Action and Firm Disciplinary Response to Offenses

In the event that laws, regulations or social norms are contravened during the course of its business activities, the Itoham Group will rapidly take remedial action to correct the offense, work to prevent reoccurrence, and implement a firm disciplinary response.

Corporate Governance Framework



Citizenship and Environmental Protection Activities

Citizenship Activities



Employees participating in beach cleanup activities



Employees taking part in UNICEF "Hand in Hand" fund drive with their families

Environmental Protection Activities



The Itoham 2006 Social and Environmental Report

Philosophy on Citizenship Activities

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

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.

Basic Environmental Philosophy

Itoham considers environmental conservation according to global norms to be one of the most important issues facing humanity. We therefore pay due attention to the environment in the course of our business activities and will continue to implement ongoing efforts to protect the environment and coexist with society.

Policies Governing Conduct

- We will promote the development of products and services in a manner that gives due consideration to environmental impact in all stages, from development through use and eventual disposal.
- We will consider the effect of our operations on the environment and constantly endeavor to improve our environmental preservation efforts by setting environmental goals and targets, and regularly reevaluating them.
- We will work to preserve the environment, scrupulously observing applicable environmental laws, regulations, ordinances, and agreements, and establishing management standards on our own initiative.
- We will work toward the realization of a sustainable society and strive to reduce the burden on the global environment by promoting efforts to reduce consumption of energy and resources; to lower output of waste, greenhouse gasses, and substances that damage the ozone layer; and to recycle waste products.
- External and internal audits will be carried out on a regular basis and strict management will be exercised by the company on its own initiative.
- We will endeavor to foster an understanding among our employees of the Basic Environmental Philosophy and an improved consciousness of the importance of preserving the environment through environmental education both inside and outside the company as well as in-house publicity.
- In our overseas business activities we will give due consideration to environmental preservation in the countries in which we operate.
- We will disclose information on our Basic Environmental Philosophy, our environmental preservation efforts, and the results of such efforts in the company's Social and Environmental Report.

Financial Section

Contents	19 Financial Review
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	24 Consolidated Statements of Operations
	25 Consolidated Statements of Shareholders' Equity
	26 Consolidated Statements of Cash Flows
	27 Notes to Consolidated Financial Statements
	34 Independent Auditors' Report

Financial Review

Net Sales

Continuing from fiscal 2005, our industry faced severe challenges during the year under review in a tough operating environment characterized by low product prices, high raw material prices, and increasingly fierce sales competition.

In this climate, we responded to a market that is steadily shifting from basic cooking ingredients to prepared dishes by working to boost Itoham's share of ham and sausage products in the "ready-to-eat meals" and restaurant channels. In parallel, we are putting a product development and production framework in place for prepared dishes and casual foods that has enabled us to propose higher added value to our customers. Moreover, as part of our drive to maintain a low-cost operating base, we have boosted sales productivity per employee by separating logistics and sales functions in our operating activities. At our production sites, in line with the transition from a basic cooking ingredient-oriented production system to one focused on prepared dishes, new plants have been built in the Kobe and Chubu areas as dedicated facilities for prepared dishes. We have also strengthened similar capabilities at our Kyushu Plant, all as part of our plan to augment Itoham's production framework for these products. In the Ham and Sausage Division, meanwhile, we proceeded with the consolidation and reduction of production facilities, while taking steps to boost productivity through the enhancement of management capabilities, guided by our Itoham Production System (IHPS).

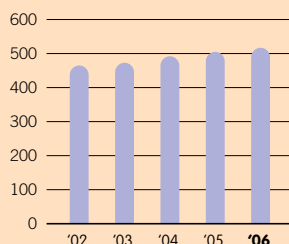
As a result of these and other steps, Itoham posted a 2.3% rise in net sales to ¥517.3 billion.

In the Ham and Sausage Division, Itoham carried out focused sales activities for core products while working to expand sales in the ready-to-eat meal and restaurant markets. However, due to market conditions that saw a trend toward lower-priced products, division sales declined 0.8% to ¥126.5 billion.

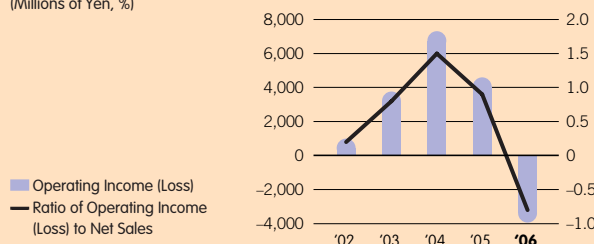
In the Fresh Meat Division, Itoham carried out aggressive sales activities in line with two key management aims: reinforce Itoham overseas beef brands and expand sales of *Berkshire Pork* as one of the leading volume suppliers of this brand in Japan. The company also worked to increase the number of customers by upgrading and expanding its traceability system and made efforts to expand sales of Japanese regional beef, domestic pork, and imported chicken. As a result, division sales rose 1.5% to ¥278.5 billion.

In the Processed Foods and Other Products Division, in the "ready-to-eat meals" and restaurant markets, two areas with particularly strong growth potential, we divided our processed foods product range into two categories: prepared dishes and casual foods. In prepared dishes, we worked to expand sales of meat dishes, while in casual foods we achieved a marked increase in sales centered on the authentic *La Pizza* series of chilled pizzas, leading to an increase in sales of processed food products of 9.0% to ¥75.2 billion. Including sales by the dairy products, pharmaceutical, and other businesses, which rose 7.6% to ¥37.1 billion, division sales increased 8.5% to ¥112.3 billion.

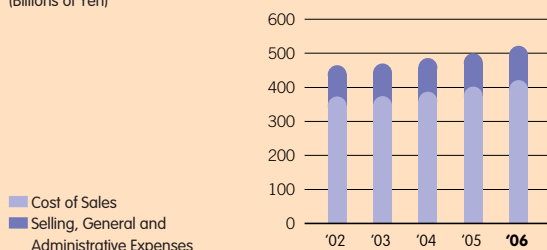
Net Sales
(Billions of Yen)



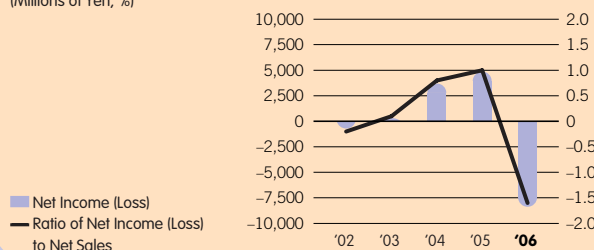
Operating Income (Loss), Ratio of Operating Income (Loss) to Net Sales
(Millions of Yen, %)



Cost and Expenses
(Billions of Yen)



Net Income (Loss), Ratio of Net Income (Loss) to Net Sales
(Millions of Yen, %)



Costs, Expenses and Earnings

Cost of sales rose ¥18.1 billion to ¥420.6 billion, due to higher prices of items procured. Gross profit fell 6.1%, to ¥96.7 billion, and the gross profit margin dropped 1.7 percentage points to 18.7%. Selling, general and administrative (SG&A) expenses rose 2.2% to ¥100.6 billion along with the increase in net sales, but the ratio of SG&A expenses remained unchanged from the previous fiscal year at 19.5%. As a result, operating income fell ¥8.5 billion to a loss of ¥3.9 billion.

In non-operating items, net financial expenses were ¥0.6 billion, slightly above the level in the previous year. Key positive factors in other income and expenses included an increase of ¥0.5 billion from a decline in the loss on disposals of property, plant and equipment, a ¥0.3 billion decline in write-down of investment securities and a ¥0.7 billion gain on transfer of the substitutional portion of the social welfare pension insurance scheme. Major negative factors included a ¥0.8 billion increase in loss on sales of property, plant and equipment, a decline of ¥0.7 billion in equity in earnings of affiliates, a ¥1.8 billion loss on the impairment of fixed assets, and the absence of insurance income of ¥1.8 billion recorded in the previous fiscal year. As a result, the company recorded other expenses, net, of ¥0.4 billion, representing a deterioration of ¥3.5 billion from the previous year.

Income before income taxes and minority interests declined ¥12.0 billion to a loss of ¥4.3 billion. Net income deteriorated ¥13.2 billion to a loss of ¥8.4 billion. As a result, the company recorded a net loss per share of ¥40.17.

Financial Condition

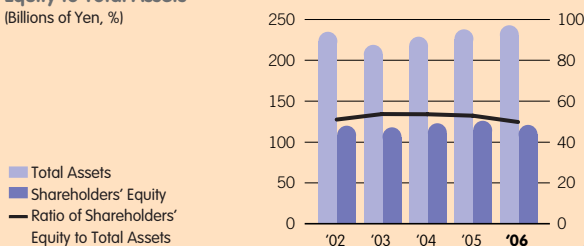
Total assets as of March 31, 2006 totaled ¥243.1 billion, ¥5.2 billion higher than at the end of the previous year.

Current assets fell ¥5.7 billion to ¥123.2 billion. This was chiefly attributable to a ¥7.1 billion rise in inventories due to the higher price of items procured, while cash and time deposits declined ¥9.8 billion, trade notes and accounts receivable fell ¥1.7 billion, and deferred tax assets decreased ¥1.2 billion.

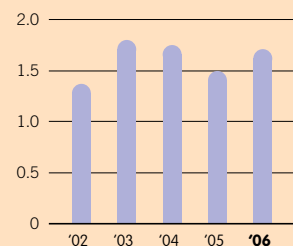
Capital investments totaled ¥9.2 billion, reflecting investments to improve production capacity at existing plants and to construct new plants. Property, plant and equipment at the fiscal year-end totaled ¥68.8 billion, an increase of ¥0.9 billion from a year earlier.

Investments and other assets increased ¥10.0 billion to ¥49.6 billion. This primarily reflected a combined increase in the investment account of ¥7.9 billion due to higher stock prices compared with the end of the previous fiscal year, and a ¥1.6 billion increase in deferred tax assets.

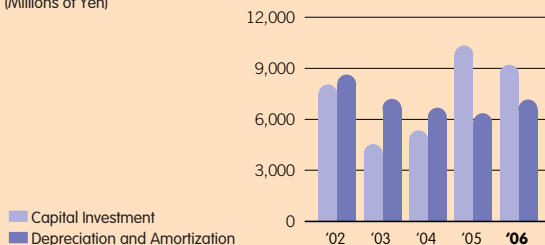
Total Assets, Shareholders' Equity, Ratio of Shareholders' Equity to Total Assets
(Billions of Yen, %)



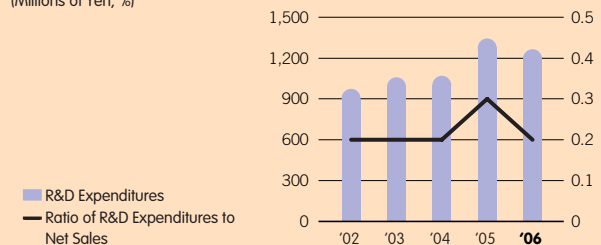
Current Ratio
(Times)



Capital Investment, Depreciation and Amortization
(Millions of Yen)



R&D Expenditures, Ratio of R&D Expenditures to Net Sales
(Millions of Yen, %)



Under liabilities, minority interests and shareholders' equity, current liabilities declined ¥14.5 billion to ¥72.1 billion. The major factors were a ¥3.3 billion decline in notes and accounts payable, a ¥10.1 billion reduction in long-term debt due within one year due to the redemption of bonds, and a ¥0.8 billion decrease in income taxes payable.

Long-term liabilities rose ¥24.2 billion to ¥49.1 billion, mainly reflecting an ¥18.8 billion rise in long-term debt due after one year due to the issuance of ¥10.0 billion in corporate bonds and increased borrowing, and a ¥6.0 billion increase in deferred tax liabilities.

Shareholders' equity declined ¥4.7 billion, to ¥121.1 billion. The primary factors were a ¥10.0 billion reduction in retained earnings due to the posting of a net loss for the year, a ¥3.9 billion increase in net unrealized holding gains on securities, and a ¥1.5 billion increase in foreign currency translation adjustments. The ratio of shareholders' equity to total assets was 49.8% and the current ratio was 1.71.

Cash Flows

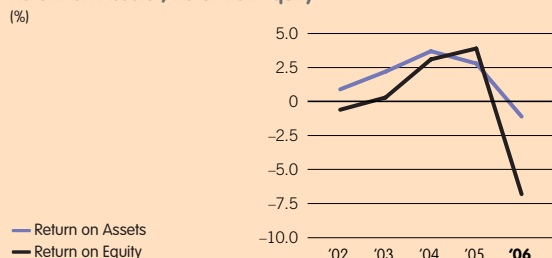
Cash and cash equivalents at the end of the year stood at ¥14.3 billion, ¥9.8 billion lower than a year earlier. While notes and accounts receivable decreased and notes and accounts payable increased, this was outweighed by cash used for the acquisition of property, plant and equipment and an increase in inventories.

Net cash used in operating activities was ¥2.8 billion, compared with ¥3.8 billion provided in the previous period. The main positive factors were depreciation and amortization of ¥7.2 billion, a non-cash item, decrease in notes and accounts receivable of ¥1.3 billion, and increase in notes and accounts payable of ¥1.2 billion. The major negative factors were losses of ¥4.3 billion in income before income taxes and minority interests, an increase in inventories of ¥6.5 billion, and equity in earnings of affiliates of ¥1.0 billion.

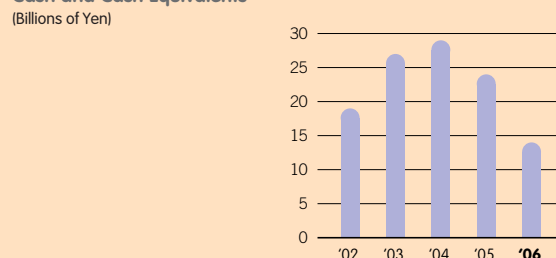
Net cash used in investing activities was ¥12.8 billion, against ¥5.4 billion used in the previous period. This mainly reflected cash outflows of ¥12.7 billion for acquisitions of property, plant and equipment to expand production at existing factories.

Net cash provided by financing activities was ¥5.7 billion, against net cash used of ¥3.0 billion in the previous period. The major factors were a net increase in short-term borrowings and long-term debt of ¥7.1 billion, and dividends paid of ¥1.7 billion.

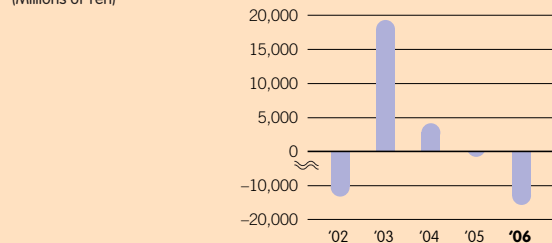
Return on Assets*, Return on Equity



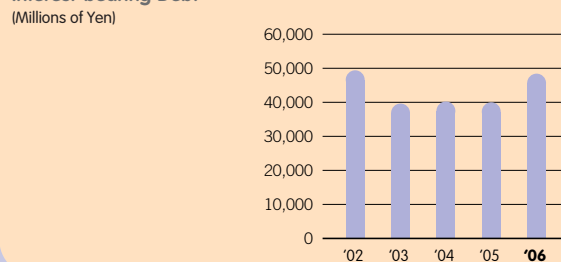
Cash and Cash Equivalents



Free Cash Flows



Interest-bearing Debt



* Return on assets is calculated by dividing ordinary income (loss), as recorded in the Japanese-language Consolidated Statements of Operations, by the average of total assets at the start and end of the fiscal year.

Consolidated Balance Sheets

ITOHAM FOODS INC. and Consolidated Subsidiaries—March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and time deposits (Notes 3,8)	¥ 14,467	¥ 24,299	\$ 123,155
Notes and accounts receivables:			
Trade	50,322	52,018	428,382
Other	97	149	826
Allowance for doubtful receivables	(356)	(418)	(3,031)
	50,063	51,749	426,177
Inventories (Note 5)	55,968	48,837	476,445
Deferred tax assets (Note 13)	623	1,773	5,303
Other current assets	2,102	2,310	17,894
Total current assets	123,223	128,968	1,048,974
Property, plant and equipment:			
Land (Note 6,8)	21,196	22,022	180,437
Buildings and structures (Note 6,8)	68,218	66,646	580,727
Machinery and equipment (Note 6)	94,411	90,041	803,703
Livestock	181	172	1,541
Construction in progress	95	257	809
	184,101	179,138	1,567,217
Accumulated depreciation	(115,318)	(111,304)	(981,680)
	68,783	67,834	585,537
Intangible assets	1,433	1,476	12,199
Investments and other assets:			
Investments in securities:			
Affiliates	10,789	9,347	91,845
Other (Notes 4,8)	23,872	17,371	203,218
Long-term receivables	2,834	2,574	24,125
Deferred tax assets (Note 13)	2,130	549	18,132
Other	11,632	10,889	99,021
Allowance for doubtful receivables	(1,646)	(1,142)	(14,012)
	49,611	39,588	422,329
	¥ 243,050	¥ 237,866	\$2,069,039

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

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term borrowings (Note 7)	¥ 8,943	¥ 9,198	\$ 76,130
Long-term debt due within one year (Note 7)	1,091	11,194	9,287
Notes and accounts payable:			
Trade	43,879	42,656	373,534
Construction	1,179	4,703	10,037
Other	10,575	11,566	90,023
	55,633	58,925	473,594
Accrued expenses	4,666	4,713	39,721
Income taxes payable	500	1,308	4,256
Deferred tax liabilities (Note 13)	8	45	68
Other	1,304	1,240	11,101
Total current liabilities	72,145	86,623	614,157
Long-term liabilities:			
Long-term debt due after one year (Note 7)	38,387	19,618	326,781
Employees' severance and retirement benefits (Note 9)	1,532	2,057	13,042
Directors' and statutory auditors' retirement benefits	894	802	7,610
Deferred tax liabilities (Note 13)	8,229	2,267	70,052
Other long-term liabilities	52	180	443
Total long-term liabilities	49,094	24,924	417,928
Contingent liabilities (Note 10)			
Minority interests	663	475	5,644
Shareholders' equity (Note 14):			
Common stock:			
Authorized—342,013,000			
Issued—210,482,533	22,415	22,415	190,815
Capital surplus	24,021	24,021	204,486
Retained earnings	65,473	75,511	557,359
Net unrealized holding gains on securities	9,047	5,149	77,015
Foreign currency translation adjustments	979	(474)	8,334
Treasury stock, at cost, 2,126,823 shares in 2006 (2,107,534 shares in 2005)	(787)	(778)	(6,699)
Total shareholders' equity	121,148	125,844	1,031,310
	¥243,050	¥237,866	\$2,069,039

Consolidated Statements of Operations

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales	¥517,275	¥505,461	\$4,403,465
Cost and expenses:			
Cost of sales	420,571	402,429	3,580,242
Selling, general and administrative expenses	100,641	98,431	856,738
Operating income (loss)	(3,937)	4,601	(33,515)
Other income (expenses):			
Interest and dividend income	325	308	2,767
Interest expense	(916)	(919)	(7,798)
Gain on sales of investments in securities, net	45	85	383
Gain (loss) on sales of property, plant and equipment	(26)	799	(221)
Loss on disposals of property, plant and equipment	(592)	(1,045)	(5,040)
Gain on transfer of substitutional portion of social welfare pension insurance scheme (Note 9)	679	—	5,780
Write-down of investment securities	(31)	(289)	(264)
Equity in earnings of affiliates	1,032	1,705	8,785
Insurance income	—	1,775	—
Provision for doubtful receivables	(22)	(230)	(187)
Impairment losses on fixed assets (Note 6)	(1,792)	—	(15,255)
Other, net	927	919	7,892
	(371)	3,108	(3,158)
Income (loss) before income taxes and minority interests	(4,308)	7,709	(36,673)
Provision for income taxes (Note 13)			
Current	1,151	1,034	9,799
Deferred	2,859	1,748	24,338
Minority interests	(53)	(55)	(451)
Net income (loss)	¥ (8,371)	¥ 4,872	\$ (71,261)
		Yen	U.S. dollars
Net income (loss) per share	¥ (40.17)	¥ 23.38	\$ (0.342)
Dividends per share	4.00	8.00	0.034

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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$190,815
Balance at end of year	¥22,415	¥22,415	\$190,815
Capital surplus:			
Balance at beginning of year	¥24,021	¥24,021	\$204,486
Balance at end of year	¥24,021	¥24,021	\$204,486
Retained earnings:			
Balance at beginning of year	¥75,511	¥72,306	\$642,811
Net income (loss) for the year	(8,371)	4,872	(71,261)
Cash dividends paid	(1,667)	(1,667)	(14,191)
Balance at end of year	¥65,473	¥75,511	\$557,359
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 5,149	¥ 5,870	\$ 43,832
Increase (decrease) for the year	3,898	(721)	33,183
Balance at end of year	¥ 9,047	¥ 5,149	\$ 77,015
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (474)	¥ (919)	\$ (4,035)
Net increase	1,453	445	12,369
Balance at end of year	¥ 979	¥ (474)	\$ 8,334
Treasury stock, at cost:			
Balance at beginning of year	¥ (778)	¥ (763)	\$ (6,623)
Purchase of treasury stock	(9)	(15)	(76)
Balance at end of year	¥ (787)	¥ (778)	\$ (6,699)
Number of shares of common stock issued:	2006	2005	
At beginning of year	210,482,533	210,482,533	
At end of year	210,482,533	210,482,533	

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

Consolidated Statements of Cash Flows

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (4,308)	¥ 7,709	\$ (36,673)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,166	6,363	61,003
Impairment losses on fixed assets	1,792	—	15,255
Decrease in employees' severance and retirement benefits	(524)	(435)	(4,461)
Increase (decrease) in allowance for doubtful receivables	439	(448)	3,737
Interest and dividend income	(325)	(308)	(2,767)
Interest expense	916	919	7,798
Equity in earnings of affiliates	(1,032)	(1,705)	(8,785)
Write-down of investments in securities	31	289	264
Loss (gain) on sales of property, plant and equipment	26	(799)	221
Loss on disposals of property, plant and equipment	394	914	3,354
Decrease (increase) in notes and accounts receivable	1,345	(1,856)	11,450
Increase in inventories	(6,517)	(6,485)	(55,478)
Increase in notes and accounts payable	1,187	4,517	10,105
Decrease in accrued consumption taxes	(22)	(420)	(187)
Insurance income	—	(1,775)	—
Other, net	(1,237)	(2,877)	(10,531)
	(669)	3,603	(5,695)
Interest and dividends received	690	496	5,874
Interest paid	(919)	(914)	(7,823)
Insurance received	—	2,115	—
Income taxes paid	(2,174)	(1,834)	(18,507)
Income taxes refunded	251	338	2,136
Net cash provided by (used in) operating activities	(2,821)	3,804	(24,015)
Cash flows from investing activities:			
Investments in time deposits	(120)	(209)	(1,022)
Proceeds from time deposits	205	329	1,745
Acquisitions of property, plant and equipment	(12,740)	(6,585)	(108,453)
Proceeds from sale of property, plant and equipment	573	2,013	4,878
Acquisitions of intangible assets	(337)	(376)	(2,869)
Payments for purchase of investment securities	(93)	(836)	(792)
Proceeds from sale of investment securities	194	810	1,652
Payment for purchase of investments in subsidiaries	(331)	—	(2,818)
Disbursement of loans receivable	(1,825)	(1,552)	(15,536)
Collection of loans receivable	1,618	1,143	13,774
Other, net	23	(91)	196
Net cash used in investing activities	(12,833)	(5,354)	(109,245)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(1,269)	609	(10,803)
Proceeds from long-term debt	9,780	360	83,255
Repayments of long-term debt	(1,381)	(2,229)	(11,756)
Proceeds from issuance of bonds	10,100	—	85,979
Redemption of bonds	(10,010)	—	(85,213)
Proceeds from minority shareholders of consolidated subsidiaries	135	—	1,149
Payments for purchase of treasury stock	(9)	(15)	(76)
Dividends paid	(1,668)	(1,667)	(14,199)
Dividends paid to minority shareholders of consolidated subsidiaries	(8)	(8)	(68)
Net cash provided by (used in) financing activities	5,670	(2,950)	48,268
Effect of exchange rate changes on cash and cash equivalents	228	(21)	1,941
Net decrease in cash and cash equivalents	(9,756)	(4,521)	(83,051)
Cash and cash equivalents at beginning of year	24,098	28,619	205,142
Cash and cash equivalents at end of year (Note 3)	¥ 14,342	¥24,098	\$ 122,091

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

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant subsidiaries, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

Eight 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. 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 sales of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

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

If the market value of held-to-maturity debt securities, 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 securities 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.

(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.

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted "Accounting standards for impairment of fixed assets" ("Opinion on Establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council Deliberation of Japan on August 9, 2002) and the guidance on accounting standards for impairment of fixed assets (the "Financial Accounting Standard Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the accounting standards and the guidance, loss before income taxes and minority interests for the year ended March 31, 2006 increased by ¥1,792 million (\$15,255 thousand) compared to what would have been reported under the previous accounting standards.

Accumulated impairment losses are deducted from book values of related fixed assets.

(8) 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 non-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 subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

(9) 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.

(10) 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 ¥1,265 million (\$10,769 thousand) and ¥1,344 million for the years ended March 31, 2006 and 2005, respectively, are charged to income in the period incurred.

(11) Finance leases

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

(12) Income taxes

Deferred income taxes are recorded to reflect tax effects of loss carryforwards and 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.

(13) Foreign currency translation

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

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.

(14) 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.

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, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits on the consolidated balance sheets	¥14,467	¥24,299	\$123,155
Time deposits with maturities exceeding 3 months	(125)	(201)	(1,064)
Cash and cash equivalents on the consolidated statements of cash flows	¥14,342	¥24,098	\$122,091

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2006 and 2005:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Book value	¥100	¥300	\$851
Fair value	100	301	851
Difference	¥ 0	¥ 1	\$ 0

Securities with available market values not exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Book value	¥200	¥—	\$1,703
Fair value	199	—	1,694
Difference	¥ (1)	¥—	\$ (9)

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

Securities with book values (market values) exceeding acquisition cost

March 31, 2006	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥6,611	¥21,962	¥15,351	\$56,278	\$186,958	\$130,680

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

March 31, 2006	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 267	¥ 227	¥ (40)	\$ 2,273	\$ 1,932	\$ (341)

Securities with book values (market values) exceeding acquisition cost

March 31, 2005	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 6,413	¥ 15,239	¥ 8,826

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

March 31, 2005	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 512	¥ 427	¥ (85)

B. The following tables summarize book values of securities with no available market values as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Available-for-sale securities			
Non-listed equity securities	¥1,190	1,236	\$10,131
Other	193	169	1,643

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2006 and 2005 mature as follows:

	Within one year	Within five years
March 31, 2006	Millions of yen	
Government bonds	¥—	¥300
Corporate bonds	—	10
Total	¥—	¥310
March 31, 2006	Thousands of U.S. dollars	
Government bonds	\$—	\$2,554
Corporate bonds	—	85
Total	\$—	\$2,639
March 31, 2005	Millions of yen	
Government bonds	¥—	¥300
Corporate bonds	—	10
Total	¥—	¥310

D. Total sales of available-for-sale securities in the years ended March 31, 2006 and 2005 amounted to ¥166 million (\$1,413 thousand) and ¥268 million and the related gains amounted to ¥45 million (\$383 thousand) and ¥85 million, respectively.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products			
and resale inventories	¥34,752	¥33,037	\$295,837
Raw materials and cattle	21,216	15,800	180,608
	¥55,968	¥48,837	\$476,445

6. IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries recognized impairment losses for the following groups of fixed assets in the year ended March 31, 2006.

Location	Use	Type of assets
Tokyo Metropolitan	Restaurant	Buildings and structures, Machinery and equipment, Other
Okayama Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Kagoshima Prefecture	Idle Land	Land

For the purpose of identifying fixed assets that are impaired, the Company and its consolidated subsidiaries grouped their fixed assets primarily on a division-by-division basis and put rented and idle assets in an independent category.

The Companies reduced the book values to the recoverable values and recognized the reduction in values as impairment losses, which consisted of ¥452 million (\$3,848 thousand) in Land, ¥1,117 million (\$9,509 thousand) in Buildings and structures and ¥180 million (\$1,532 thousand) in Machinery and equipment.

The recoverable values of fixed assets were measured on the basis of either the present values of expected future cash flows for the remaining useful lives discounted by 6%, or their net selling price based primarily on the road rating evaluated by the National Tax Agency.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are generally represented by unsecured notes, with average interest rates of 5.28% and 4.74% at March 31, 2006 and 2005, respectively. Such borrowings are generally renewable at maturity.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Secured:			
Banks, 0.900% – 2.750%, maturing serially through 2012	¥ 1,175	¥ 1,418	\$ 10,003
Unsecured:			
Banks, 0.710% – 4.170%, maturing serially through 2015	23,213	14,393	197,607
2.175% bonds due 2005	—	10,000	—
2.11% bonds due 2008	5,000	5,000	42,564
0.65% bonds due 2010	90	—	766
1.15% bonds due 2012	10,000	—	85,128
	39,478	30,811	336,068
Less amounts due within one year	1,091	11,193	9,287
	¥38,387	¥19,618	\$326,781

The aggregate annual maturities of long-term debt outstanding at March 31, 2006 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,091	\$ 9,287
2008	11,027	93,871
2009	5,930	50,481
2010	967	8,232
2011 and thereafter	20,463	174,197
	<u>¥39,478</u>	<u>\$336,068</u>

The Companies have overdraft contracts and credit commitments with seven banks and two insurance companies with unused credit available to the Companies at March 31, 2006 of ¥23,360 million (\$198,859 thousand).

8. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings of ¥524 million (\$4,461 thousand) and secured long-term debt at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 503	\$ 4,282
Buildings and structures net of accumulated depreciation	2,295	19,537

Time deposits of ¥120 million (\$1,022 thousand) and investments in securities of ¥300 million (\$2,554 thousand) were pledged for transaction guarantees and gift certificates of ¥101 million (\$860 thousand) at March 31, 2006.

9. 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, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ 34,819	¥ 33,030	\$ 296,408
Unrecognized actuarial differences	(5,047)	(11,594)	(42,964)
Unrecognized prior service costs	4,112	4,411	35,005
Fair value of pension assets	(35,697)	(26,515)	(303,882)
Prepaid pension costs	3,345	2,725	28,475
Employees' severance and retirement benefits	<u>¥ 1,532</u>	<u>¥ 2,057</u>	<u>\$ 13,042</u>

Included in the consolidated statements of operations for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs – benefits earned during the year	¥1,844	¥1,753	\$15,698
Interest cost on projected benefit obligation	659	724	5,610
Expected return on plan assets	(795)	(763)	(6,768)
Amortization of actuarial differences	974	942	8,291
Amortization of prior service costs	(295)	(63)	(2,511)
Severance and retirement benefit expenses	2,387	2,593	20,320
Gain on transfer of substitutional portion of social welfare pension insurance scheme	(679)	–	(5,780)
Total	<u>¥1,708</u>	<u>¥2,593</u>	<u>\$14,540</u>

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

• Return of the substitutional portion of Social Welfare Pension Insurance On July 13, 2004, the Company and certain consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to transfer of the substitutional portion of the benefit obligation and related pension plan assets funded in previous years, and on June 24, 2005, transferred the related portion of the liability reserve to the Japanese government.

As a result, the Company and certain consolidated subsidiaries recognized a gain of ¥679 million (\$5,780 thousand) for the year ended March 31, 2006 which was the difference between the estimated amount of transfer and the actual balance transferred.

10. CONTINGENT LIABILITIES

At March 31, 2006 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥ 860	\$ 7,321
Other companies	2,001	17,034
	<u>¥2,861</u>	<u>\$24,355</u>

11. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries enter into forward currency exchange contracts to manage risk relating to market fluctuations affecting its importing activities. It is the Company's general policy not to use derivatives for speculation.

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

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

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

The following is a summary of the only derivative contract which does not meet the criteria for hedge accounting under Japanese GAAP. The net changes in market value are recorded in the consolidated statements of operations for the years ended March 31, 2006 and 2005.

Forward currency exchange transactions

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Purchase U.S. dollars			
Contracted amount	¥315	¥ 538	\$2,682
(Over one year)	—	(316)	—
Current market amount	349	530	2,971
Unrealized gains (losses)	¥ 34	¥ (8)	\$ 289

12. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2006 and 2005 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Machinery and equipment	Other	Total	Total
March 31, 2006				
Original lease obligation (including finance charges)	¥9,450	¥1,362	¥10,812	\$92,041
Payments remaining:				
Payments due within one year		¥ 1,807	¥1,807	\$15,383
Payments due after one year		2,584	2,584	21,997
Total		¥ 4,391	¥4,391	\$37,380

	Millions of yen		
	Machinery and equipment	Other	Total
March 31, 2005			
Original lease obligation (including finance charges)	¥9,976	¥1,424	¥11,400
Payments remaining:			
Payments due within one year			¥ 1,856
Payments due after one year			3,522
Total			¥ 5,378

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2006 and 2005 were ¥2,014 million (\$17,145 thousand) and ¥1,968 million, respectively.

13. INCOME TAXES

Significant components of the Company and its consolidated subsidiaries's deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful receivables	¥ 548	¥ 241	\$ 4,665
Bonuses accrued	1,118	1,183	9,517
Enterprise taxes	115	124	979
Directors' retirement benefits	355	331	3,022
Write-down of investments in securities	688	617	5,857
Write-down of property, plant and equipment	1,547	903	13,169
Employees' severance and retirement benefits	2,252	1,663	19,171
Loss carryforwards	2,028	1,797	17,264
Other	636	997	5,414
	9,287	7,856	79,058
Less valuation allowance	(6,492)	(1,733)	(55,265)
Total deferred tax assets	2,795	6,123	23,793
Deferred tax liabilities:			
Deferred gains on property, plant and equipment	(1,955)	(2,305)	(16,643)
Net unrealized holding gains on securities	(6,243)	(3,585)	(53,146)
Other	(81)	(223)	(689)
Total deferred tax liabilities	(8,279)	(6,113)	(70,478)
Net deferred tax assets (liabilities)	¥(5,484)	¥ 10	\$ (46,685)

A reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2005 is as follows:

No figures are shown for 2006 as a net loss was recorded.

	2005
Statutory tax rate	41.1%
Non-deductible expenses	6.0
Non-taxable dividend income	(0.7)
Inhabitants' per capita taxes	2.0
Equity in earnings of affiliates	(9.1)
Less valuation allowance	(8.6)
Other	5.4
Effective income tax rate	36.1%

14. SHAREHOLDERS' EQUITY

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

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

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

15. SEGMENT INFORMATION

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

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

The overseas sales for the years ended March 31, 2006 and 2005 were less than 10% of consolidated net sales.

16. RELATED PARTY TRANSACTIONS

The Company had transactions with Toei Shoji Co., Inc. which directly owns 4.8% of the equity of the Company during the years ended March 31, 2006 and 2005.

Principle transactions between the Company and Toei Shoji Co., Inc. for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2005
Insurance premium paid	¥267	¥203
		\$2,273

17. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 28, 2006, the appropriation of the Company's retained earnings for the year ended March 31, 2006 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥4.00 per share)	¥833	\$7,091

Independent Auditors' Report

To the Board of Directors of
ITOHAM FOODS INC.

We have audited the accompanying consolidated balance sheets of ITOHAM FOODS INC. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOHAM FOODS INC. and subsidiaries as of March 31, 2006 and 2005, 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.

Without qualifying our opinion, we draw attention to the following.

As discussed in Note 6 to the consolidated financial statements, in the year ended March 31, 2006, ITOHAM FOODS INC. and its consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 28, 2006

KPMG AZSA & Co.

Itoham Corporate History

1928	Forerunner of Itoham founded as a private food processing enterprise in Osaka
1934	Develops sausages packaged in cellophane
1946	Food processing company established as a limited partnership in Kobe
1947	Develops and begins mass production of pressed ham
1948	Restructures and becomes a public company
1958	Begins the development of ham and sausage products using mutton Becomes first in the industry to import mutton raw ingredients (3,000 tons)
1959	Establishes the Meguro Plant in Tokyo
1960	Establishes the Nishinomiya Plant in Hyogo Prefecture
1961	Changes company name to Ito Ham Provisions Co., Ltd. Lists on the Second Section of the Tokyo and Osaka stock exchanges, and on the Kobe stock exchange (closed October 1967)
1962	Establishes the Toyohashi Plant in Aichi Prefecture
1967	Itoham shares moved to the First Section of the Tokyo and Osaka stock exchanges Establishes the Kyushu Plant in Saga Prefecture Launches an independent cold chain logistics system with the introduction of refrigerated delivery vehicles
1968	Establishes the Tokyo Plant in Kashiwa, Chiba Prefecture
1970	Participates in the Japan World Exposition
1974	Establishes Ito Cariani Sausage Company, Inc. (now Itoham America, Inc.) in San Francisco Launches <i>Palky</i> , a skinless wiener product
1979	Launches <i>Cheese-In</i> , a wiener product with a cheese center
1981	Establishes the Ito Foundation and the Ito Cultural Foundation
1983	Launches a new corporate symbol
1984	Changes company name to Itoham Foods Inc.
1985	Begins sales of the <i>Bayern</i> brand of wieners Establishes Itoham Foods (Australia) Pty. Ltd.
1988	Launches <i>Pork Bits</i> , a wiener product
1989	<i>Pork Bits</i> win a Nikkei Superior Products and Services Award
1990	Sets up the Itoham Central Research Institute in Ibaraki Prefecture
1993	Launches a roast beef product prepared using <i>Sous Vide</i> vacuum sealing and cooking technology
1994	Brings the Rokko Logistics Center on line in Kobe
1997	Opens the Alt-Ito Building in Tokyo as the company's base in the metropolitan area
1998	Launches the <i>Alt Bayern</i> wiener line, which meets Specific Japanese Agricultural Standard (JAS) regulations for cured meat products
1999	<i>Alt Bayern</i> wins a Nikkei Superior Products and Services Award
2001	Signs a Corporate Marketing Partnership agreement with Universal Studios Japan™ <i>Cheese-In</i> wins the Minister for Education, Culture, Sports, Science and Technology Prize
2003	Launches the <i>La Pizza</i> series of real Napoli pizzas
2004	<i>Pole Wiener</i> wins the Long Seller Prize awarded by the Japan Food Journal
2005	The <i>La Pizza</i> series wins the Japan Food Journal's Outstanding Product Prize Establishes the Kobe Plant in Kobe

Corporate Data

Company Name

ITOHAM FOODS INC.

Address

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

Tel

0798-66-1231

Homepage

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

Common Stock

¥22,415 million

Number of Employees

5,493 (Consolidated)

Consolidated Subsidiaries

42

Equity-method Affiliates

12

Major Office and Plants

Tokyo Office
Nishinomiya Plant
Tokyo Plant
Toyohashi Plant
Kyushu Plant

Major Domestic Subsidiaries

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

Major Overseas Subsidiaries

Itoham America, Inc.
American Peptide Company, Inc.
Itoham Foods (Australia) Pty. Ltd.

(As of March 31, 2006)

Board of Directors

Chairman

Kenichi Ito

President

Chikara Kasai

Directors

Shinichi Yamada ^{*1}
Takashi Ninomiya ^{*1}
Toshiyuki Fujiyama ^{*1}
Satoru Hirayama ^{*1}
Minoru Nose ^{*2}
Shingo Iwamoto ^{*2}
Ryuuichi Miyagawa ^{*2}
Kazumi Ihara ^{*2}

^{*1} Managing Executive Officer

^{*2} Executive Officer

Standing Auditors

Takao Kobayashi
Ryo Matsuoka

Auditors

Kenichiro Kensho
Shinobu Okamoto

Executive Officers (Excluding current directors)

Yoshitaka Tanaka
Takashi Takechi
Takashi Ishii
Toshio Fujiwara
Shiro Ito
Hideo Mori
Yutaka Shishido
Yoshinobu Nakame
Hiroaki Ikeuchi
Hiromu Fukuyama
Kouichi Ito

(As of July 1, 2006)

Stock Information

Shares

Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533

Number of shareholders 37,843

Shareholder coupon system:

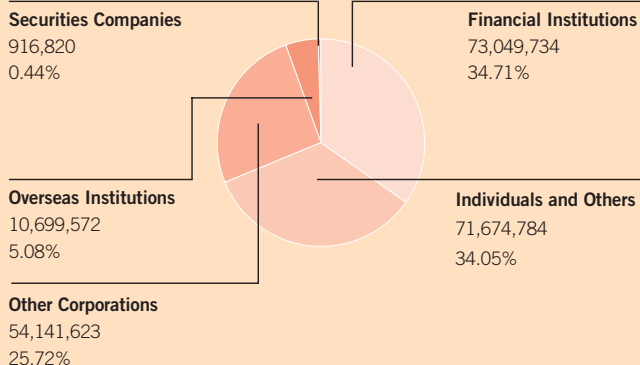
1. Qualification Shareholders with 1,000 or more shares
2. Coupon amount Itoham products worth ¥5,000

Major Shareholders

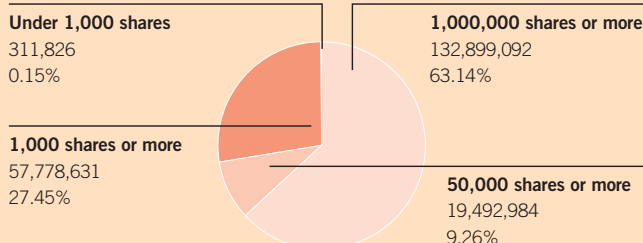
	Number of Shares Held (thousands of shares)	Percentage of Total (%)*
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,109	6.3
The Ito Foundation	12,000	5.8
Japan Trustee Services Bank, Ltd. (Trust Account)	10,646	5.1
Toei Shoji Co., Inc.	10,005	4.8
Kenichi Ito	8,251	4.0
Mitsubishi Corporation	7,656	3.7
Marubeni Corporation	7,099	3.4

*Ratio of voting rights

Breakdown of Shareholders by Type



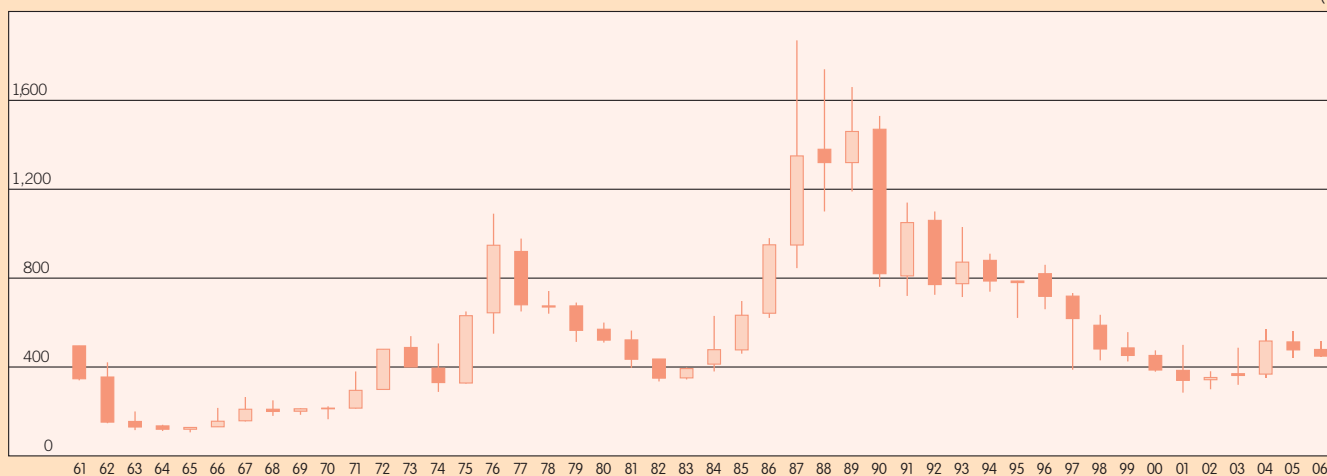
Breakdown of Shareholders by Size of Holding



(As of March 31, 2006)

Common Stock Price Range

(¥)



Calendar year		96	97	98	99	00	01	02	03	04	05	06
Itoham Common Stock (¥)	High	860	733	635	557	495	500	381	487	573	565	518
	Low	660	388	430	425	379	285	300	320	356	445	447
Trading Volume (thousands of shares)		37,741	42,862	37,830	62,290	78,006	90,433	56,636	88,391	114,589	167,511	44,021

Note: The figures for the 2006 calendar year only are for the 3-month period from January 2006 through March 2006.



ITO HAM FOODS INC.

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