

ITO HAM FOODS INC.

Annual Report 2008

Full of Smiles





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)
	2004	2005	2006	2007	2008	2008
Net sales	¥492,661	¥505,461	¥517,275	¥504,349	¥517,951	\$5,169,688
Cost of sales	386,664	402,429	420,571	404,803	415,427	4,146,392
Selling, general and administrative expenses	98,682	98,431	100,641	96,602	96,417	962,342
Operating income (loss)	7,315	4,601	(3,937)	2,944	6,107	60,954
Other income (expenses)	(539)	3,108	(371)	(1,995)	(695)	(6,937)
Income (loss) before income taxes and minority interests	6,776	7,709	(4,308)	949	5,412	54,017
Provision for income taxes						
Current	2,425	1,034	1,151	1,274	2,340	23,355
Deferred	587	1,748	2,859	1,028	(1,388)	(13,854)
Minority interests	(67)	(55)	(53)	(33)	(64)	(639)
Net income (loss)	3,697	4,872	(8,371)	(1,386)	4,396	43,877
Net income (loss) per share (in yen and U.S. dollars)	17.59	23.38	(40.17)	(6.65)	21.10	0.211
Total assets	229,400	237,866	243,050	244,804	233,667	2,332,239
Net assets (Note 3)	122,930	125,844	121,148	118,575	118,556	1,183,312
Ratio of equity to total assets (Note 3)	53.59%	52.91%	49.84%	48.16%	50.51%	
Net assets per share (in yen and U.S. dollars, Note 3)	589.86	603.93	581.45	565.87	566.59	5.66
Return on assets (Note 2)	3.7%	2.8%	(1.1)%	1.6%	2.9%	
Return on equity (Note 3)	3.1%	3.9%	(6.8)%	(1.2)%	3.7%	
Cash dividends	1,667	1,668	834	834	1,042	10,400
Payout ratio	45.1%	34.2%	—	—	23.7%	
Cash flows from operating activities	9,108	3,804	(2,821)	17,746	13,221	131,959
Cash flows from investing activities	(4,853)	(5,354)	(12,833)	(2,271)	(1,264)	(12,616)
Cash flows from financing activities	(2,281)	(2,950)	5,670	(2,619)	(7,357)	(73,430)
Cash and cash equivalents at end of year	28,619	24,098	14,342	27,288	31,962	319,014

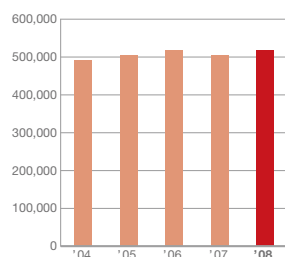
Notes 1: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥100.19=US\$1.00, the rate prevailing on March 31, 2008.

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.

3: Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No. 5" issued by the Accounting Standards Board of Japan on December 9, 2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("the Financial Accounting Standard Implementation Guidance No. 8" issued by the Accounting Standards Board of Japan on December 9, 2005).

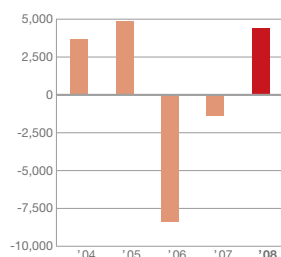
Net Sales

(Millions of yen)



Net Income (Loss)

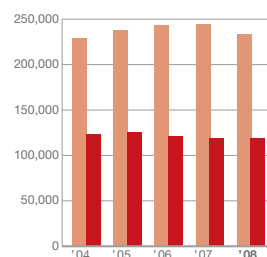
(Millions of yen)



Net Assets and Total Assets

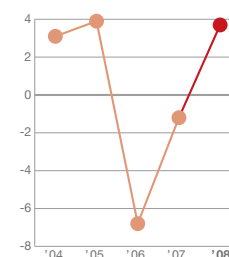
(Millions of yen)

■ Net Assets
■ Total Assets



Return on Equity

(%)



The Itoham Group is aiming to increase corporate value over the long term. To this end, our basic policy is to engage in Company-wide efforts to be a lively and attractive company, one that also contributes to society.

Company Policy

"Service to Society Through Business"

Mission

The Itoham Group will communicate the joy, fun and importance of "food" as the foundation of a healthy lifestyle through the provision of products and services imbuing value.

Management Stance

- We practice rigorous compliance (adherence to corporate ethics) and highly transparent management, aiming to be a company trusted by society.
- We will deliver safe and reliable products to customers.
- We will conduct corporate activities in an environmentally responsible manner.
- We believe that employees are an important asset of a company and therefore aim to create a lively and challenging workplace that emphasizes ability and results.

Code of Conduct

- We conduct activities in observance with all laws and ordinances and corporate regulations, and with a social conscience.
- We conduct free and vigorous discussions and implement decisions immediately, seeing them through to the end.
- We act voluntarily and constantly embrace new ideas without being constrained by convention.
- We practice the principle of individual responsibility based on an enduring spirit of being strong, ethical and reliable.

Contents

2 Message from the President	16 CSR Activities	26 Consolidated Statements of Cash Flows
6 Itoham Group New Medium-term Management Plan	17 Corporate Governance	27 Notes to Consolidated Financial Statements
8 Itoham Corporate History	20 Financial Review	35 Independent Auditors' Report
10 Review of Operations	22 Consolidated Balance Sheets	36 Corporate Data
10 Ham and Sausage Division	24 Consolidated Statements of Operations	37 Stock Information
12 Fresh Meat Division	25 Consolidated Statements of Changes in Net Assets	
14 Processed Foods and Other Products Division		



Chikara Kasai
President

Fiscal 2008 Business Results

In fiscal 2008, the fiscal year ended March 31, 2008, the Japanese economy continued to expand gradually, led by strong capital investment in an environment of strong corporate performance and increasing exports. However, the jump in crude oil prices and fears of a downturn in the U.S. economy created an atmosphere of deepening uncertainty in the second half of the fiscal year. Furthermore, on the personal consumption side, the effect of declining stock prices and low wage growth, as well as other factors such as increasing costs for daily necessities meant that consumer confidence was increasingly cautious. As a result, overall economic growth remained weak.


In our industry, on the one hand we are facing intensifying sales competition. On the other, a global tightening of food supplies and rising raw material and other expenses as a result of soaring crude oil prices added further pressure to profits in the continuing severe environment. Furthermore, consumer awareness of food safety is rising as a result of related incidents and consumers are increasingly seeking products that combine safety, reliability and quality.

In this climate, the Group focused on achieving the targets outlined in the Itoham Group Revitalization Plan, launched in September 2006. All Group companies joined forces to strengthen core operations by enacting structural reforms centered on increasing profitability and decreasing costs. Furthermore, as raw material prices continue to rise in the midst of the continuing harsh environment, we acted to maintain the high quality of Itoham's products by implementing price increases of between 5% to 15% (7% on average) for ham, sausage and processed food products, effective from the end of October 2007.

As a result, consolidated net sales rose 2.7% to ¥517,951 million, an increase of ¥13,602 million compared with the previous fiscal year, thanks to a 2.7% increase in net sales in the Ham and Sausage Division year on year, and a 3.8% increase in net sales in the Fresh Meat Division. In addition to the higher sales in the Ham and Sausage, and Fresh Meat divisions,

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.



For the last two years we have taken measures to lead the Company to a recovery. I am pleased to announce that as of the end of the fiscal year under review, we have achieved all of the management targets outlined in the plan.

profitability improved in ham, sausage and processed food products, resulting in an increase in gross profit of ¥2,978 million, or 3.0%, to ¥102,524 million. Selling, general and administrative (SG&A) expenses decreased ¥185 million, contributing to a jump in operating income of ¥3,163 million, or 107.5%, to ¥6,107 million. In other expenses, the Group recorded much lower restructuring expenses compared to the previous fiscal year due to the implementation of the Revitalization Plan. As a result, income before income taxes and minority interests was ¥5,412 million, an increase of ¥4,463 million from the previous fiscal


year. The Group recorded net income for the year of ¥4,396 million (following a net loss of ¥1,386 million the previous year) as a result of Itoham recording deferred tax assets.

The year ended March 31, 2008 marked the final year of the Itoham Group Revitalization Plan. In fiscal 2006, Itoham found itself deep in the red and facing a critical management situation. For the last two years we have taken measures to lead the Company to a recovery. I am pleased to announce that as of the end of the fiscal year under review, we have achieved all of the management targets outlined in the plan.

April 2008 marked our 80th anniversary. In recognition of our shareholders' continuous support, Itoham has decided to pay a commemorative dividend of ¥1 per share applicable to fiscal 2008. As a result, the total dividend for the fiscal year ending March 31, 2008 will be set at ¥5 per share, made up of an ordinary dividend of ¥4 per share and the ¥1 per share commemorative dividend.

Outlook for Fiscal 2009

In fiscal 2009, increasing demand from high-growth, resource-rich nations and developing countries is expected to continue driving up prices for food and mineral resources. As a result, we are expecting an increasingly severe environment for procurement of the Group's raw materials. Furthermore, we have seen an increase in consumer awareness of issues related to food safety, reliability and quality, particularly as a result of incidents related to the safety of food products produced in China. In addition, companies are increasingly required to act more responsibly in areas such as disclosure of corporate information and environmental awareness. In the face of a range of ongoing issues like this, the operating environment surrounding the Group is expected to continue to be severe.



In addition to thanking all of our customers, business partners, shareholders and other stakeholders for their support, we will seize the major opportunity presented by this situation to review our business operations and push forward to achieve the targets laid out in the new plan.

In this operating environment, the Group completed its Revitalization Plan, successfully managing to extricate itself from a critical situation and make management more robust. In April 2008 we started anew, having formulated our next medium-term management plan, scheduled to end in fiscal 2011. The Itoham Group's new medium-term management plan revolves around two key themes: bolstering earnings power and laying the foundations for growth. We are working resolutely to establish competitive edges in core businesses, actively develop business in growth fields and enhance man-

agement quality. Furthermore, fiscal 2009, the first year of the new medium-term management plan, also marks an auspicious occasion, the 80th anniversary of Itoham's foundation. In addition to thanking all of our customers, business partners, shareholders and other stakeholders for their support, we will seize the major opportunity presented by this situation to review our business operations and push forward to achieve the targets laid out in the new plan.

Ham and Sausage Division

In the Ham and Sausage Division, our focus is on improving earnings power. To this end, we will strengthen core products such as *Alt Bayern* wieners and our *Morning Fresh* series, while working to establish new products in the market and expand sales. We are also strengthening the organization of individual sales channels. We will continue to push ahead with establishing a low cost framework by reducing the number of product items and reforming our business locations.

In production, the circumstances surrounding raw materials continue to be harsh. However, we will strive to reduce costs, rigorously reinforcing cost control by reevaluating the raw materials we use and improving yield rates. Furthermore, we will ensure thorough quality control to supply consumers with food products offering the high levels of safety they demand, in addition to proactively seeking to reduce our impact on the environment.

Fresh Meat Division

In the Fresh Meat Division, we aim to increase sales of Japanese regional beef, Japanese regional pork and other outstanding domestic meat brands. We will also work to expand alliances with cooperating farms and increase the number of livestock to cater to a resurgence of demand for domestic produce. For imported meat, our livestock operations in Australia are expected to continue to face harsh conditions. However, we will continue to focus on improving profitability by establishing sales and production strategies appropriate to current conditions. Furthermore, we will continue to enhance profitability in the Fresh Meat Division through organizational rationalization and continued pursuit of cost reductions in areas such as distribution and storage.

Processed Foods and Other Products Division

In Processed Foods, the squeeze on profits is expected to get tighter due to a jump in cheese and flour prices. In response to this, we will work harder to lower production costs, while at the same time strengthening sales promotion activities and focusing on promotion of major products such as chilled pizzas, hamburgers and prepared dishes. In order to strengthen our position in the “ready-to-eat meals” and restaurant markets, we will expand overseas procurement facilities and work to deliver high quality products at low prices.

In Other Products, we will continue the measures begun in the Revitalization Plan to withdraw from and reduce non-core or unprofitable businesses and actively develop businesses in areas with strong potential for realizing synergies.

In the fiscal year ending March 31, 2009 we are expecting consolidated net sales of ¥528.0 billion (up 1.9% year on year), operating income of ¥6.2 billion (up 1.5% year on year), and net income of ¥4.0 billion (down 9.0% year on year).

Furthermore, the total year-end dividend for fiscal 2009 is expected to be the same as the current period, ¥5 per share ordinary dividend.

Chikara Kasai
President

河 西 力

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.

Itoham Group New Medium-term Management Plan

The Itoham Group made a concerted, group-wide effort from September 2006 to the end of March 2008 under the Itoham Group Revitalization Plan to rapidly extricate the Group from a critical management situation. This plan sought to make management more robust and help the Group recover its former strength.

In the year ended March 31, 2008, the Itoham Group achieved the final-year targets of its Revitalization Plan.

2008 is the 80th anniversary of Itoham's foundation. To mark this auspicious occasion, we have decided to set our sights on more growth with renewed determination and to establish a resilient operating base.

We have laid out our intentions in a newly formulated Itoham Group Medium-term Management Plan, covering a 3-year period beginning in April this year. The new plan has two key themes: bolstering earnings power and laying the foundations for growth. With these themes as our beacon, we will engage in efforts to establish competitive edges in core businesses, actively develop business in growth fields and enhance management quality.

Management Vision

1. We aim to be a company known for its high-quality management

We will strive to remain a permanent part of the business landscape with compliance (adherence to corporate ethics) as our management touchstone and by properly practicing corporate governance. At the same time, we will promote activities that contribute to society and with consideration for the environment.

2. We aim to maximize corporate value through continuous earnings growth

We will strengthen our fresh meat, ham and sausage, and processed foods businesses, centered on meat products, as well as step up efforts in growth fields where we expect to

capture synergies. At the same time, we will expand sales channels in overseas markets in pursuit of new growth. Furthermore, we will promote low-cost management to build an earnings structure that is less susceptible to the external operating environment.

3. We aim to create a lively corporate culture elevated by a spirit of challenge

We will emphasize speed and the elimination of wasteful practices in managing the company via an organization that is functional and efficient. We will also promote the development and upskilling of our people and foster a lively corporate culture by moving people around the organization.

Business Strategies

Ham and Sausages Business

In sales activity, Itoham is determined to capture the number-one share in consumer products by upgrading its product development and marketing capabilities. And in order to improve our ability to respond to market needs, we will restructure our sales organization

to create systems for each sales channel. Developing a sales base network that doesn't carry stock to reduce costs is another initiative planned. In production, we plan to rebuild our domestic production network and establish a global procurement framework.

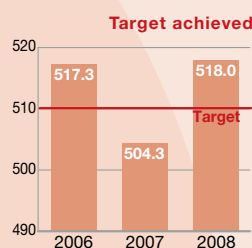
Revitalization Plan Results

Strategy and Priority Policies Improvements

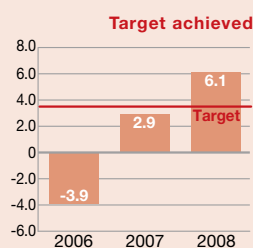
- Reduce costs ¥6.8 billion
- Improve profitability of the ham and sausage and the processed foods business ¥1.9 billion
- Concentrate on core businesses ¥0.7 billion
- Secure free cash flow ¥27.4 billion

Earnings Trends

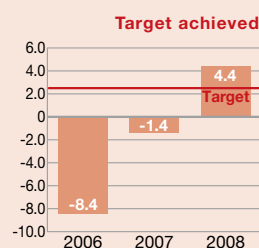
Net sales (billions of yen)



Operating income (loss) (billions of yen)



Net income (loss) (billions of yen)



Processed Foods Business

In sales activities, Itoham aims to be the number-one supplier through timeliness in developing products and by bolstering its sales promotion capability via enhanced specialization in the foodservice channel. In production, we plan to improve our cost competitiveness by building an optimal system for supplying products. As part of this process, Itoham plans to increase overseas procurement bases and utilize partner factories in Japan to build an optimal system.

Management Initiatives

Restructuring of Production Bases

To build an optimal production base network in the ham and sausage and the processed foods business, Itoham will reconfigure domestic production bases.

The first step in this process will see Itoham construct a New Kanto Factory (tentative name) with the view to restructuring production bases in Eastern Japan. Construction of the new factory is slated to start in fiscal 2011, with operations to begin in fiscal 2013.

In the future, the Company envisages having one core plant each in Eastern and Western Japan, with satellite plants complementing these two main sites to meet needs across the length and breadth of Japan.

Organizational Restructuring

In the past, production and sales functions have been organizationally separated in the ham and sausage and the processed foods business, but now Itoham intends to integrate these functions. The new organization will be structured along product lines, enabling the Company to maximize earnings by managing them comprehensively from production through sales businesses. This

Fresh Meat Business

Itoham will expand alliances with cooperating farms to cater to a resurgence of demand for domestic produce, and, at the same time, raise cost competitiveness in the fresh meat business by reviewing unprofitable factories and integrating sales bases.

Overseas, we plan to reform our business model for producing Itoham brand beef. We will build a production system that can cope with expanded sales overseas, evolving from one that has in the past focused on the Japanese market. In this way, Itoham hopes to grow earnings.

should also lead to faster product development that takes into account the consumers' viewpoint more than ever. The same integrated approach will drive our expansion in overseas markets, which we see as a growth area going forward.

Overseas Strategy

In light of the mature nature of the Japanese market, Itoham is eyeing overseas markets as a new sales channel for its businesses. Itoham is currently selling ham and sausages in Beijing and Shanghai, but now has plans to progressively extend its reach beyond these two cities to other cities in China. The ASEAN region is also in the Company's sights, with initial plans calling for retail sales in department stores and supermarkets in Bangkok, Thailand.

In the fresh meat business, Itoham will expand its sales network for Itoham brand beef overseas. Further expansion is planned for Australia and the Company will develop sales channels elsewhere, too, in South Korea, the U.S., China and Thailand, for example. The Company aims as well to grow wagyu Japanese beef export volumes, mainly to the U.S., Canada and Hong Kong.

Targets

(millions of yen)

	Year ended March 31, 2008	Year ending March 31, 2011 (Target)	3-year average growth rate
Net sales	517,951	550,000	2.0%
Operating income	6,107	10,000	17.9%
Net income	4,396	5,500	7.8%
Ratio of operating income to net sales	1.2%	1.8%	—

Sales Targets by Business

(millions of yen)

	Year ended March 31, 2008	Year ending March 31, 2011 (Target)	3-year average growth rate
Ham and sausage	128,236	137,000	2.2%
Processed foods	75,222	81,000	2.5%
Fresh meat	277,457	297,000	2.3%
Other products	37,036	35,000	-1.9%
Total	517,951	550,000	2.0%

Itoham Celebrates 80 Years of Products Launch of Commemorative Collection



Itoham will celebrate its 80th anniversary in 2008 by revamping some of the flagship products our customers have come to know and love over the years. Selecting the best of the best from our entire history of developing and refining products, we have released new tastier and easy-to-use versions, and designs featuring our 80th anniversary logo.

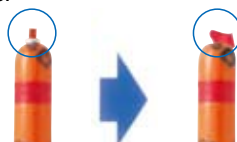
1. Alt Bayern Wieners

In order to strongly impress upon customers the fact that *Alt Bayern* wieners are made with the smoky aroma of woodchips from 100% Japanese wild cherry trees, the 80th anniversary packaging emphasizes this fact. Furthermore, we have decreased the size of the packaging materials to promote waste reduction.



2. Pole Wieners

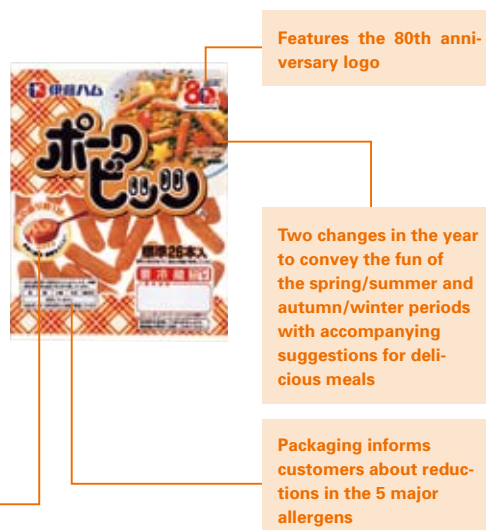
The sausages we now call *Pole Wieners* were first sold in 1934 as sausages packaged in cellophane. Under Denzo Ito, Itoham's founder, they were repositioned as a core product for Itoham. After World War II, in the winter of 1945, the sausages were re-released as *Pole Wieners*, and even today are a highly popular product, especially in the Kansai region. With the new packaging, Itoham has replaced the metal clips used to close off the sausage with sealing tape that is environmentally friendly and safe.



- Elimination of metal clips helps make packaging environmentally friendly and easier to sort for recycling
- Greater peace of mind with non-metal packaging

3. Pork Bits

Pork Bits, which celebrate their 20th anniversary this year, have been revamped as a next generation product with reduction of the 5 major allergens as standard. The design has also been updated to better convey the product message that they only take a minute to heat through and are handy for making any number of meals.



4. The Sawayaka Pack Series

We have created a new package design that conveys the freshness that is the distinguishing feature of the *Sawayaka Pack* series of products.



Features the words "The 80th Anniversary of Itoham"

5. The Kobe Series

The *Kobe* series of products takes its name from Kobe, Japan, the birthplace of Itoham, and was launched in 1998 for Itoham's 70th anniversary. The series has been strengthened further with the launch of *Pastrami Loin Ham*.

1928

Forerunner of Itoham founded as a private food processing enterprise in Osaka

1934

Develops sausages packaged in cellophane (now known as *Pole Wieners*)



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

1968

Establishes the Tokyo Plant in Kashiwa, Chiba Prefecture

1970

Participates in the Japan World Exposition

1974

Launches *Palky*, a skinless wiener product

1979

Launches *Cheese-In*, a wiener product with a cheese center

1983

Launches a new corporate symbol



1984

Changes company name to Itoham Foods Inc.

1985

Begins sales of the *Bayern* brand of wieners

1988

Launches *Pork Bits*, a wiener product



1989

Pork Bits win a Nikkei Superior Products and Services Award

1997

Opens the Alt-Ito Building as the company's base in the Tokyo metropolitan area

1998

Launches the *Alt Bayern* wiener line, which meets Specific Japanese Agricultural Standard (JAS) regulations for cured meat products



1999

Alt Bayern wins a Nikkei Superior Products and Services Award

2001

Cheese-In wins the Minister for Education, Culture, Sports, Science and Technology Prize

2003

Launches the *La Pizza* series of real Napoli pizzas

2004

Pole Wiener wins the Long Seller Prize awarded by the Japan Food Journal

2005

The *La Pizza* series wins the Japan Food Journal's Outstanding Product Prize

2008

Itoham celebrates 80th anniversary

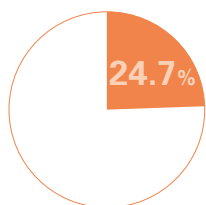


Ham and Sausage Division

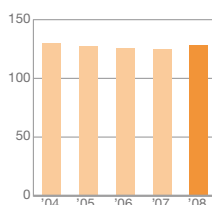
The Ham and Sausage Division produces and markets ham, sausage, and bacon products. We leverage Itoham's proven technologies and proprietary development capabilities to the utmost in order to develop and market products to satisfy customer needs. In production activities, the division employs a high-level quality assurance system underpinned by strict hygiene control standards. Our marketing objective is to capture the leading share in each of our product categories through marketing that is focused on our core products. In the gift products category, we have a product lineup that has won the trust of our customers.



Sales Composition



Net Sales (billions of yen)



Five-year review and business results

This division has maintained its focus on growth of market share by concentrating marketing efforts on core products such as *Alt Bayern* and *Morning Fresh*. Sales growth, however, has continued to lag over the past several years due to the maturation of the market and more intense competition. During the fiscal year ended March 31, 2008 (fiscal 2008), division net sales rose due to our second consecutive year of product price increases, implemented in response to rising raw material prices. Sales also reflected growth in the ham and sausage market from February 2008 in response to food product poisoning incidents from products made in China.



ALT BAYERN



MORNING FRESH SERIES OF LOIN HAM



HOJYUN

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. They are complemented by a range of other sausage products including *Pork Bits*, popular for children's lunchboxes as they take only one minute to heat through, *Cheese-In*, which was awarded the 42nd Minister of Education, Culture, Sports, Science and Technology Prize in 2001, and *Pole Wiener*,

which was awarded the 22nd Long Seller Prize in 2003 by the Japan Food Journal.

Our popular sliced pack products include the *Sawayaka Thin-Slice Pack* series, which can be used in a wide variety of dishes, and the *Morning Fresh* series that contribute to a good breakfast on busy mornings.

In our gift products category, core brands such as *Densho no Aji*, *Houjyun*, and *Roast Beef* have also performed well.

Highlights

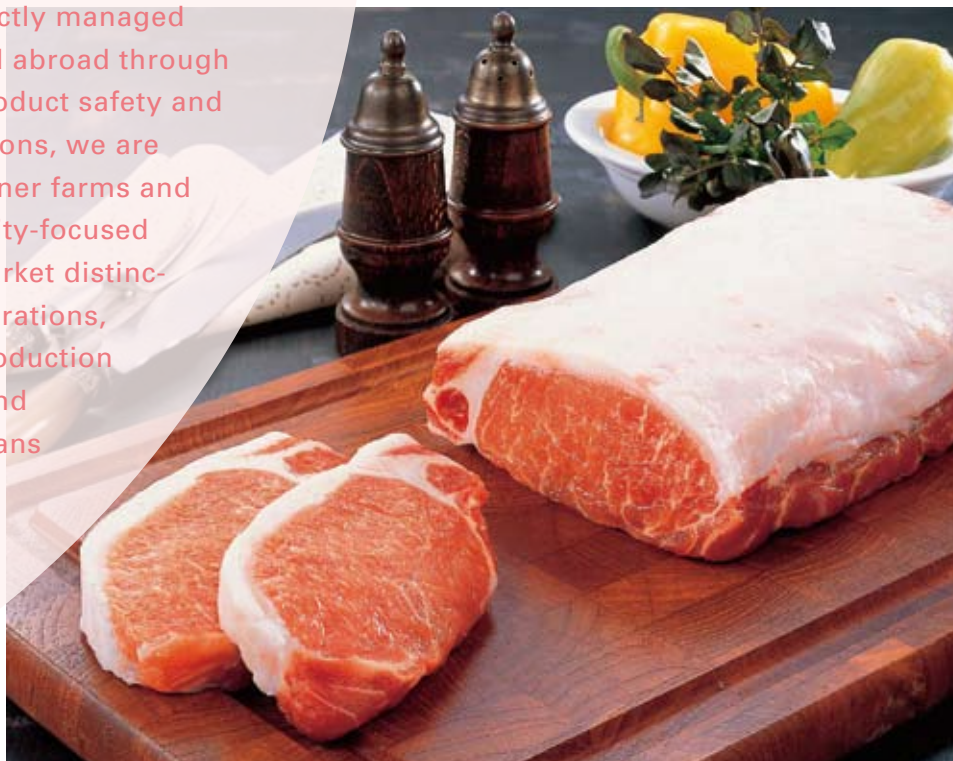
Itoham's *Prime Recipe Emblem* series focuses on aroma, flavor, and texture

Amid growth in the market for premium food products, Itoham has leveraged to the utmost traditional techniques it has developed over many years in combination with new technologies to create the *Emblem* series. *Emblem* products are made focusing on aroma, flavor, and texture as the building blocks of delicious foods. For example, pork is cured with wood-chips from wild cherry and walnut trees to add a pleasing aroma. By using vegetable juices, the sweetness of the vegetable juice brings out the true flavor of the pork. And by raising the temperature slowly when heating the pork, damage is avoided and the proper texture is maintained. The *Emblem* series consists of three high-end luxury food products: loin ham, smoked ham, and bacon.

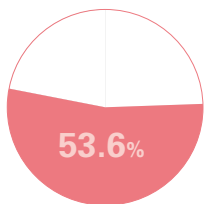


Fresh Meat Division

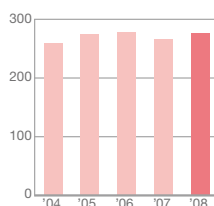
Itoham enforces strict hygiene management standards across all areas of its operations—from the raising of livestock in its own directly managed and contract feedlots at home and abroad through to the final product—to ensure product safety and reliability. In our domestic operations, we are expanding relationships with partner farms and leveraging to the utmost our quality-focused brand strategy to aggressively market distinctive products. In our overseas operations, we are building marketing and production strategies that enable us to respond quickly to market trends. As a means to further improve quality control and safety, Itoham is pursuing ISO 22000 certification and improving our proprietary Traceability System.



Sales Composition



Net Sales (billions of yen)



Five-year review and business results

While this division had increased sales despite a severe business environment by marketing distinctive products, in fiscal 2007, sales declined year on year, as imported meat sales volume decreased due to changes in the global supply/demand balance. In fiscal 2008, however, by catering to a resurgence of demand for domestic produce, the division was able to increase sales by aggressively marketing distinctive high-quality domestic products such as Japanese regional beef, *Berkshire Pork*, and Japanese regional pork. Turning to imported meats, imported beef sales volume declined as Itoham bought less overseas beef as the high price of fodder pushed the price of beef beyond what was acceptable in the domestic market. The domestic market for chicken remained firm due to rising demand, which pushed up prices and acted as a catalyst for sizable sales growth. The above factors combined to result in a recovery in sales.



JAPANESE REGIONAL BEEF



BERKSHIRE PIG



ARIAKE PLANT (Sankyo Meat Co., Ltd.)

Our focus on safety and reliability allows us to deliver high-quality meat produced both in Japan and overseas

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 pigs to supply the Kagoshima Berkshire Pork *Kuro no Takumi* brand at its dedicated feedlot, a facility that boasts state-of-the-art technologies. This brand 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. The pigs are given high-grade feed and fattened over a period of around 240 days. Additionally, Itoham uses a feed

mixture containing 15% or more sweet potato for a period of two months or longer. Adding this high composition of starchy sweet potato to the feed mixture draws out more of the natural taste and richness of Berkshire pork. In the area of beef, in cooperation with our production partners we launched high-quality Japanese regional beef brands.

In our overseas beef production business, we will rebuild our supply business model to focus more on overseas markets, moving away from our traditional focus on the domestic market. In this way, we will look to expand business overseas to adapt to the changing global food environment.

Highlights

Acquisition of ISO 22000 certification for food safety management systems supports Itoham's framework for supplying safe and reliable foods

In this division, Itoham is pursuing ISO 22000 certification, an international standard for food safety management systems. In 2005, Sankyo Meat Co., Ltd., an Itoham Group company, acquired ISO 22000 certification for the feedlot and fresh meat cutting center of its Ariake Plant, becoming the first domestic facility to receive this certification. Sankyo Meat's Kirishima Meat Plant also won ISO 22000 accreditation, as did the Miyagi Meat Center and Tokyo Meat Center of Group company IH Meat Packers, Co., Ltd. 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, Canada, and Hong Kong. With the 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.



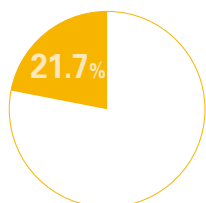
ISO 22000 CERTIFICATE

Processed Foods and Other Products Division

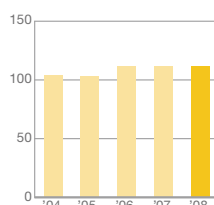
Japan is witnessing the speeding up of societal changes such as a growing percentage of working women, an increasing elderly population, and ever more diverse household schedules. These changes have radically transformed the markets for ready-to-eat meals, restaurant dining, and meals made at home. The Processed Foods division strives to meet a more varied range of customer preferences, with an emphasis on healthy and safe food, easier preparation, smaller portions, and an insistence on more authentic taste among emerging preference trends. 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 chilled pizzas, ham-burgers, prepared dishes and other products. The division also includes the dairy, pharmaceutical, and restaurant businesses.



Sales Composition



Net Sales (billions of yen)



Five-year review and business results

Although sales of the core *La Pizza* series of chilled pizzas have shown steady growth, sales of other items such as prepared dishes have declined due to severe competition in the market, resulting in flat sales in the Processed Foods division.

In the Other Products division, which includes the dairy, pharmaceutical, and restaurant businesses, sales of dairy products and noodles were strong in fiscal 2008, but restaurant sales declined as a result of restaurant closures in the previous fiscal year in line with Itoham Group's Revitalization Plan, resulting in flat sales. As a result, overall division sales remained flat.



LA PIZZA (Margherita)



HAMBURGER



KYOSHO NO SAI SERIES

A product lineup that satisfies a wide range of customers' needs

Itoham has created a range of consumer products that safely preserve the natural flavor of the ingredients. The *Ganso Aburiyaki Chicken* (slow-roasted chicken) series is packaged in a germ-free clean room, eliminating the need for a second sterilization and safely creating a more delicious product. The *Binchotanyaki Shiage Hamburgers* (charcoal-grilled hamburgers) series are gently grilled until they are light brown.

Since its launch in 2003, the authentic *La Pizza* series of chilled pizzas has gained popularity with our customers. When we set out to offer our customers real Napoli pizzas to enjoy easily at home, we paid 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 its immense popularity, in 2005, Itoham's *La Pizza* series won the Outstanding Product Prize in the chilled and frozen foods category at the Hit Food Product Awards sponsored by the Japan Food Journal.

This division also launched the *Kyosho no Sai* series of ready-prepared meals that make it easy to recreate authentic restaurant dishes at home. A group of top chefs and food experts were called on to help develop the series. Among them were renowned master chefs Rokusaburo Michiba and Tei Keirin, masters of Japanese and Chinese cuisine, respectively.

Highlights

Two new products in the *Chicken Sticks* series

In February 2008, Itoham launched a new *Chicken Sticks* series of fried chicken products that can be prepared quickly and simply in a microwave or toaster oven. The series consists of two products, *Crispy & Spicy Chicken Sticks* flavored with delicious black pepper, and *Vegetable Chicken Sticks*, which provide the opportunity to enjoy the delicious texture of carrots and burdock roots. Itoham aims to expand the market for the series by launching products that follow the recent trend in fast food toward spicy and Japanese-style foods.



Quality Assurance Inspections

In order to provide safe and reliable products, Itoham conducts regular objective quality assurance inspections from a third-party standpoint at all Itoham Group production plants, and partner production plants in Japan and overseas. In the case of Itoham Group production plants, after quality assurance inspections are completed, meetings are held with plant managers to discuss problem areas and work is undertaken to address any issues as swiftly as possible.

At partner production plants in Japan and overseas, Itoham looks at over one hundred points before deciding to do business. In addition to providing advice on a regular basis after starting business dealings, Itoham constantly exchanges relevant information in order to create a stronger quality assurance system.

Itoham also carries out regular quality assurance inspections in the distribution division and at direct sales stores. Moving forward, we will work to improve quality by continuously carrying out quality assurance inspections so as to ensure that customers can continue to purchase Itoham products with peace of mind.

Food Labeling Training Courses

Food labeling involves a number of related laws and is therefore a very complex issue. Furthermore, the importance of food labeling has increased amid growing customer interest. Itoham believes it has a responsibility to provide customers with factually correct, easy-to-understand food labels and so conducts in-house food labeling training courses on a regular basis in order to deepen understanding. Itoham also conducts similar training



sessions for partner production plants to which it outsources production, as it works to share information and foster greater understanding of labeling.

Citizenship Activities

As a good corporate citizen, the Itoham Group carries out citizenship activities geared to operating in harmony with the environment and co-existing with local communities. These activities include: promoting environmental conservation efforts including cleanups and forest conservation; supporting the work of UNICEF, mainly through collecting donations; organizing activities to support volunteer work by employees, such as seminars



and an award system; and community-oriented initiatives such as contributing funds to areas afflicted by natural disasters both within Japan and overseas.

Corporate Social Responsibility Report

(Japanese only)

Itoham began publishing an Environmental Report on its environmental activities in 2000. This year's report was the ninth issue. In 2005, the report was renamed the Social and Environmental Report, to reflect the increasing importance of social content. We decided again this year to rename the report the Corporate Social Responsibility Report in order to reflect the full depth of social content and to promote further understanding of Itoham's CSR activities.





Basic Approach to 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.

Business Policy Execution, Auditing and Oversight

I. Board of Directors

The Board of Directors consists of 9 members as of June 26, 2008. 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.

II. Management Executive Committee

Itoham has 15 executive officers as of June 26, 2008, including three that serve concurrently on the Board of Directors. In addition to its regular 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.

III. Corporate Auditors and the Board of Auditors

Itoham has four auditors as of June 26, 2008, 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.

IV. Internal Auditing

Itoham has established an Internal Auditing Section as an organization under the direct jurisdiction of the president, as well as a Quality Assurance Department within the CSR Division. 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. All audits are performed in close consultation with the auditors. The Quality Assurance Department 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.

V. Accounting Audits

Itoham has concluded an auditing contract with the accounting auditor KPMG AZSA & Co. to ensure that impartial and appropriate audits are conducted with respect to compliance with the Japanese Corporate Law and the Japanese Securities and Exchange Law.

VI. Compliance System

Itoham carries out activities, led by the Compliance Promotion Section in the CSR Division, 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 an expert 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 contact for the Compliance Promotion Section, Human Resources Department and external legal counsel for compliance-related advice and consultation.

VII. 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.

Internal Control System: Basic Philosophy and Implementation Status

I. System to ensure that directors' performance of duties is in accordance with laws and regulations and the Company's Articles of Incorporation

(1) The directors work to establish, maintain and enhance an internal control system led by the general manager of the CSR Division. The main entities administering this system are the CSR Committee (chaired by an expert from outside the Company) and the CSR Liaison Committee (comprising the managers of all corporate divisions). As part of the internal control system, the directors have established a system for ensuring compliance, formulating a corporate philosophy and compliance promotion regulations.

(2) The directors work to improve mutual supervision between themselves, and establish a framework to monitor legal compliance in the course of their performance of duties.

(3) In the event that a director becomes aware of any suspected violation within the Company of laws and regulations or the Articles of Incorporation, the director will immediately report the matter to the Board of Directors through the general manager of the CSR Division, based on the judgment of the Crisis Management Committee Chairman.

II. System to store and manage information regarding directors' performance of duties

Information regarding the directors' performance of duties will be stored and managed in accordance with internal information management regulations. This will be done in an appropriate and reliable manner according to the means used to record the information. The Company will ensure that for at least 10 years the information can be searched as required.

III. Internal regulations regarding management of risk of loss and other systems

(1) Itoham acknowledges the following types of risk in relation to the conduct of its business. The Company will assess and manage these risks and establish a management system for each individual risk, to include appointing an officer responsible for such management.

1. Risks related to market and foreign exchange rate fluctuations
2. Risks related to investment in, and continuance of, our businesses
3. Risks related to disasters and disease
4. Risks related to the assurance of product quality

(2) Itoham's risk management system will be founded on the Company's own crisis management policies, and the appointment of officers responsible for the management of individual risks.

Itoham will also put in place a system enabling prompt response to mitigate and/or minimize damage in the event of a major crisis. To this end, the Company will establish a crisis management committee chaired by the company president, also forming a liaison team and an external advisory team comprising lawyers as necessary.

IV. System to ensure that directors perform their duties efficiently

(1) Itoham's system to ensure that directors perform their duties efficiently is founded on regular monthly meetings of the Board of Directors, supplemented by appropriate extraordinary meetings as necessary. Important issues relating to the Company's management policies and strategies will be approved for execution following deliberation by the Board of Directors.

(2) Conduct of business based on decisions of the Board of Directors will be prescribed in the Company's organizational rules and rules relating to division of duties, according to the person concerned, their responsibilities and the details of procedures for execution.

V. System to ensure that employees' performance of duties are in accordance with laws and regulations and the Articles of Incorporation of the Company

(1) The directors are working to establish, maintain and enhance an internal control system led by the general manager of the CSR Division. The main entities administering this system are the CSR Committee (chaired by an expert from outside the Company) and the CSR Liaison Committee (comprising the managers of all corporate divisions).

(2) To establish and maintain a system for ensuring compliance, Itoham put in place a CSR Division and Internal Auditing Section independent of the divisions responsible for business execution. Individual departments will formulate their own internal regulations and guidelines, conducting training as necessary.

(3) As a system for internally reporting violations of laws and regulations or the Articles of Incorporation, the Company will establish an internal reporting system whereby informants can provide information directly to external lawyers, third-party organizations, or other parties. The system will be governed by the internal reporting regulations.

(4) If the auditors find a problem with regard to the Company's systems for compliance or internal reporting, they will be authorized to express their opinions on the matter and request formulation of remedial measures.

VI. System to ensure appropriate business conduct at the parent company and its subsidiaries

(1) To ensure appropriate business conduct at group companies, the Company will draw up a code of conduct to codify behavioral guidelines applicable to all group companies.

(2) With regard to business administration, Itoham will determine a basic policy for management of group companies and supervise the management of subsidiaries in line with the subsidiaries internal regulations, monitoring specific subsidiaries as necessary. The supervision will be by means of a system for reporting to, and seeking approval, from the parent company.

(3) In the event that a director becomes aware of any suspected violation of laws and regulations or the Articles of Incorporation at a group company, the director will immediately report the matter to the Board of Directors through the general manager of the CSR Division, based on the judgment of the Chairman of the Crisis Management Committee.

VII. System regarding personnel requested as assistants by auditors, and their independence from directors

(1) In the event that auditors request personnel to assist in their duties, an employee of the Company will be appointed as an auditor's assistant under the direction of the auditors.

(2) The appointment of auditors' assistants will be determined by the Board of Directors with the consent of the Board of Auditors.

VIII. System for reporting to auditors by directors and employees, and others, and System for ensuring that audits can be conducted effectively

(1) Directors will consult with the Board of Auditors to determine matters to be reported to the auditors. Important matters affecting the Company's operations will be reported to the auditors by directors and employees without delay.

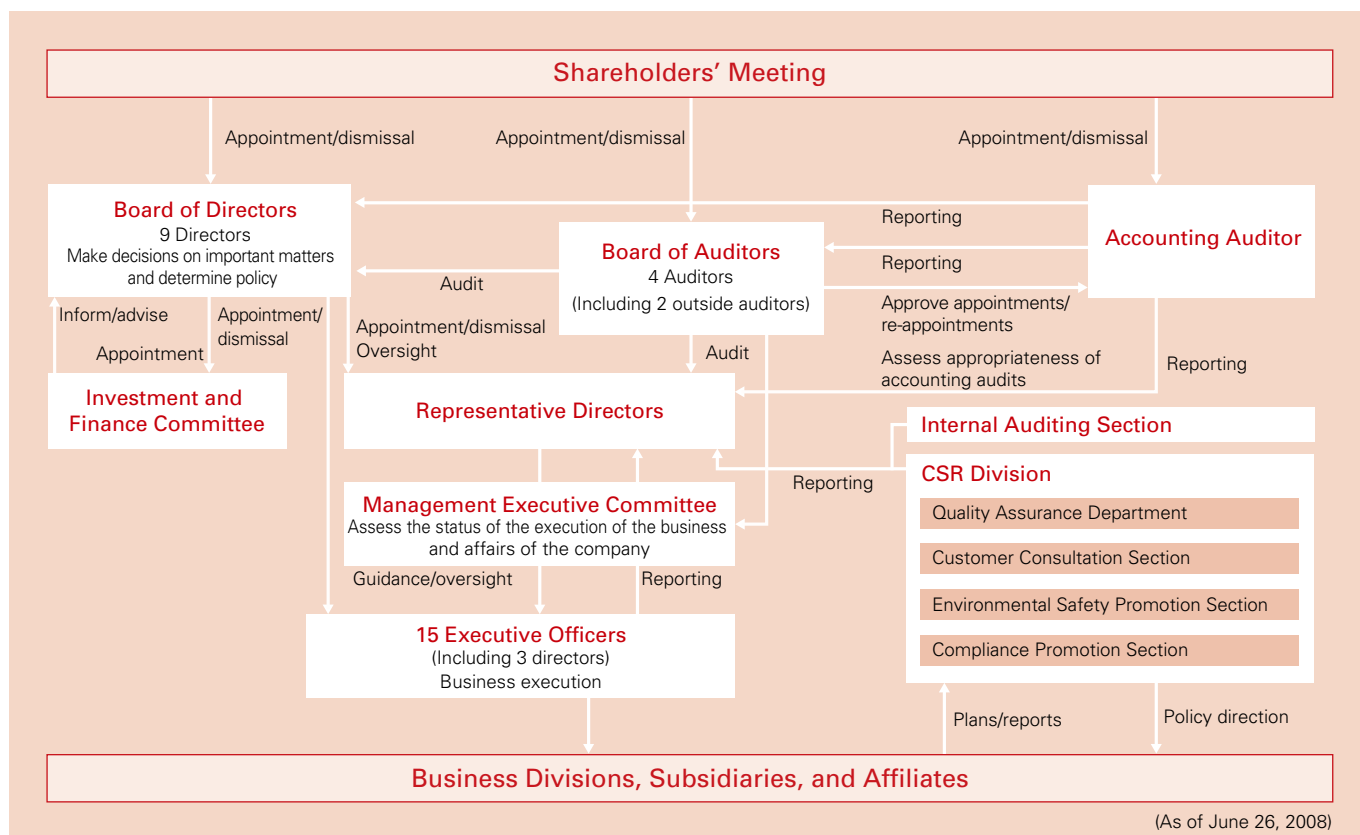
(2) Members of the Board of Auditors will regularly exchange opinions with the representative directors and the accounting auditor, seeking advice from specialist lawyers as necessary.

IX. Basic approach to excluding antisocial elements and current status

Itoham's basic policy is that the parent company and group companies will be decisive in refusing all inappropriate requests from antisocial elements that threaten social order or public safety, and will under no circumstances associate with these groups.

The General Affairs Department is charged with administering measures to deal with antisocial elements. It collaborates with the police's organized crime units, local authority councils on corporate defense measures, and prefectural centers for the elimination of organized crime groups. Such collaboration enables the department to monitor developments with regard to antisocial elements, exchange information and conduct activities to raise awareness of the issue within the Company. Itoham has also prepared a manual for dealing with antisocial elements, and is taking steps to familiarize employees with it. Further, the Company is putting in place systems to deal with whatever situation may arise so that, in the event of an inappropriate request being made, it can collaborate with outside entities as prescribed in the manual to ensure the security of the Company and those associated with it.

Corporate Governance Framework





Financial Review

Net Sales

In fiscal 2008, the fiscal year ended March 31, 2008, the Japanese economy continued to expand gradually, led by strong capital investment in an environment of strong corporate performance and increasing exports. However, the jump in crude oil prices and fears of a downturn in the U.S. economy created an atmosphere of deepening uncertainty in the second half of the fiscal year. Furthermore, on the personal consumption side, the effect of declining stock prices and low wage growth, as well as other factors such as increasing costs for daily necessities meant that consumer confidence was increasingly cautious. As a result, overall economic growth remained weak.

In our industry, on the one hand we are facing intensifying sales competition. On the other, a global tightening of food supplies and rising raw material and other expenses as a result of soaring crude oil prices added further pressure to profits in the continuing severe environment. Furthermore, consumer awareness of food safety is rising as a result of related incidents and consumers are increasingly seeking products that combine safety, reliability and quality.

In this climate, the Group focused on achieving the targets outlined in the Itoham Group Revitalization Plan, launched in September 2006. All Group companies joined forces to strengthen core operations by enacting structural reforms centered on increasing profitability and decreasing costs. Furthermore, as raw material prices continue to rise in the midst of the continuing harsh environment, we acted to maintain the high quality of Itoham's products by implementing price increases of between 5% to 15% (7% on average) for ham, sausage and processed food products, effective from the end of October 2007.

As a result, consolidated net sales rose 2.7% to ¥518.0 billion.

In the Ham and Sausage Division, Itoham continued to carry out targeted sales activities for core products and focus on expanding our market share.

Furthermore, Itoham continued to raise prices from the end of October 2007 as in the previous year in order to deal with severe increases in raw material prices. This, combined with the effect of incidents related to poisoned food products on sales of products

produced in China, which triggered an increased growth rate in the domestic ham and sausage market, led to a jump in sales. In Gift Products, although the market is contracting and competition is harsh in a severe operating environment, sales were higher year on year. As a result, net sales in the Ham and Sausage Division rose 2.7% to ¥128.2 billion.

In the Fresh Meat Division, as demand intensifies for safety and reliability in the current market environment, we are seeing a resurgence of demand for domestic produce. In the beef market, we greatly increased sales by cooperating with production partners to strengthen production capacity and carried out sales promotions of Japanese regional beef. In the pork market, supply failed to keep up with booming demand. We carried out aggressive sales of *Berkshire Pork* and other Japanese regional pork brands and this led to higher prices and increased sales. Turning to imported meats, imported beef sales volume declined as Itoham bought less overseas beef as the high price of fodder pushed the price of beef beyond what was acceptable in the domestic market. However, net sales jumped as the firm domestic market for imported chicken led to increased demand and higher prices. As a result, division sales rose 3.8% to ¥277.5 billion.

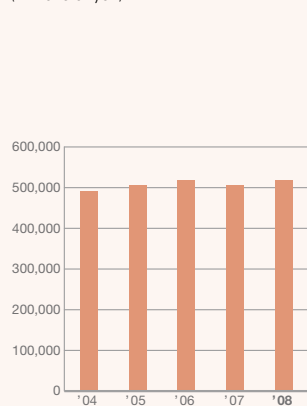
In Processed Foods, Itoham achieved strong sales of core processed food products, such as *La Pizza* and *Chicken Nuggets*. However, sales of prepared dishes decreased. As a result, net sales increased 0.4% to ¥75.2 billion. In Other Products, sales by the dairy, pharmaceutical, restaurant and other businesses decreased 0.7% to ¥37.0 billion. Overall, division sales remained level with the previous fiscal year at ¥112.3 billion.

Costs, Expenses and Earnings

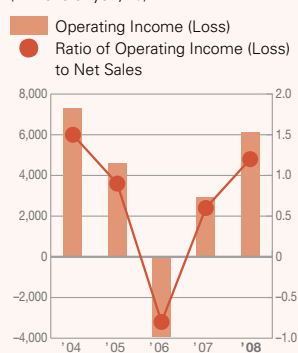
Cost of sales increased ¥10.6 billion to ¥415.4 billion, largely as a result of increased sales in the Ham and Sausage, and Fresh Meat divisions, and improved profitability in the Ham and Sausage, and Processed Foods divisions. Gross profit increased 3.0% to ¥102.5 billion and the gross profit margin rose 0.1 of a percentage point to 19.8%.

Selling, general and administrative (SG&A) expenses decreased

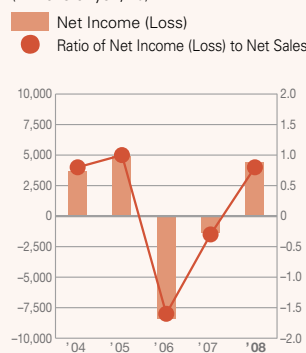
Net Sales
(Millions of yen)



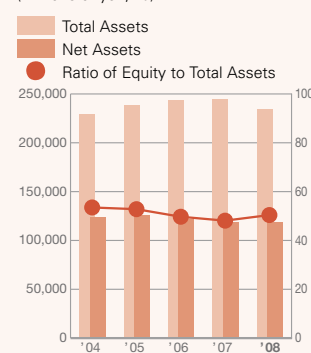
Operating Income (Loss), Ratio of Operating Income (Loss) to Net Sales
(Millions of yen, %)



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



Total Assets, Net Assets², Ratio of Equity to Total Assets²
(Millions of yen, %)



0.2% to ¥96.4 billion, while the ratio of SG&A expenses improved by 0.6 percentage points to 18.6%. As a result, operating income increased ¥3.2 billion to ¥6.1 billion.

In non-operating items, net financial expenses amounted to ¥0.5 billion, an improvement of ¥0.1 billion year on year. Key positive factors in other income and expenses included a gain on sales of investments in securities, net, ¥0.4 billion higher than the previous year, and a year on year increase in income of ¥2.1 billion as a result of decreased restructuring expenses. Major negative factors included a ¥0.5 billion decrease in the gain on sales of property, plant and equipment, and payment of customs tariffs of ¥0.6 billion. Consequently, the company recorded other expenses, net, of ¥0.7 billion, representing an improvement of ¥1.3 billion from the previous year.

Income before income taxes and minority interests increased ¥4.5 billion to ¥5.4 billion. Net income increased ¥5.8 billion to ¥4.4 billion. As a result, the company recorded net income per share of ¥21.10.

Financial Condition

Total assets as of March 31, 2008 totaled ¥233.7 billion, ¥11.1 billion lower than at the end of the previous year.

Current assets decreased ¥1.8 billion to ¥132.5 billion. This was chiefly attributable to a ¥4.6 billion rise in cash and time deposits, as well as a ¥1.7 billion increase in deferred tax assets. Inventories decreased by ¥2.1 billion and trade notes, accounts receivable decreased ¥4.9 billion, and other current assets decreased ¥1.1 billion.

Capital investments totaled ¥4.6 billion, primarily reflecting investments to improve production capacity at existing plants. Property, plant and equipment at the fiscal year-end totaled ¥60.0 billion, a decrease of ¥2.6 billion from a year earlier.

Investments and other assets decreased ¥6.6 billion to ¥40.0 billion. This primarily reflected lower stock prices compared with the previous fiscal year-end, which caused investments in securities to decline by ¥6.5 billion.

Under liabilities and net assets, current liabilities decreased ¥8.2 billion to ¥81.1 billion. The major factors were a ¥5.1 billion decrease

in long-term debt due within one year and a ¥3.8 billion decrease in notes and accounts payable.

Long-term liabilities declined ¥2.9 billion to ¥34.0 billion, mainly reflecting a ¥2.5 billion decrease in deferred tax liabilities.

Net assets were the same as the previous fiscal year at ¥118.6 billion. The primary factors were a ¥3.6 billion increase in retained earnings due to the posting of net income for the year and a ¥3.5 billion decrease in net unrealized holding gains on securities. The ratio of equity to total assets was 50.5% and the current ratio was 1.63.

Cash Flows

Cash and cash equivalents at the end of the year stood at ¥32.0 billion, ¥4.7 billion higher than a year earlier. This was the result of cash inflows from income before income taxes and minority interests, and a decrease in depreciation and amortization, notes and accounts receivable, and inventories. These cash inflows were partially offset by cash outflows due to a decrease in notes and accounts payable, short-term borrowings and long-term debt, and other factors.

Net cash provided by operating activities was ¥13.2 billion, compared with ¥17.7 billion in the previous period. The main positive factors were income before income taxes and minority interests, accompanied by decreases in depreciation and amortization of ¥6.6 billion, notes and accounts receivable of ¥5.7 billion, and inventories of ¥2.3 billion. The major negative factor was a decrease in cash due to a decrease in notes and accounts payable of ¥3.7 billion.

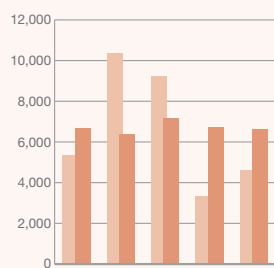
Net cash used in investing activities was ¥1.3 billion, against ¥2.3 billion used in the previous period. Major contributory factors were proceeds from sale of investment securities of ¥1.4 billion, and proceeds from sale of investments in affiliates of ¥0.9 billion. This was offset by cash outflows of ¥3.8 billion for acquisitions of property, plant and equipment to expand production at existing factories.

Net cash used in financing activities was ¥7.4 billion, against ¥2.6 billion used in the previous period. The major factors were a net decrease in short-term borrowings and long-term debt of ¥6.3 billion, and dividends paid of ¥0.8 billion.

Capital Investment, Depreciation and Amortization

(Millions of yen)

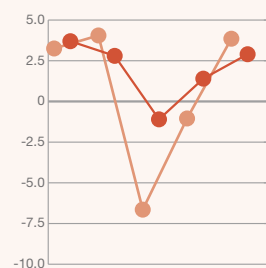
Capital Investment
Depreciation and Amortization



Return on Assets^{*1}, Return on Equity^{*2}

(%)

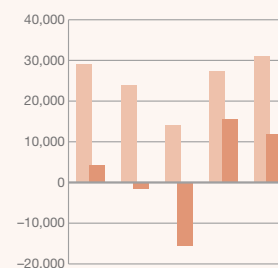
Return on Assets
Return on Equity



Cash and Cash Equivalents, Free Cash Flows

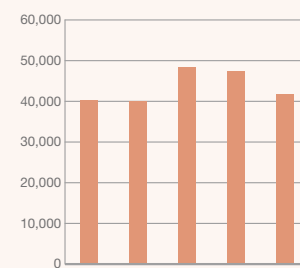
(Millions of yen)

Cash and Cash Equivalents
Free Cash Flows



Interest-bearing Debt

(Millions of yen)



*1 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.

*2 Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Statement No. 5" issued by the Accounting Standards Board of Japan on December 9, 2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("the Financial Accounting Standard Implementation Guidance No. 8" issued by the Accounting Standards Board of Japan on December 9, 2005).



Consolidated Balance Sheets

ITOHAM FOODS INC. and Consolidated Subsidiaries—March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and time deposits (Notes 3, 10)	¥ 32,119	¥ 27,545	\$ 320,581
Marketable securities (Notes 4, 10)	—	300	—
Notes and accounts receivables:			
Trade	50,673	55,585	505,769
Other	133	103	1,328
Allowance for doubtful receivables	(339)	(601)	(3,384)
	50,467	55,087	503,713
Inventories (Note 5)	46,430	48,481	463,420
Deferred tax assets (Note 15)	2,222	527	22,178
Other current assets	1,243	2,357	12,406
Total current assets	132,481	134,297	1,322,298
 Property, plant and equipment:			
Land (Notes 7, 10)	19,757	20,135	197,195
Buildings and structures (Notes 7, 10)	65,603	66,193	654,786
Machinery and equipment (Note 7)	89,839	90,664	896,686
Livestock	135	120	1,348
Construction in progress	439	159	4,382
	175,773	177,271	1,754,397
Accumulated depreciation	(115,725)	(114,595)	(1,155,056)
	60,048	62,676	599,341
 Intangible assets	1,099	1,196	10,969
 Investments and other assets:			
Investments in securities:			
Affiliates	11,009	11,110	109,881
Other (Note 4)	14,841	21,269	148,129
Long-term receivables	3,477	3,115	34,704
Deferred tax assets (Note 15)	636	1,045	6,348
Other	11,960	11,023	119,373
Allowance for doubtful receivables	(1,884)	(927)	(18,804)
	40,039	46,635	399,631
	¥ 233,667	¥ 244,804	\$ 2,332,239

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Current liabilities:			
Short-term borrowings (Note 9)	¥ 8,654	¥ 8,463	\$ 86,376
Long-term debt due within one year (Note 9)	6,078	11,136	60,665
Notes and accounts payable:			
Trade	45,416	48,032	453,299
Construction	1,641	892	16,379
Other	11,686	13,651	116,638
	<u>58,743</u>	<u>62,575</u>	<u>586,316</u>
Accrued expenses	4,332	5,035	43,238
Income taxes payable	2,084	858	20,800
Deferred tax liabilities (Note 15)	4	118	40
Other	<u>1,237</u>	<u>1,151</u>	<u>12,346</u>
Total current liabilities	<u>81,132</u>	<u>89,336</u>	<u>809,781</u>
Long-term liabilities:			
Long-term debt due after one year (Note 9)	26,931	27,669	268,800
Employees' severance and retirement benefits (Note 11)	684	1,099	6,827
Directors' and statutory auditors' retirement benefits	893	782	8,913
Deferred tax liabilities (Note 15)	4,587	7,054	45,783
Other long-term liabilities	<u>884</u>	<u>289</u>	<u>8,823</u>
Total long-term liabilities	<u>33,979</u>	<u>36,893</u>	<u>339,146</u>
Contingent liabilities (Note 12)			
Net assets (Note 16):			
Shareholders' equity:			
Common stock:	22,415	22,415	223,725
Authorized—342,013,000			
Issued—210,482,533			
Capital surplus	24,021	24,021	239,755
Retained earnings	66,815	63,253	666,883
Treasury stock, at cost, 2,161,664 shares in 2008 (2,142,790 shares in 2007)	<u>(805)</u>	<u>(795)</u>	<u>(8,035)</u>
Total shareholders' equity	<u>112,446</u>	<u>108,894</u>	<u>1,122,328</u>
Valuation and translation adjustments:			
Net unrealized holding gains on securities	4,098	7,599	40,902
Net unrealized holding gains (losses) on derivative instruments	(269)	165	(2,685)
Foreign currency translation adjustments	<u>1,757</u>	<u>1,236</u>	<u>17,537</u>
Total valuation and translation adjustments	<u>5,586</u>	<u>9,000</u>	<u>55,754</u>
Minority interests	<u>524</u>	<u>681</u>	<u>5,230</u>
Total net assets	<u>118,556</u>	<u>118,575</u>	<u>1,183,312</u>
	<u>¥233,667</u>	<u>¥244,804</u>	<u>\$2,332,239</u>



Consolidated Statements of Operations

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥517,951	¥504,349	\$5,169,688
Cost and expenses:			
Cost of sales	415,427	404,803	4,146,392
Selling, general and administrative expenses (Note 6)	96,417	96,602	962,342
Operating income	6,107	2,944	60,954
Other income (expenses):			
Interest and dividend income	521	419	5,200
Interest expense	(1,013)	(1,005)	(10,111)
Gain on sales of investments in securities, net	370	5	3,693
Gain on sales of property, plant and equipment	284	766	2,835
Loss on disposals of property, plant and equipment	(839)	(576)	(8,374)
Write-down of investment securities	(149)	(57)	(1,487)
Equity in earnings of affiliates	430	399	4,292
Provision for doubtful receivables	—	(79)	—
Impairment losses on fixed assets (Note 7)	(264)	(362)	(2,635)
Restructuring expenses (Note 8)	(66)	(2,121)	(659)
Payment of customs tariffs	(625)	—	(6,238)
Other, net	656	616	6,547
	(695)	(1,995)	(6,937)
Income before income taxes and minority interests	5,412	949	54,017
Provision for income taxes (Note 15):			
Current	2,340	1,274	23,355
Deferred	(1,388)	1,028	(13,854)
Minority interests	(64)	(33)	(639)
Net income (loss)	¥ 4,396	¥ (1,386)	\$ 43,877
	Yen		U.S. dollars
Net income (loss) per share	¥ 21.10	¥ (6.65)	\$ 0.211
Dividends per share	5.00	4.00	0.050

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



Consolidated Statements of Changes in Net Assets

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$223,725
Balance at end of year	¥22,415	¥22,415	\$223,725
Capital surplus:			
Balance at beginning of year	¥24,021	¥24,021	\$239,755
Balance at end of year	¥24,021	¥24,021	\$239,755
Retained earnings:			
Balance at beginning of year	¥63,253	¥65,473	\$631,330
Net income (loss) for the year	4,396	(1,386)	43,877
Cash dividends paid	(834)	(834)	(8,324)
Balance at end of year	¥66,815	¥63,253	\$666,883
Treasury stock, at cost:			
Balance at beginning of year	¥ (795)	¥ (787)	\$ (7,935)
Purchase of treasury stock	(10)	(8)	(100)
Balance at end of year	¥ (805)	¥ (795)	\$ (8,035)
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 7,599	¥ 9,047	\$ 75,846
Decrease for the year	(3,501)	(1,448)	(34,944)
Balance at end of year	¥ 4,098	¥ 7,599	\$ 40,902
Net unrealized holding gains (losses) on derivative instruments:			
Balance at beginning of year	¥ 165	¥ —	\$ 1,647
Increase (decrease) for the year	(434)	165	(4,332)
Balance at end of year	¥ (269)	¥ 165	\$ (2,685)
Foreign currency translation adjustments:			
Balance at beginning of year	¥ 1,236	¥ 979	\$ 12,337
Net increase	521	257	5,200
Balance at end of year	¥ 1,757	¥ 1,236	\$ 17,537
Minority interests:			
Balance at beginning of year	¥ 681	¥ 663	\$ 6,797
Net increase (decrease)	(157)	18	(1,567)
Balance at end of year	¥ 524	¥ 681	\$ 5,230
Number of shares of common stock issued:		2008	2007
At beginning of year		210,482,533	210,482,533
At end of year		210,482,533	210,482,533

The accompanying notes to the 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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,412	¥ 949	\$ 54,017
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,637	6,728	66,244
Impairment losses on fixed assets	264	362	2,635
Restructuring expenses	8	1,946	80
Decrease in employees' severance and retirement benefits	(415)	(434)	(4,142)
Increase (decrease) in allowance for doubtful receivables	1	(473)	10
Interest and dividend income	(521)	(419)	(5,200)
Interest expense	1,013	1,005	10,111
Equity in earnings of affiliates	(430)	(399)	(4,292)
Write-down of investments in securities	149	57	1,487
Gain on sales of property, plant and equipment	(284)	(766)	(2,835)
Loss on disposals of property, plant and equipment	687	450	6,857
Decrease (increase) in notes and accounts receivable	5,682	(4,620)	56,712
Decrease in inventories	2,342	7,922	23,376
Increase (decrease) in notes and accounts payable	(3,717)	4,124	(37,099)
Increase (decrease) in accrued consumption taxes	(1,381)	1,437	(13,784)
Other, net	(867)	1,392	(8,653)
	14,580	19,261	145,524
Interest and dividends received	836	720	8,344
Interest paid	(1,023)	(1,014)	(10,211)
Income taxes paid	(1,330)	(1,509)	(13,275)
Income taxes refunded	158	288	1,577
Net cash provided by operating activities	13,221	17,746	131,959
Cash flows from investing activities:			
Investments in time deposits	(170)	(251)	(1,697)
Proceeds from time deposits	270	120	2,695
Acquisitions of property, plant and equipment	(3,845)	(3,435)	(38,377)
Proceeds from sale of property, plant and equipment	860	1,982	8,584
Acquisitions of intangible assets	(291)	(192)	(2,905)
Payments for purchase of investment securities	(471)	(321)	(4,701)
Proceeds from sale of investment securities	1,364	30	13,614
Payments for purchase of investments in subsidiaries	(96)	—	(958)
Proceeds from sale of investments in affiliates	906	—	9,043
Disbursement of loans receivable	(2,637)	(2,049)	(26,320)
Collection of loans receivable	2,734	1,721	27,288
Other, net	112	124	1,118
Net cash used in investing activities	(1,264)	(2,271)	(12,616)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(232)	(1,079)	(2,315)
Proceeds from long-term debt	5,450	457	54,397
Repayments of long-term debt	(11,550)	(1,124)	(115,281)
Redemption of bonds	(20)	(20)	(200)
Payments for purchase of treasury stock	(10)	(8)	(100)
Purchase of subsidiaries' stock from minority shareholders	(149)	—	(1,487)
Dividends paid	(834)	(834)	(8,324)
Dividends paid to minority shareholders of consolidated subsidiaries	(12)	(11)	(120)
Net cash used in financing activities	(7,357)	(2,619)	(73,430)
Effect of exchange rate changes on cash and cash equivalents	74	90	738
Net increase in cash and cash equivalents	4,674	12,946	46,651
Cash and cash equivalents at beginning of year	27,288	14,342	272,363
Cash and cash equivalents at end of year (Note 3)	¥ 31,962	¥27,288	\$ 319,014

The accompanying notes to the consolidated financial statements are an integral part of these 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 from 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 from the consolidated financial statements of ITOHAM FOODS INC. (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, 2008, which was ¥100.19 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant subsidiaries (30 domestic and 8 overseas subsidiaries for 2008, 28 domestic and 9 overseas subsidiaries for 2007) 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 (6 domestic and 4 overseas subsidiaries for 2008, 8 domestic and 5 overseas subsidiaries for 2007) 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 the equity in the net assets at date of acquisition is amortized over five years.

(2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investment 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 change 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 the 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, the 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 the 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 the 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 of the asset. 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.

Estimated useful lives of the assets are as follows:

Buildings and structures	15 – 50 years
Machinery and equipment	4 – 9 years

Effective from the fiscal year beginning April 1, 2007, the Company and its consolidated domestic subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. As a result, operating income decreased ¥84 million (\$838 thousand), and ordinary income and income before income taxes decreased ¥91 million (\$908 thousand), respectively. As for property, plant and equipment acquired before April 1, 2007, the company and its consolidated domestic subsidiaries applied the pre-revised depreciation method during the fiscal year beginning April 1, 2007. Among these, property, plant and equipment for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years beginning from the following fiscal year. As a result, operating income decreased ¥350 million (\$3,493 thousand), and ordinary income and income before income taxes decreased ¥379 million (\$3,783 thousand), respectively.

(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 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 ¥946 million (\$9,442 thousand) and ¥1,037 million for the years ended March 31, 2008 and 2007, 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 year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, 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.

Diluted net income is not disclosed because the Company had nothing which might have diluted the per share amounts for the years ended March 31, 2008 and 2007.

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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits in the consolidated balance sheets	¥32,119	¥27,545	\$320,581
Marketable securities in the consolidated balance sheets	—	300	—
Time deposits with maturities exceeding 3 months	(157)	(257)	(1,567)
Marketable securities with maturities exceeding 3 months	—	(300)	—
Cash and cash equivalents in the consolidated statements of cash flows	¥31,962	¥27,288	\$319,014

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2008 and 2007:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values			
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Book value	¥250	¥—	\$2,495
Fair value	255	—	2,545
Difference	¥ 5	¥—	\$ 50

Securities with available market values not exceeding book values			
	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Book value	¥—	¥300	\$—
Fair value	—	300	—
Difference	¥—	¥ (0)	\$—

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

Securities with book values (market values) exceeding acquisition cost

March 31, 2008	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥5,921	¥12,983	¥ 7,062	\$59,098	\$129,584	\$70,486

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

March 31, 2008	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 789	¥ 638	¥ (151)	\$ 7,875	\$ 6,368	\$ (1,507)

Securities with book values (market values) exceeding acquisition cost

March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥6,478	¥19,435	¥12,957

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

March 31, 2007	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 499	¥ 378	¥ (121)

B. The following tables summarize book values of securities with no available market values as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sale securities			
Non-listed equity securities	¥791	¥1,271	\$7,895
Other	179	185	1,787

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2008 and 2007 mature as follows:

	Within one year	Within five years
	Millions of yen	
March 31, 2008		
Government bonds	¥ -	¥ 250
Total	¥ -	¥ 250

	Thousands of U.S. dollars	
March 31, 2008		
Government bonds	\$ -	\$2,495
Total	\$ -	\$2,495

	Within one year	Within five years
	Millions of yen	
March 31, 2007		
Government bonds	¥300	¥ -
Total	¥300	¥ -

D. Total sales of available-for-sale securities in the years ended March 31, 2008 and 2007 amounted to ¥1,054 million (\$10,520 thousand) and ¥9 million, and the related gains amounted to ¥257 million (\$2,565 thousand) and ¥5 million, respectively.

5. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished products and resale inventories	¥28,819	¥30,229	\$287,644
Raw materials and cattle	17,611	18,252	175,776
	¥46,430	¥48,481	\$463,420

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Salaries and bonuses for employees	¥22,532	¥23,933	\$224,893
Delivery expenses	18,296	17,333	182,613
Provision for accrued bonuses	1,921	2,018	19,174
Depreciation	1,453	1,484	14,502
Severance and retirement benefits expenses	1,404	1,602	14,013

7. 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, 2008 and 2007.

March 31, 2008		
Location	Use	Type of assets
Saitama Prefecture	Idle assets	Machinery and equipment, Buildings and structures, Land, other

March 31, 2007		
Location	Use	Type of assets
Hyogo Prefecture	Idle assets	Machinery and equipment, Buildings and structures, Land, other

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 for the years ended March 31, 2008 and 2007, which consisted of ¥161 million (\$1,607 thousand) and ¥98 million in Land, ¥92 million (\$918 thousand) and ¥160 million in Buildings and structures and ¥11 million (\$110 thousand) and ¥104 million 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 life of the asset discounted by 6%, or their net selling price based primarily on the road rating evaluated by the National Tax Agency.

8. RESTRUCTURING EXPENSES

The Company and its consolidated subsidiaries recognized special losses pertaining to the implementation of the Itoham Group Revitalization Plan for the following groups of fixed assets in the year ended March 31, 2008 and 2007.

	Millions of yen	Thousands of U.S. dollars
March 31, 2008		
Closing expense of a production site	¥40	\$399
Withdrawal from restaurant businesses	16	160
Withdrawal from other businesses	10	100

	Millions of yen
March 31, 2007	
Impairment losses on fixed assets with the closing of production sites	¥1,258
Transference costs of machinery and equipment with the closing of production sites	283
Withdrawal from internet-related and restaurant businesses	462
Withdrawal from wine and other businesses	118

The details of impairment losses on fixed assets with the closing of production sites at March 31, 2007 were as follows:

Location	Use	Type of assets
Aichi Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Mie Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Saitama Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other
Chiba Prefecture	Manufacturing facility, etc.	Machinery and equipment, Buildings and structures, Land, Other

The Companies reduced the book values to the recoverable values and recognized the reduction in values as impairment losses with closure of production sites, which consisted of ¥579 million in Land, ¥355 million in Buildings and structures and ¥317 million in Machinery and equipment.

The recoverable values of fixed assets were measured on the basis of their net selling price based primarily on the road rating evaluated by the National Tax Agency.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings are generally represented by unsecured notes, with average interest rates of 5.72% and 5.95% at March 31, 2008 and 2007, respectively. Such borrowings are generally renewable at maturity.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Secured:			
Banks, 0.900% – 3.075%, maturing serially through 2012	¥ 1,031	¥ 990	\$ 10,291
Unsecured:			
Banks, 0.980% – 5.740%, maturing serially through 2015	16,928	22,745	168,959
2.11% bonds due 2008	5,000	5,000	49,905
0.65% bonds due 2010	50	70	499
1.15% bonds due 2012	10,000	10,000	99,811
	33,009	38,805	329,465
Less amounts due within one year	6,078	11,136	60,665
	¥26,931	¥27,669	\$268,800

The aggregate annual maturities of long-term debt outstanding at March 31, 2008 were as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 6,078	\$ 60,665
2010	1,130	11,279
2011	9,865	98,463
2012	418	4,172
2013 and thereafter	15,518	154,886
	¥33,009	\$329,465

The Companies have overdraft contracts and credit commitments with seven banks with unused credit available to the Companies at March 31, 2008 of ¥20,834 million (\$207,945 thousand).

10. PLEDGED ASSETS

Assets pledged as collateral for short-term borrowings of ¥203 million (\$2,026 thousand) and ¥519 million at March 31, 2008 and 2007 and secured long-term debt due within one year and long-term debt due after one year at March 31, 2008 and 2007, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Land	¥ 503	¥ 503	\$ 5,020
Buildings and structures net of accumulated depreciation	2,256	2,233	22,517

Time deposits of ¥120 million (\$1,198 thousand) and ¥120 million and investments in securities of ¥250 million (\$2,495 thousand) and marketable securities of ¥300 million were pledged for transaction guarantees of ¥120 million (\$1,198 thousand) and ¥120 million and gift certificates of ¥95 million (\$948 thousand) and ¥103 million at March 31, 2008 and 2007.

11. 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ 32,904	¥ 33,286	\$ 328,416
Unrecognized actuarial differences	(8,127)	(3,022)	(81,116)
Unrecognized prior service costs	3,503	3,808	34,964
Fair value of pension assets	(32,665)	(37,155)	(326,031)
Prepaid pension costs	5,069	4,182	50,594
Employees' severance and retirement benefits	¥ 684	¥ 1,099	\$ 6,827

Included in the consolidated statements of operations for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service costs – benefits earned during the year	¥ 1,899	¥2,014	\$ 18,954
Interest cost on projected benefit obligation	657	685	6,557
Expected return on plan assets	(1,032)	(944)	(10,300)
Amortization of actuarial differences	503	607	5,020
Amortization of prior service costs	(294)	(304)	(2,934)
Severance and retirement benefit expenses	¥ 1,733	¥2,058	\$ 17,297

The discount rates and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries were 2.0% 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.

Contributory funded multi-employer pension plans

(1) Funded status of pension plans

Four domestic consolidated subsidiaries are participating in a contributory funded multi-employer pension plan and recognizing the required contributions for a period as net pension cost. The total amounts recorded in the financial statements of such plan as of March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Amount of pension assets	¥36,296	\$362,272
Amount of benefit obligation	44,637	445,524
The net balance	¥ (8,341)	\$ (83,252)

(2) The ratio of pension premiums expensed from April 1, 2006 to March 31, 2007 by the subsidiaries to the total premium amount was 11.44%.

12. CONTINGENT LIABILITIES

At March 31, 2008 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥1,647	\$16,439
Other companies	3,572	35,652
	¥5,219	\$52,091

13. 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 and interest rate swap contracts to manage risk relating to interest rate changes. 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
Interest rate swap contracts
Hedged items: Foreign currency trade payables and future commitments
Interest on loans payable

Information on the derivative financial instrument contracts utilized by the Company outstanding at March 31, 2008 and 2007 was not disclosed because all such contracts were effectively hedging transactions.

14. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2008 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Machinery and equipment	Other	Total	Total
March 31, 2008				
Original lease obligation (including finance charges)	<u>¥9,241</u>	<u>¥ 977</u>	<u>¥10,218</u>	<u>\$101,986</u>
Payments remaining:				
Payments due within one year			<u>¥ 1,320</u>	<u>\$ 13,175</u>
Payments due after one year			<u>1,417</u>	<u>14,143</u>
Total			<u>¥ 2,737</u>	<u>\$ 27,318</u>

	Millions of yen		
	Machinery and equipment	Other	Total
March 31, 2007			
Original lease obligation (including finance charges)	<u>¥9,584</u>	<u>¥1,301</u>	<u>¥10,885</u>
Payments remaining:			
Payments due within one year			<u>¥ 1,814</u>
Payments due after one year			<u>1,809</u>
Total			<u>¥ 3,623</u>

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2008 and 2007 were ¥1,807 million (\$18,036 thousand) and ¥1,950 million, respectively.

15. INCOME TAXES

The Company and its consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2008 and 2007.

Significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for doubtful receivables	<u>¥ 2,436</u>	<u>¥ 798</u>	<u>\$ 24,314</u>
Bonuses accrued	<u>1,129</u>	<u>1,151</u>	<u>11,269</u>
Year-end bonuses	<u>334</u>	<u>116</u>	<u>3,334</u>
Enterprise taxes	<u>42</u>	<u>45</u>	<u>419</u>
Directors' retirement benefits	<u>332</u>	<u>325</u>	<u>3,314</u>
Net unrealized holding losses on derivative instruments	<u>184</u>	<u>—</u>	<u>1,837</u>
Write-down of investments in securities	<u>637</u>	<u>600</u>	<u>6,358</u>
Write-down of property, plant and equipment	<u>570</u>	<u>1,038</u>	<u>5,689</u>
Employees' severance and retirement benefits	<u>1,991</u>	<u>2,381</u>	<u>19,872</u>
Restructuring expenses	<u>516</u>	<u>572</u>	<u>5,150</u>
Loss carryforwards	<u>1,358</u>	<u>2,629</u>	<u>13,554</u>
Other	<u>871</u>	<u>775</u>	<u>8,693</u>
	<u>10,400</u>	<u>10,430</u>	<u>103,803</u>
Less valuation allowance	<u>(7,542)</u>	<u>(8,822)</u>	<u>(75,277)</u>
Total deferred tax assets	<u>2,858</u>	<u>1,608</u>	<u>28,526</u>
Deferred tax liabilities:			
Deferred gains on property, plant and equipment	<u>(1,730)</u>	<u>(1,803)</u>	<u>(17,267)</u>
Net unrealized holding gains on securities	<u>(2,810)</u>	<u>(5,221)</u>	<u>(28,047)</u>
Other	<u>(51)</u>	<u>(184)</u>	<u>(509)</u>
Total deferred tax liabilities	<u>(4,591)</u>	<u>(7,208)</u>	<u>(45,823)</u>
Net deferred tax assets (liabilities)	<u>¥ (1,733)</u>	<u>¥ (5,600)</u>	<u>\$ (17,297)</u>

A reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2008 and 2007 was as follows:

	2008	2007
Statutory tax rate	40.6%	40.6%
Non-deductible expenses	10.9	20.6
Non-taxable dividend income	(1.5)	(8.4)
Inhabitants' per capita taxes	2.5	13.6
Elimination of dividend income	11.6	—
Less valuation allowance	(44.7)	175.2
Other	(1.8)	0.9
Effective income tax rate	17.6%	242.5%

16. NET ASSETS

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to the other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on June 26, 2008, the shareholders approved cash dividends amounting to ¥1,042 million (\$10,400 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

17. SEGMENT INFORMATION

Information by business segment is not disclosed because the Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of foods and sales in this business segment exceeded 90% of consolidated net sales for the years ended March 31, 2008 and 2007.

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

Overseas sales for the years ended March 31, 2008 and 2007 were less than 10% of consolidated net sales.

18. RELATED PARTY TRANSACTIONS

There were no significant related party transactions for the fiscal year ended March 31, 2008.

During the fiscal year ended March 31, 2007, the Company had transactions with Toei Shoji Co., Inc., which is owned by a director of the Company and his relatives.

Principle transactions between the Company and Toei Shoji Co., Inc. were summarized as follows:

	Millions of yen
March 31, 2007	
Insurance premium paid	¥248

19. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 26, 2008, an appropriation of the Company's retained earnings for the year ended March 31, 2008 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥5.00 per share)	¥1,042	\$10,400



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, 2008 and 2007, and the related consolidated statements of operations, changes in net assets 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

KPMG AZSA & Co.

Osaka, Japan
June 26, 2008



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

5,276 (Consolidated)

Consolidated Subsidiaries

38

Equity-method Affiliates

10

Major Office and Plants

Tokyo Office
Nishinomiya Plant
Tokyo Plant
Toyohashi Plant
Kyushu Plant

Major Domestic Subsidiaries

Itoham Daily Inc.
Itoham Food Solutions Co., Ltd.
Itoham Sales Inc.
Itoham Meat Sales East Inc.
Itoham Meat Sales West Inc.

Major Overseas Subsidiaries

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

(As of March 31, 2008)

Board of Directors

Chairman

Kenichi Ito

President

Chikara Kasai

Senior Managing Director

Shinichi Yamada ^{*1}

Managing Directors

Toshiyuki Fujiyama
Satoru Hirayama ^{*2}
Ryuuichi Miyagawa ^{*2}

Directors

Shingo Iwamoto
Kazumi Ihara
Takashi Takechi

^{*1} Senior Managing Executive Officer

^{*2} Managing Executive Officer

Standing Auditors

Ryo Matsuoka
Toshio Fujiwara

Auditors

Kenichiro Kensho
Shinobu Okamoto

Executive Officers (Excluding current directors)

Takashi Ishii
Kazuhiko Tamura
Yoshihito Fujiwara
Hisanori Nakajima
Yoshitaka Tanaka
Yoshinobu Nakame
Akinobu Saito
Kouichi Ito
Shu Kusaka
Yutaka Shishido
Hiroaki Ikeuchi
Hiromu Fukuyama

(As of June 26, 2008)



Stock Information

Shares

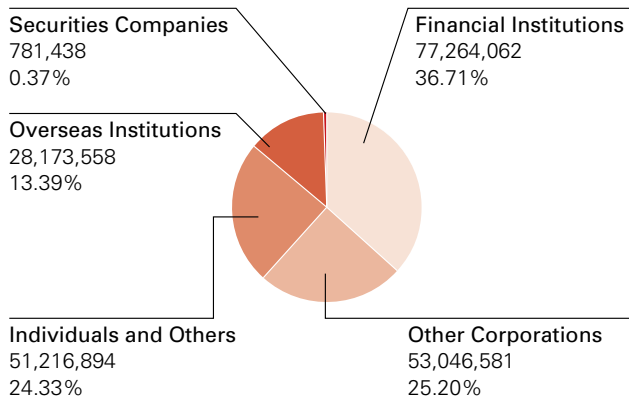
Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533
Number of shareholders	27,930
Shareholder coupon system:	
1. Qualification	Shareholders with 1,000 or more shares
2. Coupon amount	Itoham products worth ¥5,000

Major Shareholders

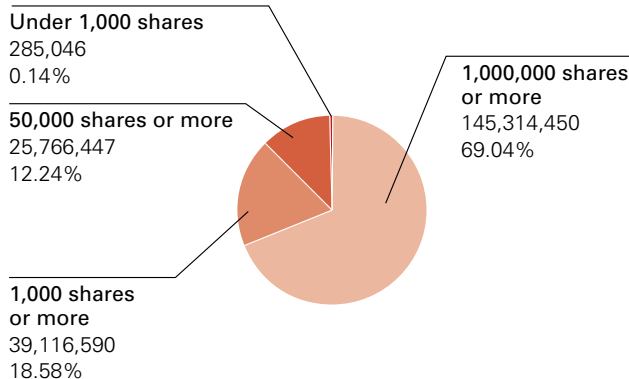
	Number of Shares Held (thousands of shares)	Percentage of Total (%)*
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,213	6.8
The Ito Foundation	12,000	5.7
Japan Trustee Services Bank, Ltd. (Trust Account)	9,930	4.7
Toei Shoji Co., Inc.	9,555	4.5
Kenichi Ito	8,251	3.9
Mitsubishi Corporation	7,656	3.6
Marubeni Corporation	7,099	3.4
Sumitomo Mitsui Banking Corporation	6,303	3.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,303	3.0
The Ito Cultural Foundation	6,200	2.9

* Investment ratio

Breakdown of Shareholders by Type

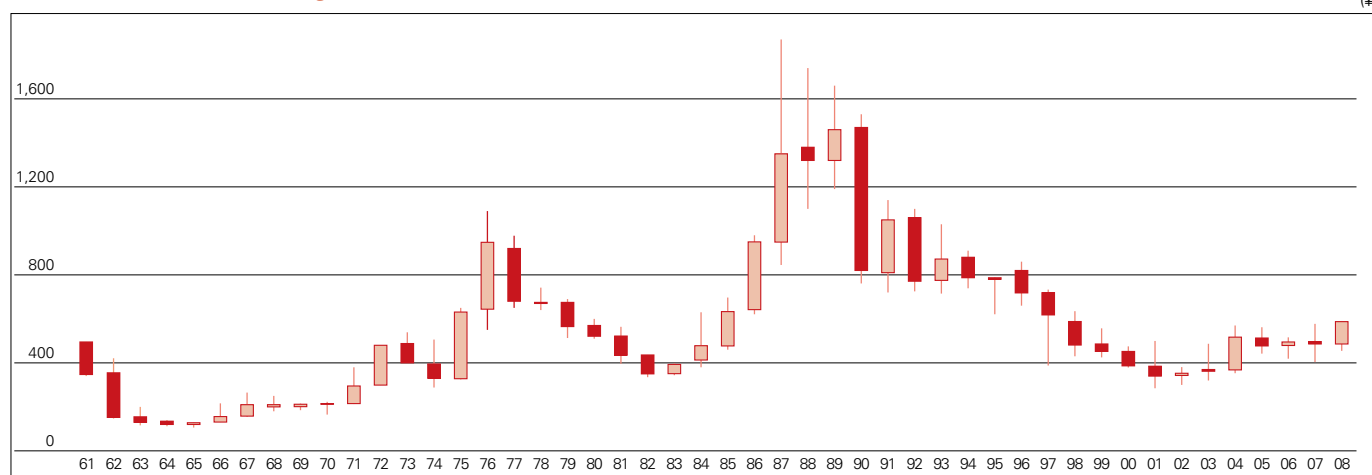


Breakdown of Shareholders by Size of Holding



(As of March 31, 2008)

Common Stock Price Range



Calendar year		98	99	00	01	02	03	04	05	06	07	08
Itoham Common Stock (¥)	High	635	557	495	500	381	487	573	565	519	577	590
	Low	430	425	379	285	300	320	356	445	422	404	455
Trading Volume (thousands of shares)		37,830	62,290	78,006	90,433	56,636	88,391	114,589	167,511	195,607	126,481	54,600

Note: The figures for the 2008 calendar year only are for the 3-month period from January 2008 through March 2008.



ITO HAM FOODS INC.

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