

Annual Report 2005

ITO HAM FOODS INC.

Full of Smiles



The Itoham Group's Management Policy

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

Company Policy

“Service to Society Through Business”

Corporate Philosophy

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

Corporate Stance

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

Code of Conduct

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

“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.

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Five-Year Consolidated Financial Highlights

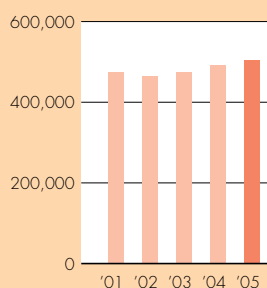
ITOHAM FOODS INC. and Consolidated Subsidiaries

Years ended or as of March 31	Millions of yen					Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2004	2005	2005
Net sales	¥475,519	¥465,639	¥473,891	¥492,661	¥505,461	\$4,706,779
Cost of sales	370,946	372,775	374,200	386,664	402,429	3,747,360
Selling, general and administrative expenses	93,369	91,862	95,923	98,682	98,431	916,575
Operating income	11,204	1,002	3,768	7,315	4,601	42,844
Other income (expenses)	(8,172)	(812)	(2,441)	(539)	3,108	28,941
Income before income taxes and minority interests	3,032	190	1,327	6,776	7,709	71,785
Provision for income taxes						
Current	5,442	1,510	1,539	2,425	1,034	9,629
Deferred	(4,181)	(611)	(563)	587	1,748	16,277
Minority interests	(13)	2	(38)	(67)	(55)	(512)
Net income (loss)	1,758	(707)	313	3,697	4,872	45,367
Net income (loss) per share (in yen and U.S. dollars)	8.08	(3.32)	1.49	17.59	23.38	0.218
Total assets	245,531	235,362	219,383	229,400	237,866	2,214,973
Shareholders' equity	124,556	120,003	117,771	122,930	125,844	1,171,841
Ratio of shareholders' equity to total assets	50.73%	50.99%	53.68%	53.59%	52.91%	
Shareholders' equity per share (in yen and U.S. dollars)	578.04	570.15	559.71	589.86	603.93	5.62
Return on assets (Note 2)	4.9%	0.9%	2.2%	3.7%	2.8%	
Return on equity	1.4%	(0.6)%	0.3%	3.1%	3.9%	
Cash flows from operating activities	9,381	(6,515)	22,783	9,108	3,804	35,422
Cash flows from investing activities	(5,239)	(6,686)	(3,390)	(4,853)	(5,354)	(49,856)
Cash flows from financing activities	(6,061)	(1,981)	(11,423)	(2,281)	(2,950)	(27,470)
Cash and cash equivalents at end of year	33,836	18,807	26,708	28,619	24,098	224,397

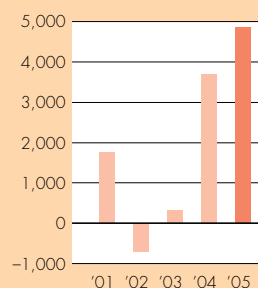
Note 1: Dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥107.39=US\$1, the rate prevailing on March 31, 2005.

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

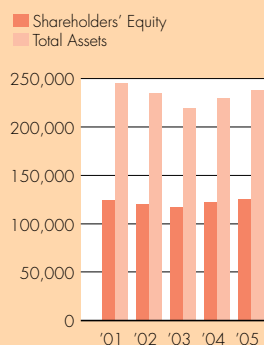
Net Sales
(Millions of Yen)



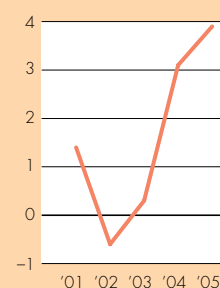
Net Income (Loss)
(Millions of Yen)



Shareholders' Equity and Total Assets
(Millions of Yen)



Return on Equity
(%)



Message From the President



MASAMI ITO
President

Fiscal 2005 Business Results

Although there were some positive signs in the Japanese economy during the year under review, such as rising exports and higher capital investment related to a recovery in corporate earnings, conditions in the labor market and income environment remained tough. With a backdrop of continuing deflation and persistent weakness in personal consumption, factors such as the shift to tax inclusive price labeling in April 2004 had a significant impact on retail sales during the year.

Against this backdrop, the Itoham Group placed top priority on winning the confidence and trust of customers by providing safe and reliable products to build Itoham brand equity. Meanwhile, we took actions to create a more customer-facing company by focusing on three key themes: reinforcing marketing capabilities, realizing a low-cost operating base, and promoting innovation.

In the Ham and Sausage Division and the Processed Foods and Other Products Division, we actively worked to reduce production costs and pare back selling expenses by boosting productivity per employee. Meanwhile, in the Fresh Meat Division, we reinforced our Traceability System, which provides consumers with a detailed history of individual meat products, and continued to develop “backyard solutions,” upgrading support for business partners, as well as products with real brand power.

Due to these and other steps, Itoham recorded a 2.6% increase in net sales to ¥505,461 million. Cost of sales rose 4.1% year on year, or ¥15,766 million, to ¥402,429 million. In addition to the increase in sales, this rise in cost of sales was attributable to significantly higher prices for main raw materials such as pork and chicken on overseas markets, compounded by rising costs for secondary materials and increased packaging material costs due to higher crude oil prices. Faced with declining selling prices due to the impact of the shift to tax inclusive price labeling and other factors, Itoham reviewed its sales prices and implemented ongoing efforts to reduce production costs using the Itoham Production System (IHPS). However, despite these steps, the gross profit ratio fell 1.1 percentage points, to 20.4%. Compared to the previous period, selling, general and administrative expenses declined 0.3%, or ¥251 million, to ¥98,431 million.

As a result of the above, Itoham posted operating income of ¥4,601 million, down 37.1%. After booking other income of ¥3,108 million, mainly from equity in earnings of associated companies and insurance income, Itoham recorded income before income taxes and minority interests of ¥7,709 million, up 13.8%, and net income of ¥4,872 million, up 31.8% from a year earlier.

Outlook for Fiscal 2006

Although the results of some domestic companies are expected to recover in the year ahead, we expect to see higher prices for packaging materials and other items due to sharply rising crude oil prices. With the labor market and income environment also remaining difficult, we are not anticipating any increase in personal consumption. Consequently, we expect Itoham's business environment to remain difficult in fiscal 2006.

Committed to providing "safe and reliable, fresh and high-quality" products that customers want, we will further enhance trust in the Itoham Group.

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

In this business environment, supported by our Medium-Term Plan, we will take a number of group-wide management initiatives designed to transform Itoham into a highly profitable company and create new business models. Our ultimate aim will be to enhance the corporate value of the Itoham Group over the long term. With the needs of the customer always our number-one priority, we will actively develop products providing solutions for our customers' various needs and carry out marketing activities. And by remaining committed to providing "safe and reliable, fresh and high-quality" products that customers want, we will further enhance trust in the Itoham Group.

In the **Ham and Sausage Division**, the market is currently characterized by contrasting trends. While customers are demanding more authentic flavors and greater food safety, they are also increasingly seeking lower-priced products. Amid this market polarization, we will develop products tailored to meet the needs of each market segment. Aiming to further improve the flavor of our products, **we have launched "The Better Taste Community," a group made up of homemakers with a keen sense of taste.** By strengthening this kind of external monitoring and upgrading test marketing, we aim to enhance our product development capabilities going forward. In another step, **we have started printing two dimensional barcodes known as QR (Quick Response) codes on our products on a trial basis.** This is a first for the food industry and is part of efforts to encourage communication between Itoham and its customers. Our ultimate aim here is to build a stronger corporate brand. In the year ahead we will focus on offering these kinds of high value-added services designed to provide closer support for customers, including more product information and advice



The Better Taste Community



Customers can use the camera function on their mobile phones to scan the QR codes on Itoham products, giving them access to sites with recipes and various information.

on tastier ways to enjoy our products. We will also improve the efficiency of sales and logistics networks from a long-term perspective by reducing the number of items we handle and by promoting a joint delivery strategy across all the company's business divisions. This will help enhance Itoham's earnings capabilities in the years ahead.

In production, concentrating production at fewer sites and converting more facilities to production lines will further bolster cost-competitiveness. Together with steps to boost productivity at Itoham plants and the ongoing implementation of IHPS, this will support our efforts to win a larger share of both the consumer and food service product markets. At the same time, we will maintain our high levels of quality, and raise them further, in all processes—from the procurement of raw materials through to the final product.

In the **Fresh Meat Division**, our highest priority will be to expand the volume of products we handle by continuing to secure new customers. Specifically, we aim to increase sales of our own beef brands and *Berkshire Pork*, as the leading volume supplier of this brand in Japan. We will also actively implement sales activities in both Japan and the rest of Asia for *Rockdale Beef* and *Five Star Beef*, which we raise and process at our overseas feedlots. With *Berkshire Pork*, produced in Kagoshima Prefecture, we will expand and upgrade our network of farms and strengthen relationships with domestic producers over the long term, aiming to build a system capable of providing stable supplies. Using this system, we will increase volumes, enabling us to position the brand in a more competitive price range.

In order to ensure we supply safe and reliable products, we have introduced a Traceability System. This system allows the monitoring of *Berkshire Pork* products using IC cards, and enables consumers to verify the background of fresh meat gift sets by checking the attached QR code using their mobile phones. We also release related product information via our website.

In the **Processed Foods and Other Products Division**, we have divided our processed foods product range into two categories: prepared dishes and casual foods. **In prepared dishes, we will work to expand sales of charcoal-roasted meat, hamburgers, pork cutlets and other products with our Ichibantei brand.** In casual foods, we aim to boost sales by developing new products that match contemporary lifestyles using our *La Pizza* series and other brands. Meanwhile, in the prepared and daily-delivered food segments in the large-volume sales channels and food service sales channels, where growth is expected, we aim to boost sales and earnings moving forward. Our strategy will be to source



Ichibantei brand product



New Kobe Plant

We are forecasting operating income of ¥5.8 billion, up 26.1% year on year, on net sales of ¥530.0 billion, 4.9% higher than the year under review. We are also projecting net income of ¥2.3 billion, a decrease of 52.8%.

cost-competitive “kitchen solution” products from overseas suppliers, and create carefully tailored proposals to match the needs of each sales segment and channel, such as food vendors and bakery chains.

In production, **we completed construction of a new Kobe Plant in April 2005 dedicated to the production of prepared dishes.** This plant, the first of its kind for Itoham, is located on Rokko Island in Kobe and has an annual production capacity of 6,500 tons. Also, in addition to upgrading our

overseas supply framework, we will optimize our processed foods production system in Japan to increase production and logistics efficiency.

Based on the above initiatives, we are forecasting operating income of ¥5.8 billion, up 26.1% year on year, on net sales of ¥530.0 billion, 4.9% higher than the year under review. We are also projecting net income of ¥2.3 billion, a decrease of 52.8%.

Taking Itoham Forward

Offering safe, high-quality products is naturally an important way of realizing our stated corporate stance of being a customer-centric business. But we also have to provide products that satisfy customer needs and consistently aim to attain higher goals as a company. In parallel with these efforts, Itoham will actively contribute to society and work to protect the environment as a company that has a role to play in society. I hope we can continue to count on your support as we take Itoham forward.

MASAMI ITO President

Cautionary Note: Forward-Looking Statements

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

Medium-Term Plan (Three-Year Plan)

Targets for Fiscal 2007

Net sales	¥570.0 billion
Operating income	¥15.0 billion
Ordinary income (Note 1)	¥16.0 billion
ROA (Note 2)	6.6 %
ROE	6.8 %

Medium- and Long-term Strategy and Performance Targets

The Itoham Group formulated a Medium-Term Plan covering the three-year period from fiscal 2005 through fiscal 2007 (April 1, 2004 ~ March 31, 2007). The entire Group is working together to achieve the aims of this plan. In order to enhance asset efficiency and boost cost performance, as well as ensure maximum return on investments, Itoham has established return on assets (ROA) and return on equity (ROE) as the two key performance indicators in the Medium-Term Plan. This will encourage the company to focus on management that gives greater consideration to the needs of shareholders and investors. The plan also sets out targets for fiscal 2007 of operating income of ¥15.0 billion and ordinary income of ¥16.0 billion, on consolidated net sales of ¥570.0 billion. Itoham is also aiming to achieve ROA of 6.6% and ROE of 6.8% for the same period.

Management Vision

1. Become a company capable of steadily increasing corporate brand equity

Continually raise customer satisfaction, while at the same time carrying out management that emphasizes shareholders and disclosing information in a timely manner. Also endeavor to coexist with local communities by placing high priority on the natural environment and activities that make a positive contribution to society.

2. Consistently generate profits to maximize the Group's corporate value

Work to enhance marketing capabilities, create business models and develop new products that respond to market shifts while at the same time increasing product safety and quality by strengthening technological capabilities in each business division. Also, build an earnings structure capable of withstanding negative developments in the operating environment by creating a low-cost management base and taking steps to enhance asset efficiency and cost performance.

3. Create a workforce prepared to take on challenges and a vibrant corporate culture

Effectively utilize, train and enhance the abilities of the Itoham workforce, attach greater emphasis to individual skills, and make wider use of the abilities of female personnel to create a more vibrant corporate culture. At the same time, make the company leaner and more responsive by building a flatter and more streamlined organization.

Issues the Itoham Group Needs to Address

The company's operating environment is expected to become increasingly difficult, while the market for meat products is also anticipated to undergo drastic change. In this environment and in line with our Medium-Term Plan, we will endeavor to transform Itoham into a highly profitable company and create new business models. To achieve this, we will actively roll out a range of business initiatives based on the basic strategy outlined below.

Basic Strategy

1. Formulate a marketing strategy tailored to the new operating landscape

Build a lineup of value-added products by cultivating and reinforcing brands, and upgrading internal frameworks. In addition, put in place a new business model by devising a globally oriented procurement, production and sales strategy.

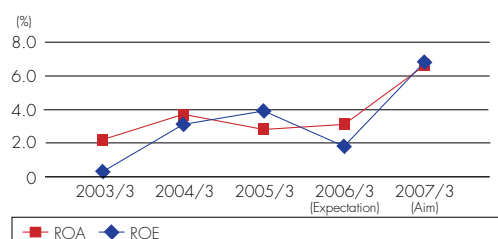
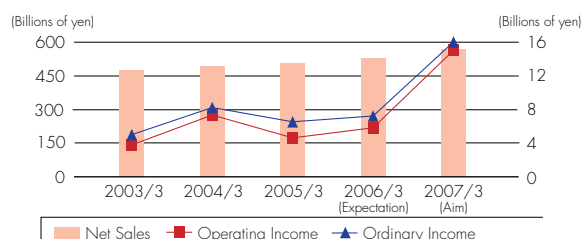
2. Reform the profit structure by driving intensive cost reduction

In order to put in place a robust business base capable of withstanding negative developments in the company's operating environment, increase productivity by ensuring the optimal use of resources. Specifically, this will involve the consolidation and reduction of production facilities, and the restructuring of, or withdrawal from, unprofitable businesses. Steps will also be taken to pare back personnel costs and reduce assets and interest-bearing debt in an effort to cut fixed expenses, while IT will be employed to enhance the efficiency of business processes.

3. Enhance responsiveness and reform internal organizations and systems

Streamline organizations, create a flatter management structure and speed up the decision-making process. At the same time, fix in place a results-based personnel system, and effectively utilize and train the workforce.

Medium-Term Plan Targets



Note 1: Ordinary income is an item in the Japanese-language Consolidated Statements of Income.

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

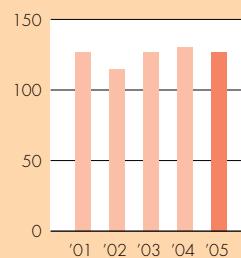
At a Glance

Ham and Sausage Division



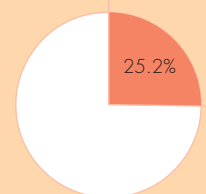
Net Sales

(Billions of Yen)



Sales Composition

(%)

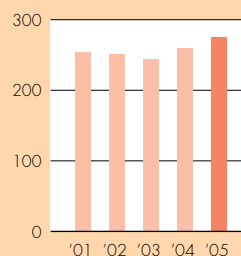


Fresh Meat Division



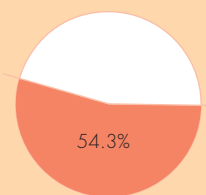
Net Sales

(Billions of Yen)



Sales Composition

(%)

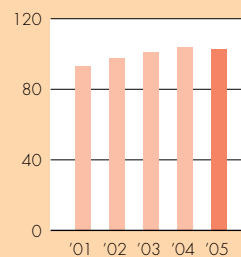


Processed Foods and Other Products Division



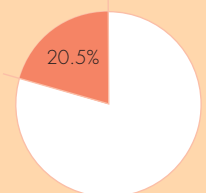
Net Sales

(Billions of Yen)



Sales Composition

(%)



Business Overview

This division produces and sells ham, sausages and bacon. Backed by sophisticated technology, it consistently turns out safe, high-quality products. In production activities, the division employs a high-level quality assurance system underpinned by strict hygiene control standards. Furthermore, six of the division's domestic production plants have been awarded ISO 14001 certification, the internationally recognized standard for environmental management. On the sales front, the Ham and Sausage Division is aiming to capture the leading market share in all its product categories by rolling out a sales strategy that focuses on core products. Itoham also offers a lineup of gift products that have won strong support from customers.

Itoham owns directly managed and contract feedlots in Japan and overseas. These facilities employ strict hygiene management standards across all areas of operations—from the transport of livestock through to the final product. This is particularly the case with Itoham's feedlots in Australia and New Zealand, which have received ISO 9001 and ISO 14001 certification, internationally recognized standards for quality and environmental management, respectively. Thanks to its proprietary feedlots overseas, Itoham's production costs are lower and operations are much less susceptible to fluctuations in market prices for meat. This means Itoham can consistently supply high-quality products at competitive prices. Moreover, Itoham has a strong lineup of high value-added domestically produced products that enable it to respond to the diverse needs of consumers. In order to ensure its meat products are safe and reliable, this division is also working to upgrade its traceability framework.

In the Processed Foods component of this division, Itoham has developed a range of healthy, safe and high-quality products that are easy to prepare. These include a wide selection of products that cater to consumers' changing lifestyles, including charcoal-roasted meat, hamburgers, pork cutlets, prepared chicken dishes, pizza meals and dairy products. Meanwhile, in the prepared and daily-delivered food segments in the large-volume sales channels and food service sales channels, where growth is expected, we aim to boost sales and earnings moving forward. Our strategy will be to source cost-competitive "kitchen solution" products from overseas suppliers, and create carefully tailored proposals to match the needs of each sales segment and channel, such as food vendors and bakery chains. In the Other Products component of this division, Itoham is developing its pharmaceutical products and restaurant businesses.

Five-Year Review and Business Results

In addition to a maturing ham and sausage market, conditions in the labor market and income environment have remained tough against a backdrop of continuing deflation, leading to persistent weakness in personal consumption. In this environment, we have remained focused on actively boosting sales of core products such as *Alt Bayern* and the *Morning Fresh* series. In gift products, we have also worked hard to establish flagship brands such as *Densho no Aji*, *Houjyun*, and *Jyukusei*. However, sales have fluctuated without rising significantly in recent years due to an increasingly competitive environment. In particular, a drop in consumption since the shift to tax inclusive price labeling, combined with sluggish gift-giving seasons, led to a reduction in sales during the year under review.

The fresh meat market has experienced persistent instability, primarily arising from incidents of BSE and avian flu both in Japan and overseas, and the imposition of import safeguards. In this operating environment, the division has actively worked to boost sales, focusing on beef raised and produced at Itoham's overseas feedlots such as *Rockdale Beef* and *Five Star Beef*, and high value-added products such as Japanese regional beef and *Berkshire Pork*. With the introduction of a Traceability System, the division has also worked to increase confidence in the safety and reliability of fresh meat products. Together, these initiatives have supported rising sales since the previous fiscal year.

Sales in the Processed Foods component of this division have grown steadily as advances in distribution and production technology have matched consumer needs. However, against a backdrop of intensifying competition in recent years, sales of our mainstay charcoal-roasted beef product, chicken and other products have declined due to outbreaks of BSE and avian flu in Japan and overseas, resulting in a difficult operating environment. In response, the Processed Foods component of this division has focused on new core products such as the authentic *La Pizza* series of chilled pizzas and the *Kyosho no Sai* series. Despite these efforts, sales have remained on a downward trend since the previous fiscal year. Meanwhile, sales grew in Other Products, which includes Itoham's pharmaceutical products and restaurant businesses, thanks to the consolidation of an operating company supplying products to convenience stores. As a result, there was only a marginal year-on-year decline in overall division sales.

Ham and Sausage Division

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

A Strong Lineup Centered on *Alt Bayern*

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



In sliced packaged products, customers have shown appreciation for the versatile *Sawayaka Thin-Slice Pack* series and other products which contribute to a good breakfast on busy mornings, such as the *Morning Fresh* series of loin ham and bacon, and *Morning Brown*. We are also working to develop other products as the basis for evening meals.

Gift Products

Despite a difficult business environment characterized by a contracting market, we retained our position as the market leader in ham and sausage gift products with *Densho no Aji*, *Houjyun*, *Jyukusei* and *Ippin Kurobuta* continuing to do well. In addition to these core brands, our *Roast Beef*, prepared using *Sous Vide* vacuum sealing and cooking technology incorporating the highest standards of food safety and quality, has contributed to a product lineup that has earned the trust of customers.

Sales Promotion Activities

The division completed a one-year study into household eating habits. Data from the study was analyzed and used to improve the accuracy of our Table Scene Promotion (TSP) 52 sales promotion strategy. Specifically, we introduced a more seasonal theme to sales areas and offered meal suggestions that cut across sales boundaries. In this way, we are working to satisfy a wider range of customer needs by creating new menus, and helping retailers to create more appealing sales areas.



ALT BAYERN



SAWAYAKA THIN-SLICE PACK SERIES (LOIN HAM)



ROAST BEEF

Highlight

Ultra High-pressure Processing Technology Yields New Products— Shelf Life is Maintained Without Relying on Colorants and Preservatives

Itoham has begun developing products that utilize ultra high-pressure processing technology. The first result of these efforts was the launch of ham and sausage products which maintain shelf life without relying on colorants and preservatives. The “Ultra High-pressure” symbol to be printed on packaging for these products was designed in-house. In our Toyohashi Plant we have installed pressurization equipment manufactured by the Nicolás Correa Group in Spain to allow processing at a pressure of up to six thousand atmospheres. This has enabled the nationwide launch of the *Iki Iki Kazoku* series, manufactured using ultra high-pressure processing. The range includes our naturally wholesome ham and sausages. Demand for these products, which do not use sodium nitrite colorants, has expanded particularly among health-conscious consumers, but their limited shelf life has hindered widespread distribution. Now, with the aid of this technology, we have been able to improve shelf life, enabling dramatic improvements to in-store product management at supermarkets and other volume retailers.



The “Ultra High-pressure” symbol



Iki Iki Kazoku series

Fresh Meat Division

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

Beef Products—Further Increasing Output in Australia and New Zealand

With a continued ban on the import of U.S. beef to Japan, Itoham has been taking steps to further increase output in its Australian and New Zealand feedlots. Australia and New Zealand are both entirely free of BSE and are considered to be two of the safest countries in the world for the production of beef. Australian *Rockdale Beef* and New Zealand *Five Star Beef* are prime examples of reliable beef brands produced overseas in proprietary feedlots set in the midst of the natural environment. In domestic beef, we are increasing production of high value-added Japanese regional beef utilizing the Traceability System. Information regarding the production history of overseas Itoham beef brands and Japanese regional beef is provided on our Japanese language website.

To access this information, point your browser to: <http://itoham.mediagalaxy.ne.jp/farm/anzen/index.html>



Pork Products—The Growing Popularity of Pure Kagoshima Berkshire Pork

In pork products, Itoham is the leading volume supplier of *Berkshire Pork* in Japan. Sankyo Meat Co., Ltd., an Itoham Group company based in Kagoshima Prefecture, plays a central role in raising Berkshire pigs at its dedicated feedlot, a facility that boasts state-of-the-art technologies. *Berkshire Pork* is derived exclusively from pure-bred 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, an approach that preserves the full flavor and richness of the pork. Overseas, Itoham also produces a range of other pork brands, including *Alt Pork* in the U.S. and *Mugijitate* in Canada.

Chicken Products

During the year, the chicken industry was faced with outbreaks of avian flu in a number of producing regions. In response, this division has been diversifying its supply sources to spread operating risk. Specifically, imports from Brazil and other countries have been boosted to ensure a stable supply of chicken.



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



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



BERKSHIRE PORK

Highlight

Further Enhancements to the Traceability System—

IC Tags Attached to the Ears of Berkshire Pigs Facilitate Monitoring of the Production Process

Sankyo Meat Co., Ltd., our subsidiary in Kagoshima Prefecture, has adopted an enhanced monitoring system that uses wireless IC tag (RFID) technology to improve its monitoring of production histories for individual Berkshire pigs. This system has enabled the company to obtain Specific JAS certification for pork with disclosed production information. The system involves attaching an IC tag to the ear of each pig,



IC tags attached to the ears
of Berkshire pigs



Sankyo Meat Co., Ltd.

which is then scanned to record information such as the type of feed given, medical treatment or changes of location, thereby allowing information related to individual pigs to be monitored. This is the first instance in Japan of Specific JAS certification being obtained using this particular method. Sankyo Meat has also obtained the same Specific JAS certification for beef production, and is the first company in Japan to be certified under Specific JAS as a production process manager and a subdivider for both beef and pork at the same facility. At its proprietary feedlot in New Zealand, Itoham has also obtained Specific JAS certification relating to disclosure of production process information, while preparations are underway at its Australian feedlot to obtain the same certification.

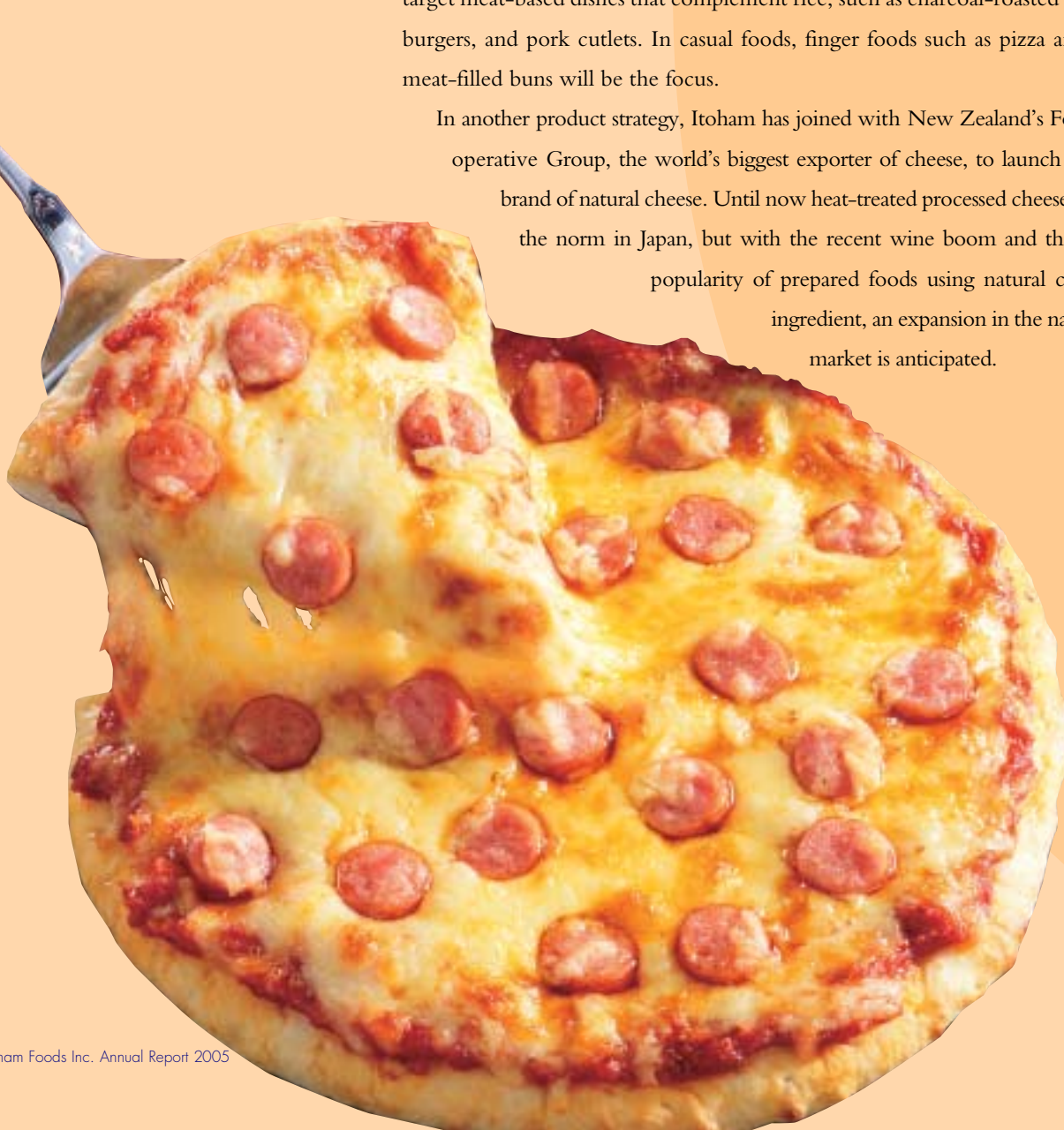
Processed Foods and Other Products Division

Itoham will continue to strengthen its brands by concentrating on prepared dishes and casual foods in response to changes in customer lifestyles and values.

Developing Products That Address Changing Markets—Focusing on Prepared Dishes and Casual Foods

In order to respond to changes in the food product market resulting from societal changes such as fewer children, more elderly people, and increasing numbers of households in which both partners work, this division is strengthening its lineup in the two areas of prepared dishes and casual foods. In prepared dishes, Itoham will target meat-based dishes that complement rice, such as charcoal-roasted meat, hamburgers, and pork cutlets. In casual foods, finger foods such as pizza and Chinese meat-filled buns will be the focus.

In another product strategy, Itoham has joined with New Zealand's Fonterra Co-operative Group, the world's biggest exporter of cheese, to launch *Mainland*, a brand of natural cheese. Until now heat-treated processed cheeses have been the norm in Japan, but with the recent wine boom and the increasing popularity of prepared foods using natural cheese as an ingredient, an expansion in the natural cheese market is anticipated.



La Pizza Series Awarded the Outstanding Product Prize

In the 23rd Hit Food Product Awards in 2004, sponsored by the Japan Food Journal, Itoham's *La Pizza* series won the Outstanding Product Prize in the chilled and frozen foods category. When we set out to offer our customers real Napoli pizzas to enjoy easily at home, we gave close attention to ingredients and methods, and insisted on achieving the right mix of flour and yeast to create the best possible pizza dough. We then slowly raised the dough at a low temperature, and then heated it under a high flame to give a crispy finish. Using these methods, we have managed to create pizzas that are "crunchy on the outside but soft in the middle." And with a 10-inch base, there is enough to go around for the whole family. Since its launch in 2003, sales of *La Pizza* have increased steadily and it has become the flagship product of our casual foods category.



HAMBURGER



PORK CUTLET

A Varied Lineup in the Kyosho no Sai Series

In 2002, this division launched the *Kyosho no Sai* series of ready-prepared meals that make it easy to recreate authentic restaurant dishes at home. A group of top chefs and food experts were called on to help develop the range: Rokusaburo Michiba, Japan's renowned master chef in Japanese cuisine (Japanese dishes); Yutaka Ishinabe, Japan's renowned master chef in French cuisine (Western dishes); Shinya Taseki, a well-known sommelier (Western dishes); and, Tei Keirin, head chef at Chinese restaurant Hong Kong Garden in Nishi Azabu, Tokyo.



KYOSHO NO SAI SERIES

Highlight

Alt Bayern Pizza Joins the La Pizza Series

With sausage a popular pizza topping among kids and a staple on pizza menus everywhere, Itoham decided to use its core product, *Alt Bayern* as a topping for its popular *La Pizza* series. Customers can now enjoy juicy and aromatic *Alt Bayern* wieners with *La Pizza*'s "crunchy on the outside but soft in the middle" texture, produced by raising dough slowly at a low temperature.



Compliance

Itoham has formulated Corporate Ethics to clarify the approach necessary to enhance stakeholder trust and conduct sound and honest business management. We believe that thoroughly implementing fair and ethical management is essential to increase corporate value. Consequently, based on this fundamental ideal, we are working to upgrade our framework for compliance.



Compliance Handbook

Corporate Ethics

1. Fair and Honest Conduct

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

2. Awareness of Ethics and Compliance

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

3. Strict Enforcement of Related Laws and Regulations

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

4. Rapid Remedial Action and Firm Disciplinary Response to Offenses

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



Itoham employees undergo compliance training

Employee Training

With the aim of enhancing employee awareness of, and interest in, compliance issues, Itoham carries out compliance-related training in a variety of forums. Examples include instruction for new recruits, programs tailored to separate employee grades and divisions, and training during meetings of office managers and store managers.

Contact Points Providing Advice to Employees

The following can be contacted by employees seeking advice about compliance-related worries or concerns:

- Internal Auditing Department
- External legal counsel
- Human Resources Department
- Labor union

Citizenship and Environmental Protection Activities

Citizenship Activities

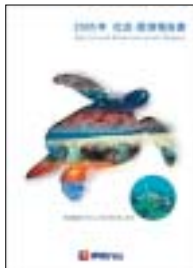


Signboard for Kobe Forest School
Itoham supports volunteer activities to
protect forests



Volunteer activities for UNICEF

Environmental Protection Activities



The Itoham 2005 Social
and Environmental Report

Philosophy on Citizenship Activities

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

Policies Governing Activities

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

Basic Environmental Philosophy

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

Policies Governing Conduct

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

Financial Section

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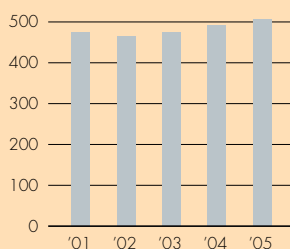
- 19. Consolidated Financial Summary
- 20. Financial Review
- 22. Consolidated Balance Sheets
- 24. Consolidated Statements of Income
- 25. Consolidated Statements of Shareholders' Equity
- 26. Consolidated Statements of Cash Flows
- 27. Notes to Consolidated Financial Statements
- 34. Independent Auditors' Report

Consolidated Financial Summary

ITOHAM FOODS INC. and Consolidated Subsidiaries

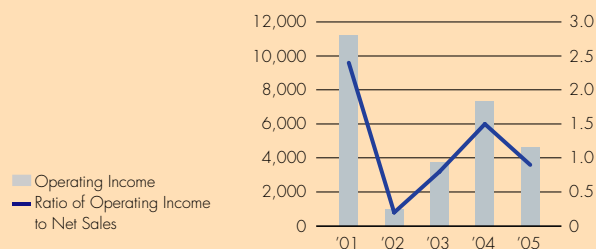
Net Sales

(Billions of Yen)



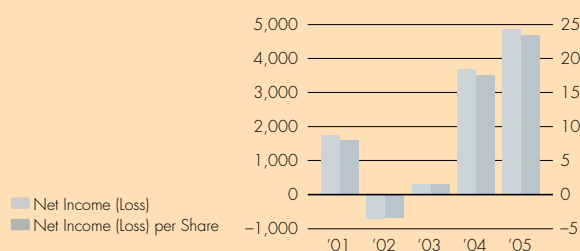
Operating Income, Ratio of Operating Income to Net Sales

(Millions of Yen, %)



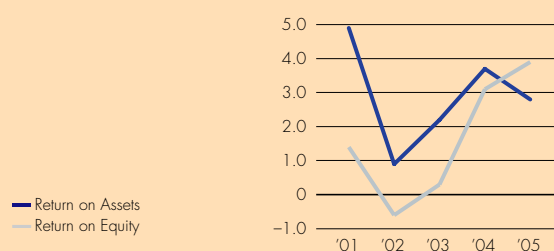
Net Income (Loss), Net Income (Loss) per Share

(Millions of Yen, Yen)



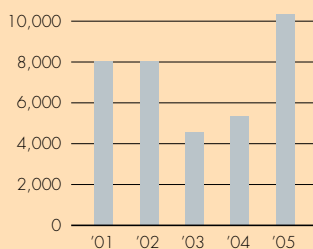
Return on Assets*, Return on Equity

(%)



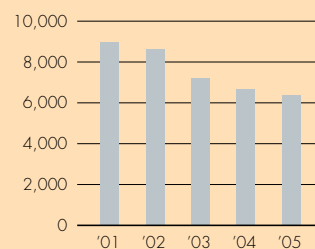
Capital Investment

(Millions of Yen)



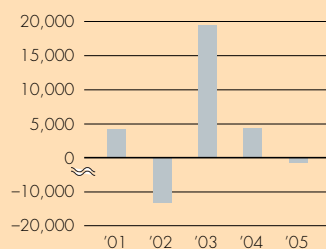
Depreciation and Amortization

(Millions of Yen)



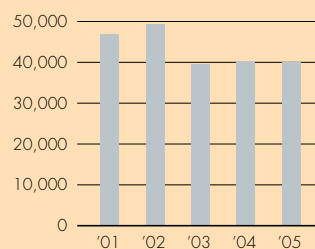
Free Cash Flows

(Millions of Yen)



Interest-bearing Debt

(Millions of Yen)



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

Financial Review

Net Sales

Although there were some positive signs in the Japanese economy during the year under review, such as rising exports and higher capital investment related to a recovery in corporate earnings, conditions in the labor market and income environment remained tough. With a backdrop of continuing deflation and persistent weakness in personal consumption, factors such as the shift to tax inclusive price labeling in April 2004 had a significant impact on retail sales during the year.

Against this backdrop, the Itoham Group placed top priority on winning the confidence and trust of customers by providing safe and reliable products to build Itoham brand equity. Meanwhile, we took actions to create a more customer-facing company by focusing on three key themes: reinforcing marketing capabilities, realizing a low-cost operating base, and promoting innovation.

In the Ham and Sausage Division and the Processed Foods and Other Products Division, we actively worked to reduce production costs and pare back selling expenses by boosting productivity per employee. Meanwhile, in the Fresh Meat Division, we reinforced our Traceability System, which provides consumers with a detailed history of individual meat products, and continued to develop “backyard solutions,” upgrading support for business partners, as well as products with real brand power.

As a result of these and other steps, Itoham posted a 2.6% rise in net sales to ¥505.5 billion.

In the Ham and Sausage Division, sales declined 1.6% to ¥127.5 billion, chiefly due to weaker personal consumption following the shift to tax inclusive price labeling and stagnant demand for Itoham gift products.

In the Fresh Meat Division, sales grew 5.8% to ¥274.5 billion. This rise was supported by efforts in two priority areas—boosting sales of our overseas own beef brands and high value-added products such as Japanese regional beef and *Berkshire Pork*, and upgrading the Traceability System. Thanks to efforts to win new customers, the division increased sales on both a volume and monetary basis.

In the Processed Foods and Other Products Division, sales of processed foods dropped 8.5% to ¥69.0 billion. This mainly reflected falling

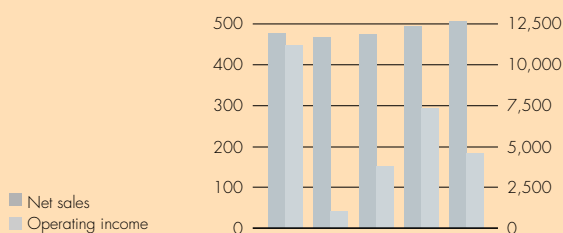
sales of our mainstay charcoal-roasted beef product, due to the suspension of beef imports from the U.S. following outbreaks of BSE in the country. Sales of other products, however, chiefly those sold by the pharmaceutical and restaurant businesses, increased 22.6% to ¥34.5 billion, mainly due to the consolidation of an operating company supplying products to convenience stores. As a result, total division sales remained on a par with last year at ¥103.5 billion.

Cost, Expenses and Earnings

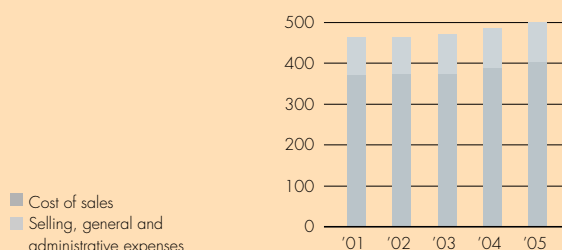
Cost of sales rose ¥15.8 billion year on year, to ¥402.4 billion. In addition to the increase in sales, this rise in cost of sales was attributable to significantly higher prices for main raw materials such as pork and chicken on overseas markets, compounded by rising costs for secondary materials and increased packaging material costs due to higher crude oil prices. Faced with declining selling prices due to the impact of the shift to tax inclusive price labeling and other factors, Itoham reviewed its sales prices and implemented ongoing efforts to reduce production costs using the Itoham Production System (IHPS). However, despite these steps, gross profit decreased 2.8% to ¥103.0 billion and the gross profit ratio fell 1.1 percentage points, to 20.4%. Compared to the previous period, selling, general and administrative (SGA) expenses declined 0.3% to ¥98.4 billion, while the ratio of SGA expenses to net sales improved 0.5 of a percentage point to 19.5%. As a result of the above, operating income declined 37.1%, to ¥4.6 billion, while the ratio of operating income to net sales fell 0.6 of a percentage point, to 0.9%.

In non-operating items, net financial expenses were ¥0.6 billion, more than the level in the previous year. Key positive factors in other income and expenses included a decrease of ¥1.5 billion in loss on disposal of property, plant and equipment due to higher gains related to the sale of idle assets, an increase of ¥1.1 billion in equity in earnings of associated companies, and the booking of ¥1.8 billion for insurance income related to a fire at the Kyushu Plant. Furthermore, other expenses declined by a total of ¥5.6 billion due to the absence of certain items recorded in the previous fiscal year: loss on the revision of the retirement

Net Sales, Operating Income
(Billions of Yen, Millions of Yen)



Cost and Expenses
(Billions of Yen)



benefits plan, write-down of property, plant and equipment, and additional retirement indemnity for early retirement. Negative factors in other income and expenses included a decline of ¥0.3 billion in gain on sale of marketable and investment securities, net, and the absence of ¥5.8 billion recorded in the previous fiscal year for gain on transfer of the substitutional portion of the social welfare pension insurance scheme. Due to the above, the company recorded other income, net, of ¥3.1 billion, an improvement of ¥3.6 billion compared to the previous year.

Income before income taxes and minority interests increased 13.8% to ¥7.7 billion, while net income rose 31.8% to ¥4.9 billion. Net income per share was ¥23.38.

Financial Position

Total assets as of March 31, 2005 totaled ¥237.9 billion, ¥8.5 billion higher than at the end of the previous year.

Current assets increased ¥4.7 billion to ¥129.0 billion. This was chiefly attributable to increases in trade notes and accounts receivable of ¥2.3 billion and a rise in inventories of ¥6.3 billion due to higher raw material prices. Meanwhile, cash and time deposits declined ¥4.6 billion.

Investments and non-current assets grew ¥0.5 billion to ¥39.6 billion. This primarily reflected a combined increase in the investment account of ¥0.7 billion due to an increase in shares in affiliates and other factors.

Capital investments totaled ¥10.3 billion, reflecting investments to improve production capacity at existing plants and the acquisition of land for new plants. Property, plant and equipment at the fiscal year-end totaled ¥67.8 billion, an increase of ¥3.0 billion from a year earlier.

On the other side of the balance sheet, current liabilities rose ¥15.6 billion to ¥86.6 billion. This was primarily attributable to a total rise in notes and accounts payable of ¥5.6 billion, and the transfer of ¥10.0 billion from long-term debt due after one year under long-term liabilities, to long-term debt due within one year.

Long-term liabilities declined ¥10.1 billion to ¥24.9 billion, mainly reflecting the aforementioned transfer of ¥10.0 billion to long-term debt due within one year under current liabilities.

Shareholders' equity increased ¥2.9 billion, to ¥125.8 billion, chiefly due to an increase in retained earnings of ¥3.2 billion accompanying the rise in net income. Other items included a decline of ¥0.7 billion in net unrealized holding gains on securities, and an increase in foreign currency translation adjustments of ¥0.4 billion. The ratio of shareholders' equity to total assets was 52.9% and the current ratio was 1.49.

Cash Flows

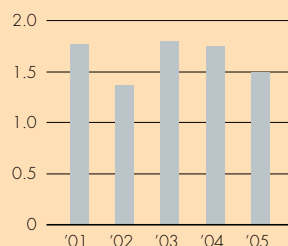
Cash and cash equivalents at the end of the year stood at ¥24.1 billion, ¥4.5 billion lower than a year earlier. This reflected proceeds from the sale of property, plant and equipment, and increase in notes and accounts payable, outweighed by cash used for the acquisition of property, plant and equipment and an increase in inventories.

Net cash provided by operating activities was ¥3.8 billion, compared with ¥9.1 billion provided in the previous year. This mainly reflected income before income taxes and minority interests of ¥7.7 billion, and depreciation and amortization of ¥6.4 billion, against increase in inventories of ¥6.5 billion, increase in notes and accounts receivable of ¥1.9 billion, and equity in earnings of associated companies of ¥1.7 billion.

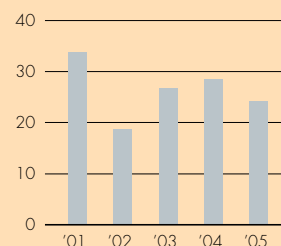
Net cash used in investing activities was ¥5.4 billion, against ¥4.9 billion used in the previous period. This mainly reflected cash outflows of ¥6.6 billion for the acquisition of property, plant and equipment to expand production at existing factories and to purchase land for new plants, against inflows of ¥2.0 billion from proceeds from the sale of property, plant and equipment.

Net cash used in financing activities was ¥3.0 billion, against net cash used of ¥2.3 billion in fiscal 2004. This mainly reflected ¥1.7 billion for dividends paid, and ¥1.3 billion for net decrease in short-term bank loans and long-term debt.

Current Ratio
(Times)



Cash and Cash Equivalents
(Billions of Yen)



Consolidated Balance Sheets

ITO HAM FOODS INC. and Consolidated Subsidiaries—March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and time deposits (Notes 3,7)	¥ 24,299	¥ 28,943	\$ 226,269
Marketable securities (Note 4)	—	20	—
Receivables:			
Trade notes and accounts	52,018	49,726	484,384
Other	149	191	1,387
Allowance for doubtful receivables	(418)	(420)	(3,892)
	51,749	49,497	481,879
Inventories (Note 5)	48,837	42,504	454,763
Deferred tax assets (Note 13)	1,773	1,484	16,510
Other current assets	2,310	1,775	21,510
Total current assets	128,968	124,223	1,200,931
Investments and non-current assets:			
Investments in:			
Unconsolidated affiliates	9,347	6,589	87,038
Other (Notes 4,7)	17,371	19,451	161,756
Long-term receivables	2,574	2,121	23,969
Long-term deferred tax assets (Note 13)	549	637	5,112
Other	10,889	11,845	101,397
Allowance for doubtful receivables	(1,142)	(1,588)	(10,634)
	39,588	39,055	368,638
Property, plant and equipment:			
Land (Note 7)	22,022	20,968	205,066
Buildings and structures (Note 7)	66,646	66,211	620,598
Machinery and equipment	90,041	89,017	838,449
Breeding livestock	172	122	1,601
Construction in progress	257	334	2,393
	179,138	176,652	1,668,107
Accumulated depreciation	(111,304)	(111,787)	(1,036,447)
	67,834	64,865	631,660
Intangible assets	1,476	1,257	13,744
	¥ 237,866	¥229,400	\$ 2,214,973

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	2005	2004	2005
Current liabilities:			
Bank loans (Note 6)	¥ 9,198	¥ 8,545	\$ 85,650
Long-term debt due within one year (Note 6)	11,194	1,147	104,237
Notes and accounts payable:			
Trade	42,656	37,959	397,206
Construction	4,703	947	43,794
Other	11,566	14,453	107,701
	58,925	53,359	548,701
Accrued expenses	4,713	4,649	43,887
Income taxes payable	1,308	1,524	12,180
Deferred tax liabilities (Note 13)	45	56	419
Other	1,240	1,712	11,547
Total current liabilities	86,623	70,992	806,621
Long-term liabilities:			
Long-term debt due after one year (Note 6)	19,618	30,545	182,680
Employees' severance and retirement benefits (Note 8)	2,057	2,492	19,154
Directors' and statutory auditors' retirement benefits	802	802	7,468
Long-term deferred tax liabilities (Note 13)	2,267	710	21,110
Other long-term liabilities	180	475	1,676
Total long-term liabilities	24,924	35,024	232,088
Contingent liabilities (Note 9)			
Minority interests	475	454	4,423
Shareholders' equity (Note 14):			
Common stock:			
Authorized—342,013,000			
Issued—210,482,533	22,415	22,415	208,725
Capital surplus	24,021	24,021	223,680
Retained earnings	75,511	72,306	703,147
Net unrealized holding gains on securities	5,149	5,870	47,947
Foreign currency translation adjustments	(474)	(919)	(4,414)
Treasury stock, at cost, 2,107,534 shares in 2005 (2,078,103 shares in 2004)	(778)	(763)	(7,244)
Total shareholders' equity	125,844	122,930	1,171,841
	¥237,866	¥229,400	\$2,214,973

Consolidated Statements of Income

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥505,461	¥492,661	\$4,706,779
Cost and expenses:			
Cost of sales	402,429	386,664	3,747,360
Selling, general and administrative expenses	98,431	98,682	916,575
Operating income	4,601	7,315	42,844
Other income (expenses):			
Interest and dividend income	308	291	2,868
Interest expense	(919)	(856)	(8,558)
Gain on sale of marketable and investment securities, net	85	382	791
Loss on disposal of property, plant and equipment	(246)	(1,745)	(2,291)
Gain on transfer of substitutional portion of social welfare pension insurance scheme (Note 8)	—	5,810	—
Losses on the revision of the retirement benefits plan (Note 8)	—	(1,247)	—
Write-down of investment securities	(289)	(169)	(2,691)
Write-down of property, plant and equipment (Note 11)	—	(1,100)	—
Equity in earnings of associated companies	1,705	615	15,877
Insurance income	1,775	—	16,529
Additional retirement indemnity for early retirement	—	(3,290)	—
Provision for doubtful receivables	(230)	(7)	(2,142)
Other, net	919	777	8,558
	3,108	(539)	28,941
Income before income taxes and minority interests	7,709	6,776	71,785
Provision for income taxes (Note 13)			
Current	1,034	2,425	9,629
Deferred	1,748	587	16,277
Minority interests	(55)	(67)	(512)
Net income	¥ 4,872	¥ 3,697	\$ 45,367
	Yen		U.S. dollars
Net income per share	¥ 23.38	¥ 17.59	\$ 0.218
Dividends per share	8.00	8.00	0.074

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

Consolidated Statements of Shareholders' Equity

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Common stock:			
Balance at beginning of year	¥22,415	¥22,415	\$208,725
Balance at end of year	¥22,415	¥22,415	\$208,725
Capital surplus:			
Balance at beginning of year	¥24,021	¥24,021	\$223,680
Balance at end of year	¥24,021	¥24,021	\$223,680
Retained earnings:			
Balance at beginning of year	¥72,306	¥70,292	\$673,303
Net income for the year	4,872	3,697	45,367
Cash dividends paid—¥8.00 per share	(1,667)	(1,683)	(15,523)
Balance at end of year	¥75,511	¥72,306	\$703,147
Net unrealized holding gains on securities:			
Balance at beginning of year	¥ 5,870	¥ 2,155	\$ 54,661
Increase (decrease) for the year	(721)	3,715	(6,714)
Balance at end of year	¥ 5,149	¥ 5,870	\$ 47,947
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (919)	¥ (1,089)	\$ (8,558)
Net increase	445	170	4,144
Balance at end of year	¥ (474)	¥ (919)	\$ (4,414)
Treasury stock, at cost:			
Balance at beginning of year	¥ (763)	¥ (23)	\$ (7,105)
Purchase of treasury stock	(15)	(740)	(139)
Balance at end of year	¥ (778)	¥ (763)	\$ (7,244)
Number of shares of common stock issued:		2005	2004
At beginning of year		210,482,533	210,482,533
At end of year		210,482,533	210,482,533

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

Consolidated Statements of Cash Flows

ITOHAM FOODS INC. and Consolidated Subsidiaries—Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,709	¥ 6,776	\$ 71,785
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,363	6,683	59,251
Decrease in employees' severance and retirement benefits	(435)	(1,632)	(4,050)
Decrease in allowance for doubtful receivables	(448)	(414)	(4,172)
Interest and dividend income	(308)	(291)	(2,868)
Interest expense	919	856	8,558
Equity in earnings of associated companies	(1,705)	(615)	(15,877)
Write-down of investment securities	289	169	2,691
Loss (gain) on sale of property, plant and equipment	(799)	409	(7,440)
Loss on disposal of property, plant and equipment	914	1,224	8,511
Write-down of property, plant and equipment	—	1,100	—
Increase in notes and accounts receivable	(1,856)	(994)	(17,283)
Increase in inventories	(6,485)	(3,428)	(60,387)
Increase in notes and accounts payable	4,517	2,523	42,062
Decrease in accrued consumption taxes	(420)	(1,083)	(3,911)
Insurance income	(1,775)	—	(16,529)
Other, net	(2,877)	365	(26,790)
	3,603	11,648	33,551
Interest and dividends received	496	412	4,619
Interest paid	(914)	(862)	(8,511)
Insurance received	2,115	—	19,694
Income taxes paid	(1,834)	(2,347)	(17,078)
Income taxes refunded	338	257	3,147
Net cash provided by operating activities	3,804	9,108	35,422
Cash flows from investing activities:			
Investments in time deposits	(209)	(183)	(1,946)
Proceeds from time deposits	329	230	3,063
Acquisitions of property, plant and equipment	(6,585)	(5,423)	(61,319)
Proceeds from sale of property, plant and equipment	2,013	883	18,745
Acquisitions of intangible assets	(376)	(699)	(3,501)
Payments for purchases of investment securities	(836)	(526)	(7,785)
Proceeds from sales of investment securities	810	1,752	7,543
Disbursement of loans receivable	(1,552)	(1,470)	(14,452)
Collection of loans receivable	1,143	658	10,643
Other, net	(91)	(75)	(847)
Net cash used in investing activities	(5,354)	(4,853)	(49,856)
Cash flows from financing activities:			
Increase in short-term bank loans, net	609	1,857	5,671
Proceeds from long-term debt	360	334	3,352
Repayments of long-term debt	(2,229)	(2,043)	(20,756)
Payments for purchase of treasury stock	(15)	(740)	(139)
Dividends paid	(1,667)	(1,683)	(15,523)
Dividends paid to minority shareholders of consolidated subsidiaries	(8)	(6)	(75)
Net cash used in financing activities	(2,950)	(2,281)	(27,470)
Effect of exchange rate changes on cash and cash equivalents	(21)	(63)	(195)
Net increase (decrease) in cash and cash equivalents	(4,521)	1,911	(42,099)
Cash and cash equivalents at beginning of year	28,619	26,708	266,496
Cash and cash equivalents at end of year (Note 3)	¥24,098	¥28,619	\$224,397

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

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. ITOHAM FOODS INC. (the "Company") and its domestic subsidiaries haven't adopted the new Japanese accounting standard for impairment of fixed assets. The new standard must be adopted by the year ended March 31, 2006.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

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

Six of the Company's subsidiaries are consolidated using a fiscal period ending December 31. Significant transactions occurring during the January 1 to March 31 period are adjusted in these consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

All significant intercompany transactions and accounts have been eliminated. The difference between the cost of investments and equity in their net assets at dates of acquisition is amortized over five years.

(2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(3) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on management's estimate of the bad debt ratio based on past experience plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(4) Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

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

If the market value of held-to-maturity debt securities, equity securities issued by non-consolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by non-consolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(5) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost. Cost is determined by the first-in, first-out method for finished products and resale inventories (except meat), the specific identification method for real estate for sale and breeding cattle and the moving average method for remaining inventories.

Inventories of overseas subsidiaries are stated at the lower of cost or market.

(6) Derivatives and hedge accounting

Derivative financial instruments, except those used for hedging purposes, are stated at fair market value. Gains and losses realized on maturity or disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

(7) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is mainly provided on a declining balance method over estimated useful lives. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Overseas subsidiaries depreciate their property, plant and equipment using the declining balance method and the straight-line method.

(8) Bonuses

The Company and its consolidated domestic subsidiaries follow the Japanese practice of paying bonuses to employees. Accrued bonus liabilities as of the balance sheet date are based on estimated amounts to be paid in the subsequent period. Bonuses to directors and statutory auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(9) Employees' severance and retirement benefits

The Company and its consolidated domestic subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and a funded contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its consolidated domestic subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

(10) Directors' and statutory auditors' retirement benefits

The liability for directors' and statutory auditors' retirement benefits of the Company and certain subsidiaries is provided in the amount which would be required if they retired at the balance sheet date.

(11) Research and development expenses

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, which were ¥1,344 million (\$12,515 thousand) and ¥1,070 million for the years ended March 31, 2005 and 2004, respectively, are charged to operations in the period incurred.

(12) Finance leases

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

(13) Income taxes

Deferred income taxes are recorded to reflect tax effects of 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.

(14) Foreign currency translation

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

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

(15) Amounts per share

The computations of net income per share of common stock shown on the consolidated statements of income are based on the weighted average number of shares outstanding during each fiscal year.

Cash dividends per share shown in the consolidated statements of income are the amounts applicable to the respective years.

3. STATEMENTS OF CASH FLOWS

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits on the consolidated balance sheets	¥24,299	¥28,943	\$226,269
Time deposits with maturities exceeding 3 months	(201)	(324)	(1,872)
Highly liquid investments whose original maturities are within 3 months	—	20	—
Investments with maturities exceeding 3 months	—	(20)	—
Cash and cash equivalents on the consolidated statements of cash flows	¥24,098	¥28,619	\$224,397

4. SECURITIES

A. The following tables summarize information on securities with available market values as of March 31, 2005 and 2004:

(a) Held-to-maturity debt securities

Securities with available market values exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Book value	¥300	¥—	\$2,794
Fair value	301	—	2,803
Difference	¥ 1	¥—	\$ 9

Securities with available market values not exceeding book values

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
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, 2005	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 6,413	¥15,239	¥8,826	\$59,717	\$141,903	\$82,186

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

March 31, 2005	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥512	¥427	¥(85)	\$4,768	\$3,976	\$(792)

Securities with book values (market values) exceeding acquisition cost

March 31, 2004	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥6,576	¥16,638	¥10,062

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

March 31, 2004	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥401	¥310	¥(91)

B. The following tables summarize book values of securities with no available market values as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(a) Held-to-maturity debt securities			
Non-listed foreign bonds	¥ —	¥ 500	\$ —
(b) Available-for-sale securities			
Non-listed equity securities	¥1,236	¥1,543	\$11,509
Other	169	179	1,574

C. Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2005 and 2004 mature as follows:

March 31, 2005	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
	Millions of yen		
Government bonds	¥—	¥300	¥—
Corporate bonds	—	10	—
Total	¥—	¥310	¥—

	Mature within one year	Mature over one year but within five years	Mature over five years but within ten years
March 31, 2005	Thousands of U.S. dollars		
Government bonds	\$—	\$2,794	\$—
Corporate bonds	—	93	—
Total	\$—	\$2,887	\$—
March 31, 2004	Millions of yen		
Government bonds	¥ —	¥300	¥ —
Corporate bonds	20	10	—
Others	—	—	500
Total	¥20	¥310	¥500

D. Total sales of available-for-sale securities in the years ended March 31, 2005 and 2004 amounted to ¥268 million (\$2,496 thousand) and ¥1,383 million and the related gains amounted to ¥85 million (\$791 thousand) and ¥382 million, respectively.

5. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products and resale inventories	¥33,037	¥28,137	\$307,636
Raw materials and cattle	15,800	14,367	147,127
	¥48,837	¥42,504	\$454,763

6. BANK LOANS AND LONG-TERM DEBT

Bank loans and long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Secured:			
Banks, 0.418% -2.750%, maturing serially through 2012	¥ 1,918	¥ 2,343	\$ 17,860
Unsecured:			
Banks, 0.710% -6.040%, maturing serially through 2015	23,092	22,894	215,029
2.175% bonds due 2005	10,000	10,000	93,119
2.11% bonds due 2008	5,000	5,000	46,559
	40,010	40,237	372,567
Less amounts due within one year	20,392	9,692	189,887
	¥19,618	¥30,545	\$182,680

The aggregate annual maturities of long-term debt outstanding at March 31, 2005 are as follows:

March 31	Millions of yen	Thousands of U.S. dollars
2006	¥11,194	\$104,237
2007	982	9,144
2008	10,920	101,685
2009	5,828	54,270
2010 and thereafter	1,888	17,581
	¥30,812	\$286,917

The Companies have overdraft contracts and the credit commitments with nine banks and two insurance companies with unused credit available to the Companies at March 31, 2005 of ¥24,358 million (\$226,818 thousand).

7. PLEDGED ASSETS

At March 31, 2005 assets pledged as collateral for short-term bank loans of ¥500 million (\$4,656 thousand) and secured long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 503	\$ 4,684
Buildings and structures net of accumulated depreciation	2,374	22,106

At March 31, 2005, time deposits of ¥120 million (\$1,117 thousand) and investment securities of ¥300 million (\$2,794 thousand) were pledged for transaction guarantees and gift certificates of ¥96 million (\$894 thousand).

8. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ 33,030	¥ 37,355	\$ 307,570
Unrecognized actuarial differences	(11,594)	(12,113)	(107,962)
Unrecognized prior service costs	4,411	562	41,075
Fair value of pension assets	(26,515)	(26,206)	(246,904)
Prepaid pension costs	2,725	2,894	25,375
Employees' severance and retirement benefits	¥ 2,057	¥ 2,492	\$ 19,154

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs – benefits earned during the year	¥1,753	¥ 2,684	\$16,324
Interest cost on projected benefit obligation	724	1,646	6,742
Expected return on plan assets	(763)	(1,172)	(7,105)
Amortization of actuarial differences	942	2,289	8,772
Amortization of prior service costs	(63)	(43)	(587)
Severance and retirement benefit expenses	2,593	5,404	24,146
Gain on transfer of substitutional portion of social welfare pension insurance scheme	–	(5,810)	–
Total	¥2,593	¥ (406)	\$24,146

The discount rates and the rate of expected return on plan assets used by the Company and its consolidated domestic subsidiaries are from 2.0% to 2.5% and 4.0%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the income statement using the straight-line method over 12 to 15 years, and past service costs are recognized as an expense in equal amounts over 12 to 15 years (15 years in the prior year). In addition, Additional retirement indemnity for early retirement of ¥3,290 million was included in the Other Expenses for year ended March 31, 2004.

• Transferring to Defined Contribution Plan

In conformity with the enactment of “Defined Contribution Plan Law,” the Company changed from a tax-qualified pension plan to a defined contribution plan on May 1, 2003.

The Company applied “Accounting Treatment upon Transferring Retirement Remuneration Plans” (Financial Standards Implementation Guidance No. 1).

As a result, in the year ended March 31, 2004, losses associated with the revision of the plan in the amount of ¥1,247 million are charged to other expenses and shown separately in the consolidated statements of income.

• Return of the substitutional portion of Social Welfare Pension Insurance Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its consolidated domestic subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on March 1, 2004 to be released from their future obligation for payments for the substitutional portion of Social Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Company and its consolidated domestic subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, “Practical Guideline for Accounting of Retirement Benefits (Interim Report),” and the effect of transferring the substitutional portion was recognized on the date of permission by the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2004, the Company recorded a gain on transfer of substitutional portion of Social Welfare Pension Insurance Scheme amounting to ¥5,810 million, which was calculated based on the amount of the substitutional portion of the projected benefit obligation as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥18,820 million as at March 31, 2004.

Following approval on March 1, 2005 from the Ministry of Health, Labor and Welfare for exemption from past pension obligation for the substitutional portion of Social Welfare Pension Insurance Scheme, the Company and certain consolidated domestic subsidiaries transferred assets for the substitutional pension to the ITOHAM FOODS Employees' Pension Fund.

9. CONTINGENT LIABILITIES

At March 31, 2005 the Company was contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Affiliates	¥ 766	\$ 7,133
Other companies	1,233	11,481
	¥1,999	\$18,614

10. DERIVATIVE TRANSACTIONS

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

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

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

Hedging instruments: Forward currency exchange contracts

Hedged items: Foreign currency trade payables and future commitments

The following is a summary of the only derivative contract which does not meet the Japanese criteria for hedge accounting. The net changes in market value are recorded in the consolidated statements of income for the years ended March 31, 2005 and 2004.

Forward currency exchange transactions

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Purchase U.S. dollars			
Contracted amount	¥ 538	¥ 538	\$ 5,010
(Over one year)	(316)	(538)	(2,943)
Current market amount	530	520	4,935
Unrealized losses	¥ (8)	¥ (18)	\$ (75)

11. WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT

The write-down of property, plant and equipment in the year ended March 31, 2004 of ¥1,100 million related to land for sale that was reduced to fair value.

12. FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2005 and 2004 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Furniture and fixtures	Other	Total	Total
March 31, 2005				
Original lease obligation				
(including finance charges)	¥5,691	¥5,709	¥11,400	\$106,155
Payments remaining:				
Payments due within one year			¥ 1,856	\$ 17,283
Payments due after one year			3,522	32,796
Total			¥ 5,378	\$ 50,079

	Millions of yen		
	Furniture and fixtures	Other	Total
March 31, 2004			
Original lease obligation			
(including finance charges)	¥5,983	¥4,821	¥10,804
Payments remaining:			
Payments due within one year			¥ 1,651
Payments due after one year			3,514
Total			¥ 5,165

Total lease payments, including finance charges, under non-capitalized finance leases for the years ended March 31, 2005 and 2004 were ¥1,968 million (\$18,326 thousand) and ¥1,903 million, respectively.

13. INCOME TAXES

Significant components of the Company and its consolidated subsidiaries's deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Allowance for doubtful receivables	¥ 241	¥ 680	\$ 2,244
Bonuses accrued	1,183	1,212	11,016
Enterprise taxes	124	61	1,155
Directors' retirement benefits	331	321	3,082
Write-down of investment securities	617	1,226	5,745
Write-down of property, plant and equipment	903	452	8,409
Liability for employees' severance and retirement benefits	1,663	2,496	15,486
Loss carryforwards	1,797	2,297	16,733
Unrealized gain on land	—	19	—
Other	997	653	9,284
	7,856	9,417	73,154
Less valuation allowance	(1,733)	(2,395)	(16,138)
Total deferred tax assets	6,123	7,022	57,016
Deferred tax liabilities:			
Deferred gains on real properties	(2,305)	(1,378)	(21,464)
Net unrealized holding gains on securities	(3,585)	(4,085)	(33,383)
Other	(223)	(204)	(2,076)
Total deferred tax liabilities	(6,113)	(5,667)	(56,923)
Net deferred tax assets	¥ 10	¥ 1,355	\$ 93

Reconciliations of the differences between the statutory tax rate and the effective income tax rates for the years ended March 31, 2005 and 2004 are as follows:

	2005	2004
Statutory tax rate	41.1%	41.1%
Non-deductible expenses	6.0	3.5
Non-taxable dividend income	(0.7)	(1.4)
Inhabitants' per capita taxes	2.0	2.3
Equity in earnings of associated companies	(9.1)	3.7
Less valuation allowance	(8.6)	(8.5)
Other	5.4	3.7
Effective income tax rate	36.1%	44.4%

As a result of a revision of Japan's Local Tax Law (Law No. 9, 2003) which came into effect on March 31, 2003, for years starting on or after April 1, 2004, an external standards taxation system was introduced. For the year ended March 31, 2005, in accordance with the "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statements of Operations (Accounting Standards Board Application Report No. 12, February 13, 2004), the Company records the portion of corporate enterprise taxes that is based on the "amount of added value" and the "amount of capital" in selling, general and administrative (SGA) expenses.

As a result, SGA expenses increased ¥250 million (\$2,328 thousand) for the year ended March 31, 2005. Accordingly, operating income and income before income taxes and minority interests were decreased by an equivalent amount.

14. SHAREHOLDERS' EQUITY

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

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

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

15. SEGMENT INFORMATION

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

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

The overseas sales for the years ended March 31, 2005 and 2004 were less than 10% of consolidated net sales.

16. RELATED PARTY TRANSACTIONS

Principle transactions between the Company and related parties for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Insurance premium paid	¥203	¥205	\$1,890
Purchase of software	—	172	—

17. SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 28, 2005, the appropriation of the Company's retained earnings for the year ended March 31, 2005 was duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends (¥8.00 per share)	¥1,667	\$15,523

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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, 2005 and 2004, 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, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 28, 2005

KPMG AZSA & CO

Itoham Corporate History

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

Corporate Data

Company Name

ITOHAM FOODS INC.

Address

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

Tel

0798-66-1231

Homepage

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

Common Stock

¥22,415 million

Number of Employees

5,569 (Consolidated)

Consolidated Subsidiaries

46

Equity-method Affiliates

12

Major Office and Plants

Tokyo Office
Nishinomiya Plant
Tokyo Plant
Toyohashi Plant
Kyushu Plant

Major Domestic Subsidiaries

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

Major Overseas Subsidiaries

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

(As of March 31, 2005)

Board of Directors

Chairman

Kenichi Ito

President

Masami Ito

Directors

Chikara Kasai*¹
Nario Ishida*²
Shinichi Yamada*²
Tsuguharu Kawano*²
Takashi Ninomiya*³
Minoru Nose*⁴
Toshiyuki Fujiyama*⁴
Satoru Hirayama
Shingo Iwamoto*⁴
*¹ Senior Managing Executive Officer
*² Managing Executive Officer
*³ Senior Executive Officer
*⁴ Executive Officer

Standing Auditors

Takao Kobayashi
Ryo Matsuoka

Auditors

Kenichiro Kensho
Shinobu Okamoto

Executive Officers (Excluding current directors)

Yoshitaka Tanaka
Kazumi Ihara
Ryuichi Miyagawa
Takashi Takechi
Shiro Ito
Hideo Mori
Takashi Ishii
Satoru Tanaka
Tetsuo Onishi

(As of June 28, 2005)

Stock Information

Shares

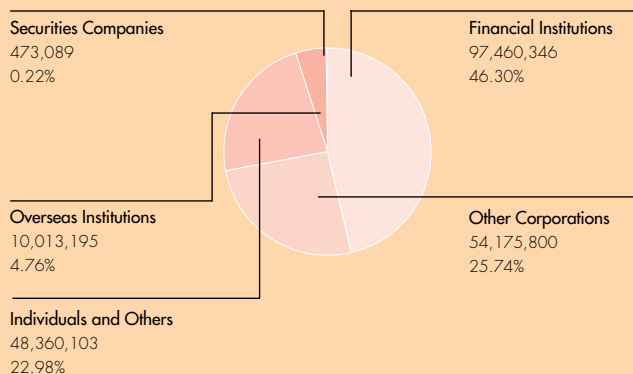
Total number of shares authorized	342,013,000
Number of shares of common stock issued	210,482,533
Number of shareholders	22,317
Shareholder coupon system:	
1. Qualification	Shareholders with 1,000 or more shares
2. Coupon amount	Itoham products worth ¥5,000

Major Shareholders

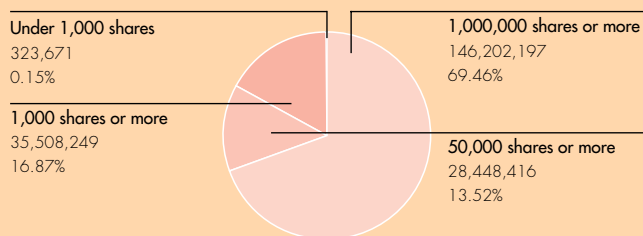
	Number of Shares Held (thousands of shares)	Percentage of Total (%)*
Japan Trustee Services Bank, Ltd. (Trust Account)	21,523	10.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,479	7.9
The Ito Foundation	12,000	5.8
Toei Shoji Co., Inc.	10,005	4.8
Kenichi Ito	8,251	4.0
Mitsubishi Corporation	7,656	3.7
Marubeni Corporation	7,099	3.4

*Ratio of voting rights

Breakdown of Shareholders by Type

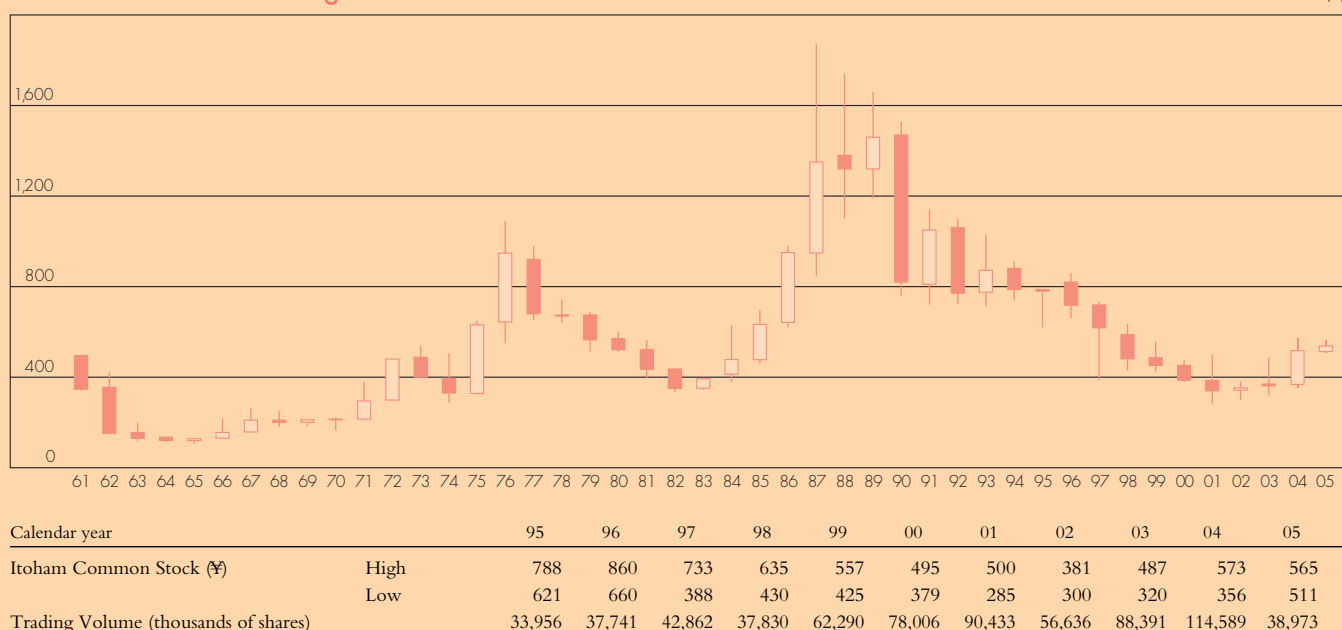


Breakdown of Shareholders by Size of Holding



[As of March 31, 2005]

Common Stock Price Range



*Note: The figures for the 2005 calendar year only are for the 3-month period from January 2005 through March 2005.



ITO HAM FOODS INC.

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