



# Business Results

for the First Half of FY2019/3

November 6, 2018 (Tue.)  
NH Foods Ltd.

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\* Regarding notation:

“US” notation means US GAAP.

# **I. Consolidated Business Results for FY2019/3 2Q**

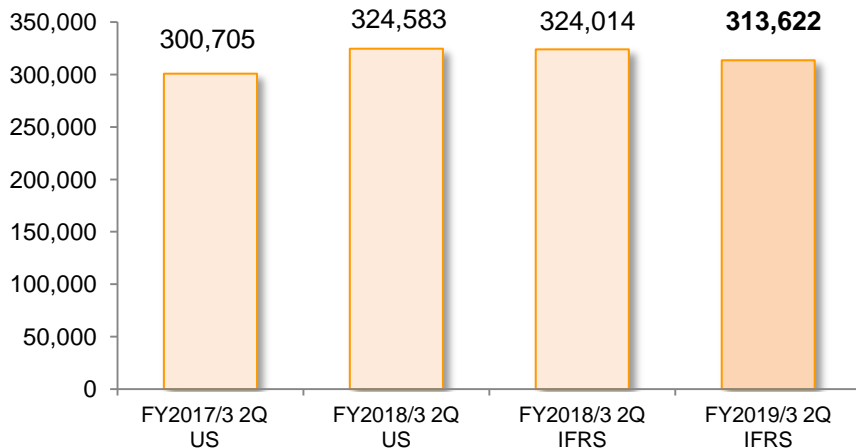
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# 1. Segment Data: 2Q (Jul.-Sep.)

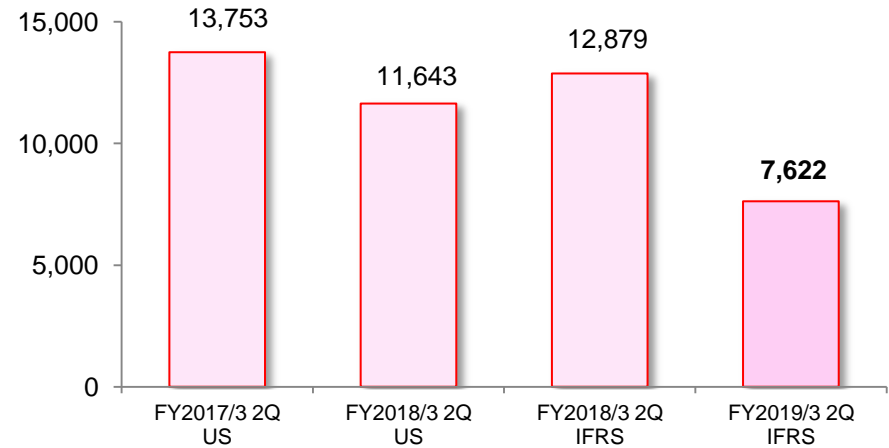
(¥ million)

		FY2017/3 2Q (US)	FY2018/3 2Q (US)	FY2018/3 2Q (IFRS)	FY2019/3 2Q (IFRS)	Variance	Variance (%)
Processed Foods Business Division	Net sales	87,702	89,285	89,285	<b>90,131</b>	846	0.9
	Operating income	2,125	1,296	1,555	<b>1,420</b>	(135)	(8.7)
Fresh Meats Business Division	Net sales	186,368	196,501	196,496	<b>189,907</b>	(6,589)	(3.4)
	Operating income	11,090	11,623	11,815	<b>8,495</b>	(3,320)	(28.1)
Affiliated Business Division	Net sales	39,991	41,645	41,643	<b>39,408</b>	(2,235)	(5.4)
	Operating income	1,016	430	494	<b>175</b>	(319)	(64.6)
Overseas Business Division	Net sales	53,944	69,553	70,098	<b>67,499</b>	(2,599)	(3.7)
	Operating income	(25)	(2,013)	(1,194)	<b>(798)</b>	396	-
Eliminations, adjustments and others	Net sales	(67,300)	(72,401)	(73,508)	<b>(73,323)</b>	185	-
	Operating income	(453)	307	209	<b>(1,670)</b>	(1,879)	-
Consolidated	Net sales	300,705	324,583	324,014	<b>313,622</b>	(10,392)	(3.2)
	Operating income	13,753	11,643	12,879	<b>7,622</b>	(5,257)	(40.8)

## Net Sales

 (¥ million)  
(consolidated)


## Operating Income

 (¥ million)  
(consolidated)


- Net sales by segment and net sales (by category) on page 24 of this presentation do not necessarily correspond (due to intersegment transactions).
- Net sales for each segment include intersegment sales.

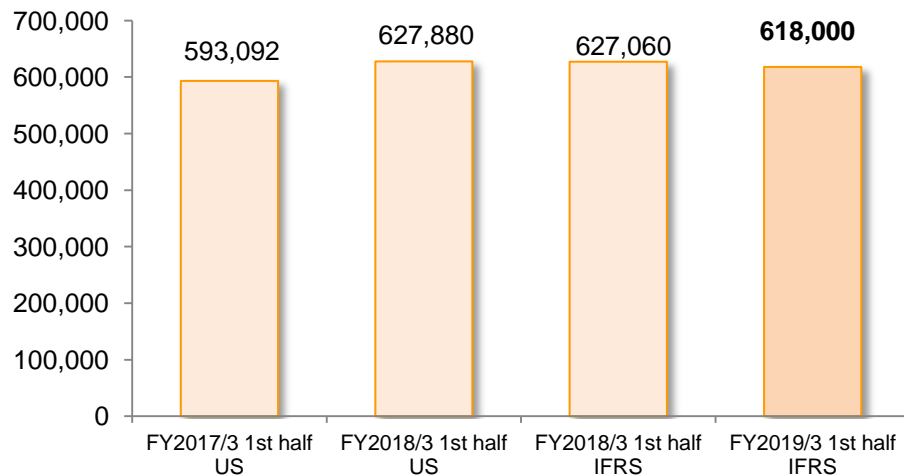
## 2. Segment Data: 1st Half (Apr.-Sep.)

(¥ million)

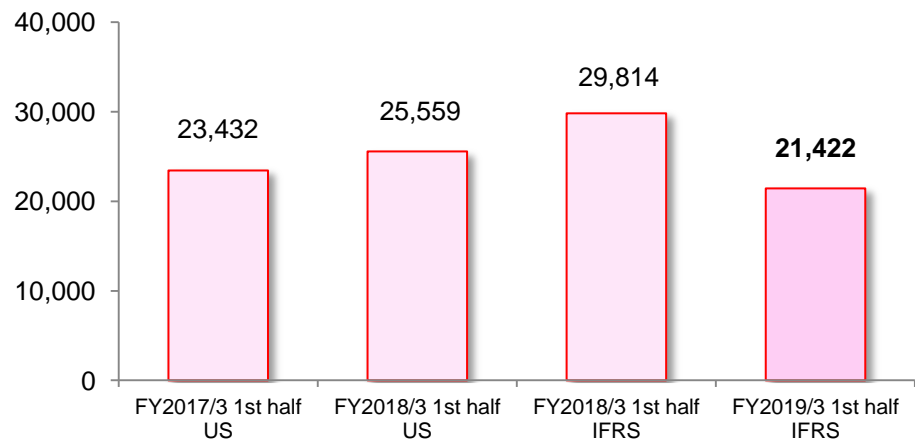
		FY2017/3 1st half (US)	FY2018/3 1st half (US)	FY2018/3 1st half (IFRS)	FY2019/3 1st half (IFRS)	Variance	Variance (%)
Processed Foods Business Division	Net sales	169,090	172,513	172,513	<b>174,463</b>	1,950	1.1
	Operating income	3,236	2,204	2,887	<b>2,753</b>	(134)	(4.6)
Fresh Meats Business Division	Net sales	370,661	389,592	389,597	<b>379,135</b>	(10,462)	(2.7)
	Operating income	19,419	24,497	25,505	<b>18,252</b>	(7,253)	(28.4)
Affiliated Business Division	Net sales	77,700	79,928	79,925	<b>75,952</b>	(3,973)	(5.0)
	Operating income	1,602	919	1,164	<b>193</b>	(971)	(83.4)
Overseas Business Division	Net sales	109,225	125,385	127,108	<b>131,657</b>	4,549	3.6
	Operating income	(599)	(2,528)	(1,361)	<b>(855)</b>	506	-
Eliminations, adjustments and others	Net sales	(133,584)	(139,538)	(142,083)	<b>(143,207)</b>	(1,124)	-
	Operating income	(226)	467	1,619	<b>1,079</b>	(540)	-
Consolidated	Net sales	593,092	627,880	627,060	<b>618,000</b>	(9,060)	(1.4)
	Operating income	23,432	25,559	29,814	<b>21,422</b>	(8,392)	(28.1)

 (¥ million)  
(consolidated)

### Net Sales


 (¥ million)  
(consolidated)

### Operating Income



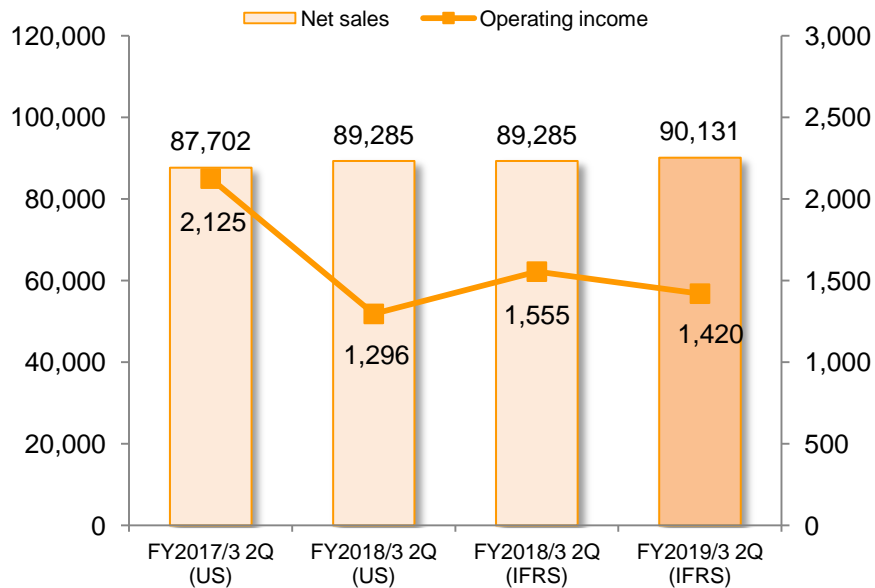
- Net sales by segment and net sales (by category) on page 24 of this presentation do not necessarily correspond (due to intersegment transactions).
- Net sales for each segment include intersegment sales.

### 3. Segment Data: Processed Foods Business Division (1)

#### 2Q Results (Jul.-Sep.)

(Net sales: ¥ million)

(Operating income: ¥ million)



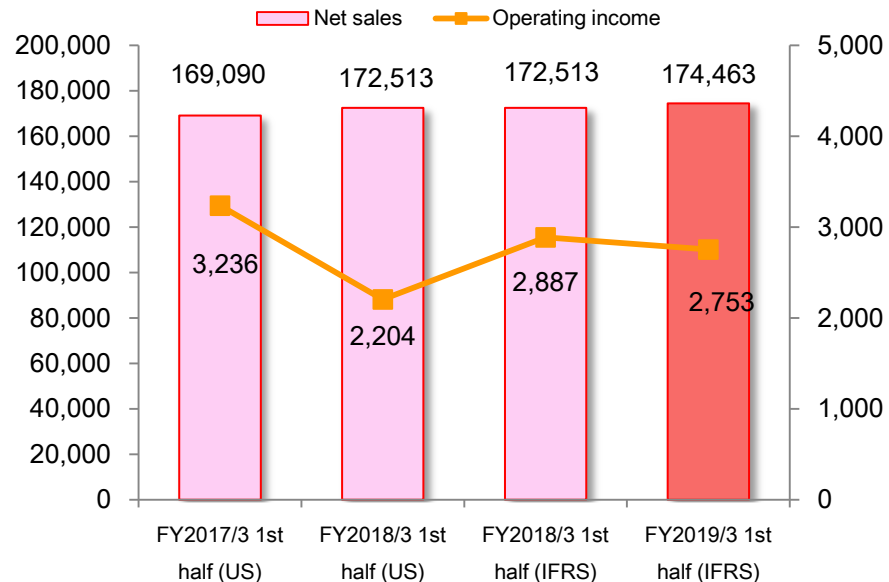
(¥ million)

	FY2018/3 2Q	FY2019/3 2Q	Variance	Variance (%)
Net sales	89,285	90,131	846	0.9
Operating income	1,555	1,420	(135)	(8.7)
Operating income ratio	1.7%	1.6%	-	-

#### 1st Half Results (Apr.-Sep.)

(Net sales: ¥ million)

(Operating income: ¥ million)



(¥ million)

	FY2018/3 1st half	FY2019/3 1st half	Variance	Variance (%)
Net sales	172,513	174,463	1,950	1.1
Operating income	2,887	2,753	(134)	(4.6)
Operating income ratio	1.7%	1.6%	-	-

#### Net Sales in FY2019/3 1st Half (Apr.-Sep.)

##### • Existing businesses (hams, sausages, and deli and processed foods)

Sales of consumer products exceeded the previous year due to strong performance mainly for deli and processed foods as a result of television commercials and the introduction of new products.

Sales of commercial-use products fell short of the previous year due to the reduction of low income products.

Revenue increased in existing businesses overall owing to growth of consumer products.

##### • Developing businesses (vendor, consumer frozen foods, and logistics businesses)

Sales exceeded the previous year due to factors such as the introduction of new products in the vendor business and joint distribution in the logistics business.

For these reasons, revenue increased from the previous year in the consolidated Processed Foods Business.

#### Operating Income in FY2019/3 1st Half (Apr.-Sep.)

##### • Existing businesses (hams, sausages, and deli and processed foods)

Although electricity and fuel costs and logistics costs increased, operating income exceeded the previous year as the product mix shifted to a more profitable composition due to the strong performance in consumer products.

##### • Developing businesses (vendor, consumer frozen foods, and logistics businesses)

Operating income exceeded the previous year due to factors such as the introduction of new products mainly in the vendor business.

Besides the above, due to temporary costs resulting from disasters, etc. and the impact of transition to IFRS, operating income decreased slightly from the previous year in the consolidated Processed Foods Business.

### 3. Segment Data: Processed Foods Business Division (2)

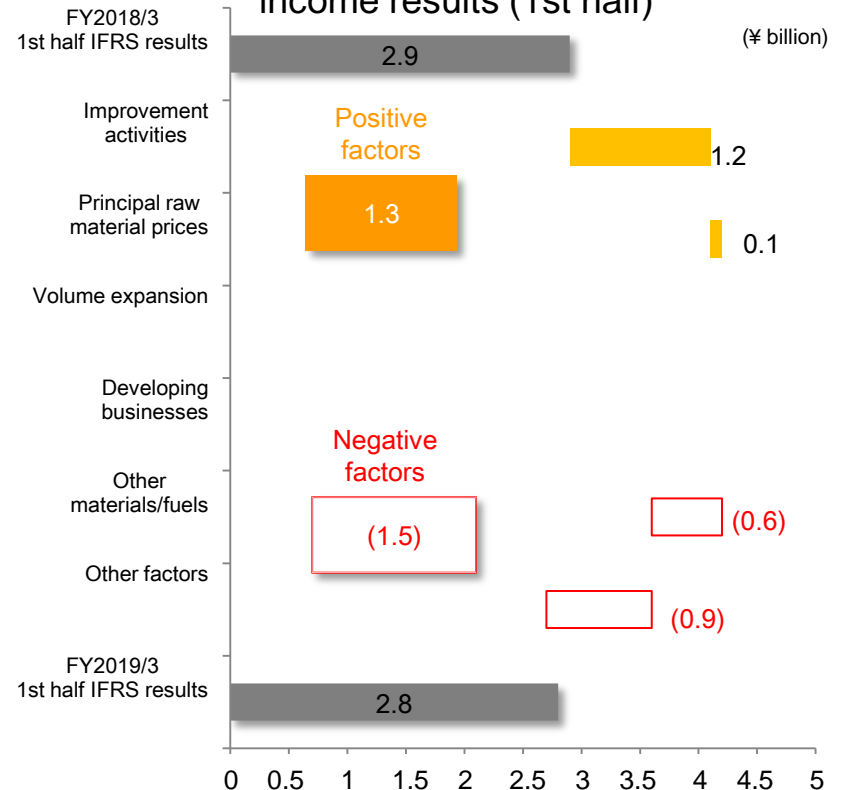
#### Factor Analysis: Changes in operating income

(¥ billion)

	FY2019/3				
	1Q results	2Q results	1st half forecasts	1st half results	Variance
<b>Existing businesses</b>	0.3	0.4	1.7	0.7	(0.9)
<i>External factors</i>	(0.4)	(0.1)	(0.4)	(0.4)	0.0
Principal raw material price	(0.2)	0.3	0.1	0.1	(0.0)
Other materials/fuels	(0.1)	(0.4)	(0.6)	(0.6)	0.0
<i>Internal factors</i>	0.7	0.5	2.1	1.2	(0.9)
Volume expansion	0.0	0.0	0.1	0.0	(0.0)
Improvement activities	0.6	0.5	2.0	1.2	(0.9)
<b>Developing businesses</b>	(0.1)	0.1	(0.0)	(0.0)	(0.0)
<b>Others</b>	(0.2)	(0.6)	(0.8)	(0.9)	(0.0)
<b>Total</b>	<b>0.0</b>	<b>(0.1)</b>	<b>0.8</b>	<b>(0.1)</b>	<b>(1.0)</b>

\* Due to rounding, item tallies in each division may not match totals.

#### Factor Analysis Graph: Changes in operating income results (1st half)



#### ● Forecasts Variation Factor Analysis (FY2019/3 1st half)

- Existing businesses:
  - Volume expansion: Remained at the level of the previous year, in line with the forecast.
  - Improvement activities: Fell significantly short of the forecast due to a struggle in gift products and unexpected large increases in labor costs and logistics costs caused by labor shortages, despite product mix improving more or less as planned due to the growth in consumer products.
- Developing businesses: Remained within the forecast level due to soaring personnel expenses and logistics costs.

### 3. Segment Data: Processed Foods Business Division (3)

#### ● Summer gift product sales results

- FY2019/3 results: Year on year, sales amount basis: 91%
- *Utsukushi-no-Kuni* gifts: Year on year, sales amount basis: 90%  
(Sales ratio at 34% on sales amount basis)

Reference: Year-on-year sales comparison of gift products

		FY 2018/3 results	FY 2019/3 results
		Variance	Variance
Summer gift-giving season	Overall sales	98%	91%
	( <i>Utsukushi-no-Kuni</i> )	105%	90%

#### ● Major consumer products sales results



*Entier*, newly packaged in small portions to enhance ease of use



*SCHAU ESSEN Pizza*, a new product using the *SCHAU ESSEN* brand

Reference: Year-on-year sales comparison of major consumer products

Hams and sausages	FY2019/3 1st half results	Deli and processed foods	FY2019/3 1st half results
Wieners	101%	Chilled bakery	105%
Loin hams and bacons	99%	Chilled dish	110%
Yakibutas	101%	Fried chicken	100%
Consumer products total	99%	Hamburg and meatball	105%
		Consumer products total	107%

#### ● Sales results by channel

- 1) Consumer products
  - Hams and sausages performed steadily, centered on the core products *SCHAU ESSEN*, *Hojun coarse-ground wieners*, and *Entier*.
  - Deli and processed foods performed strongly, centered on *Chuka Meisai* with enhanced sales promotion through commercials, etc., and chilled bakery with the introduction of new products.
- 2) Commercial-use products
  - Deli and processed foods fell short of the previous year due to the reduction of low income products.

Reference: Year-on-year growth in sales by channel

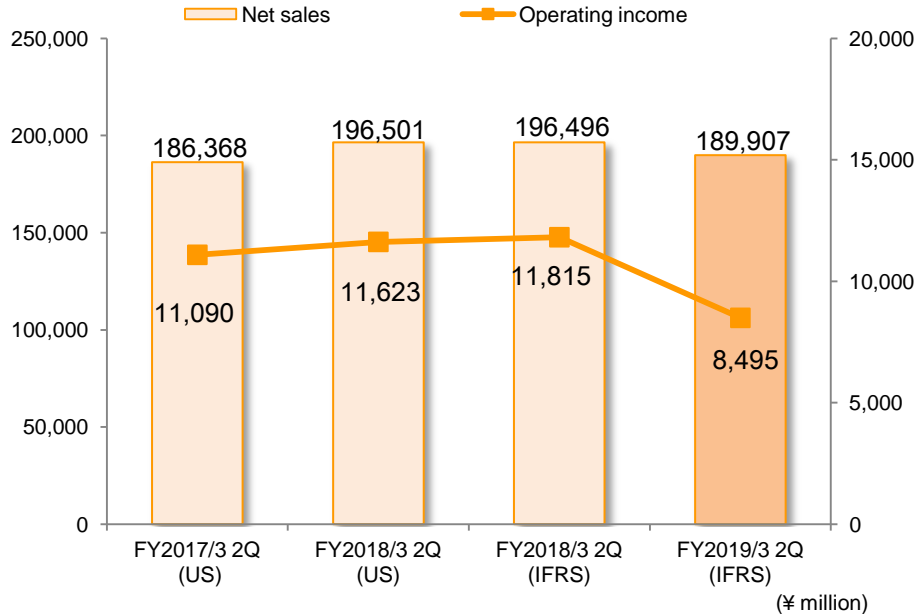
FY2019/3 1st half results		Volume	Amount
Hams and sausages	Consumer	100%	99%
	Commercial-use	96%	97%
	Total	99%	98%
Deli and processed foods	Consumer	107%	107%
	Commercial-use	98%	96%
	Total	102%	102%

# 4. Segment Data: Fresh Meats Business Division (1)

2Q Results (Jul.-Sep.)

(Net sales: ¥ million)

(Operating income: ¥ million)



	FY2018/3 2Q	FY2019/3 2Q	Variance	Variance (%)
Net sales	196,496	189,907	(6,589)	(3.4)
Operating income	11,815	8,495	(3,320)	(28.1)
Operating income ratio	6.0%	4.5%	-	-

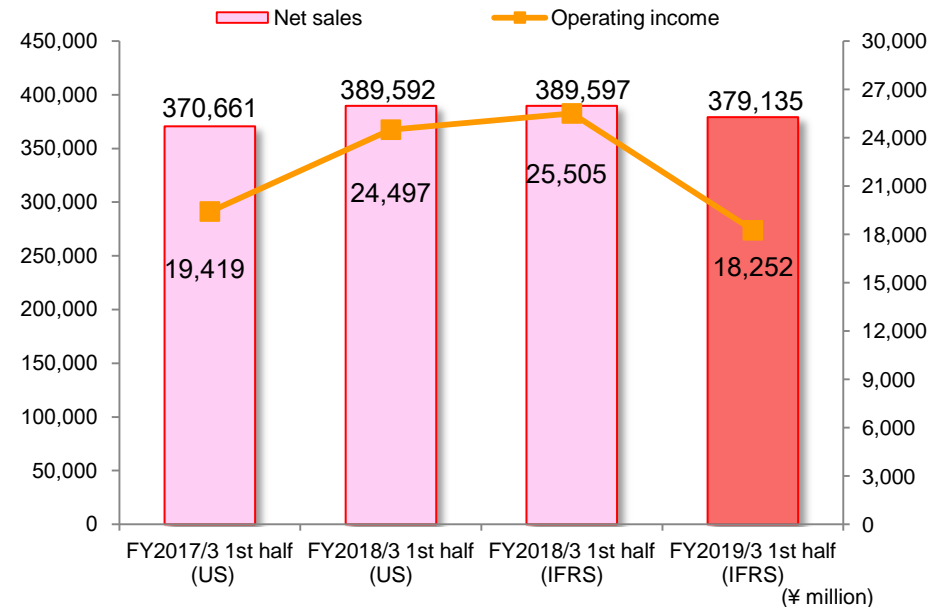
## Net Sales in FY2019/3 1st Half (Apr.-Sep.)

Despite efforts to expand sales mainly of domestic pork and chicken including our branded fresh meats *Mugikomachi* and *Sakurahime*, sales struggled and fell short of the previous year due to low market prices of domestic and imported chicken and a decline in demand caused by unseasonable weather.

1st Half Results (Apr.-Sep.)

(Net sales: ¥ million)

(Operating income: ¥ million)



	FY2018/3 1st half	FY2019/3 1st half	Variance	Variance (%)
Net sales	389,597	379,135	(10,462)	(2.7)
Operating income	25,505	18,252	(7,253)	(28.4)
Operating income ratio	6.5%	4.8%	-	-

## Operating Income in FY2019/3 1st Half (Apr.-Sep.)

In the production operations, falling market prices of domestic chicken pushed down income, despite efforts to improve production performance and increase the ratio of branded products.

The sales operations also suffered a decline in income due to high market prices for imported beef at the countries of origin, volatility in the market price of domestic pork affecting income, as well as a reaction to the strong market for imported chicken in the last year.

The Fresh Meats Business Division overall suffered the impact of these trends as well as disasters such as typhoons and earthquakes, resulting in decreased income.

## 4. Segment Data: Fresh Meats Business Division (2)

### Factor Analysis: Changes in operating income

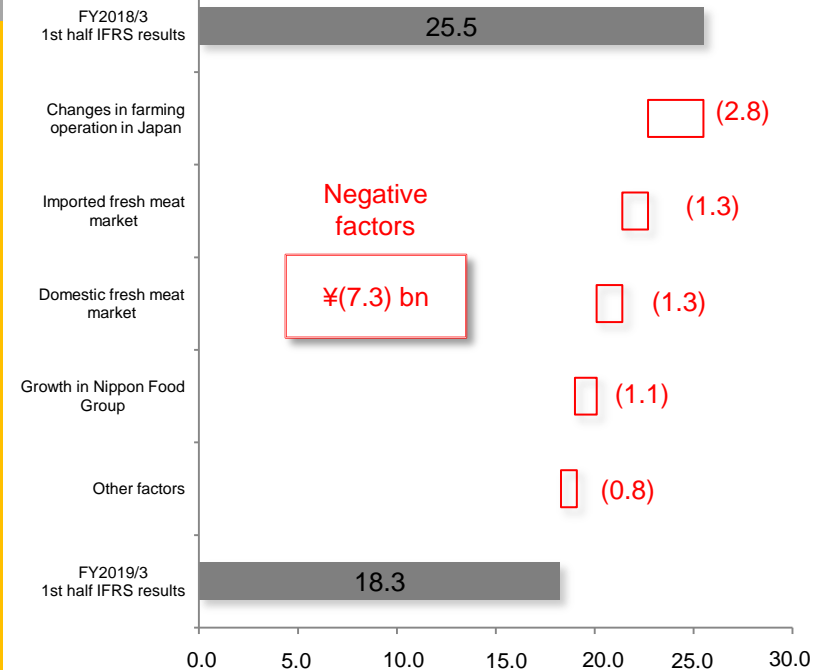
(¥ billion)

	FY2019/3				
	1Q results	2Q results	1st half forecasts	1st half results	Variance
Imported fresh meat market	(1.5)	<b>0.3</b>	(0.7)	<b>(1.3)</b>	(0.5)
Domestic fresh meat market	(0.4)	<b>(0.9)</b>	(0.3)	<b>(1.3)</b>	(1.0)
Changes in farming operation in Japan	(1.3)	<b>(1.5)</b>	(2.5)	<b>(2.8)</b>	(0.3)
Growth in Nippon Food Group	(0.3)	<b>(0.8)</b>	0.0	<b>(1.1)</b>	(1.1)
Other factors	(0.4)	<b>(0.4)</b>	(0.7)	<b>(0.8)</b>	(0.1)
<b>Total</b>	<b>(3.9)</b>	<b>(3.3)</b>	<b>(4.2)</b>	<b>(7.3)</b>	<b>(3.1)</b>

\* Due to rounding, item tallies in each division may not match totals.

### Factor Analysis Graph: Changes in operating income results (1st half)

(¥ billion)

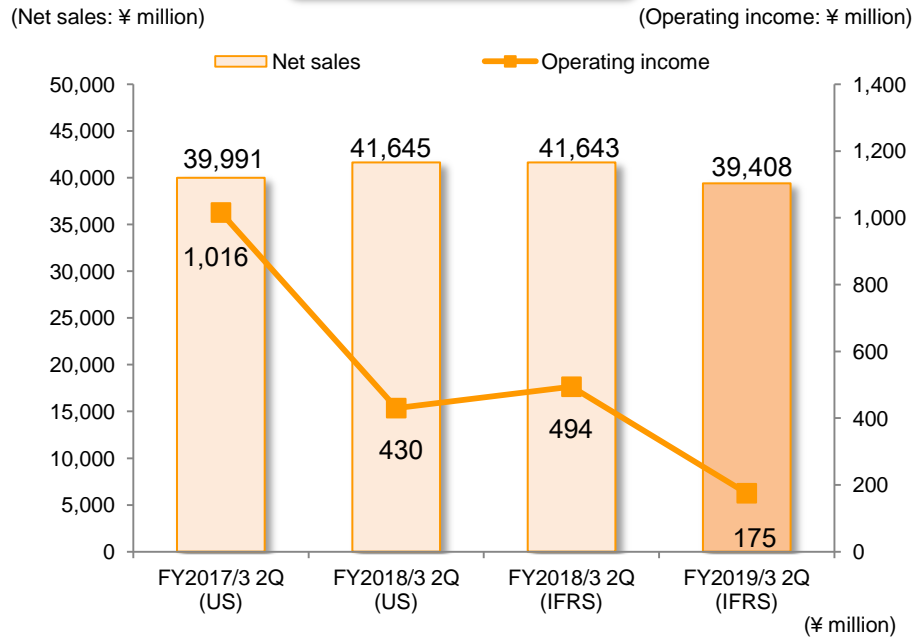


### ● Forecasts Variation Factor Analysis (FY2019/3 1st Half)

- Imported fresh meat market: Operating income fell short of forecasts due to the weak price of imported chicken in addition imported beef reaching higher prices due to rising global demand.
- Changes in farming operation in Japan: Operating income fell short of forecasts due to the stable supply caused by increased production by companies, as well as weak market prices due to lackluster consumption compared to the previous year affected by unseasonable weather.
- Growth in Nippon Food Group: Operating income fell short of forecasts due to the struggling logistics business caused by rising labor costs, as well as a fall in demand due to the impact of the Heavy Rain Event in Western Japan and typhoons.

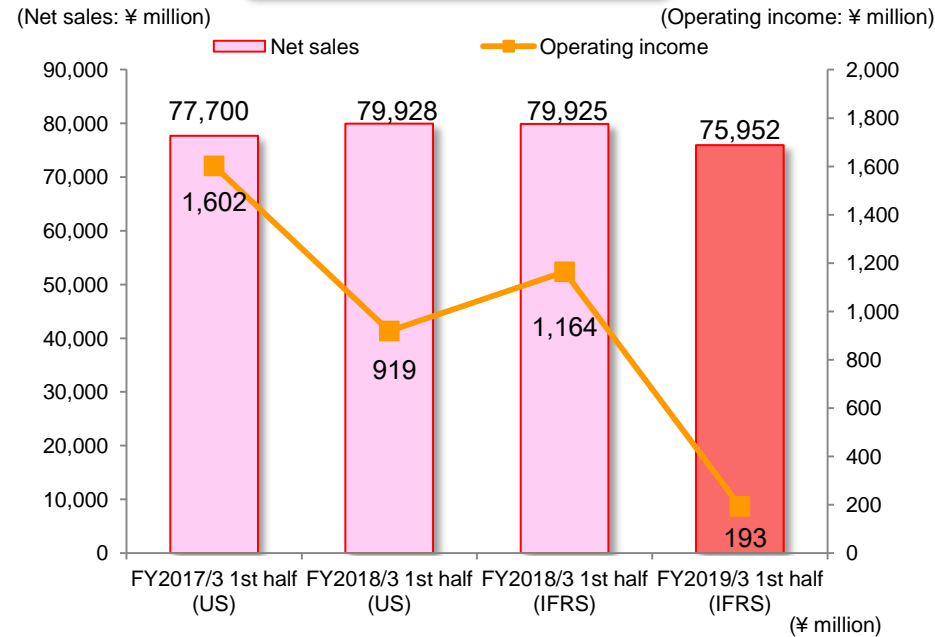
# 5. Segment Data: Affiliated Business Division

2Q Results (Jul.-Sep.)



	FY2018/3 2Q	FY2019/3 2Q	Variance	Variance (%)
Net sales	41,643	39,408	(2,235)	(5.4)
Operating income	494	175	(319)	(64.6)
Operating income ratio	1.2%	0.4%	-	-

1st Half Results (Apr.-Sep.)



	FY2018/3 1st half	FY2019/3 1st half	Variance	Variance (%)
Net sales	79,925	75,952	(3,973)	(5.0)
Operating income	1,164	193	(971)	(83.4)
Operating income ratio	1.5%	0.3%	-	-

## Net Sales in FY2019/3 1st Half (Apr.-Sep.)

(Marine products business)

Revenue decreased due to ongoing item reduction of low income products and struggling sales of raw materials for marine products as a result of soaring market prices and intensified competition.

(Dairy products business)

Revenue decreased for yogurt and probiotic beverages due to the impact of a decline in sales volume of smoothies, despite *Vanilla Yogurt* and yogurt drinks performing strongly. Sales of cheese exceeded the previous year due to growth in sales mainly of consumer products. As a result of the above factors, revenue declined in the dairy products business overall.

## Operating Income in FY2019/3 1st Half (Apr.-Sep.)

(Marine products business)

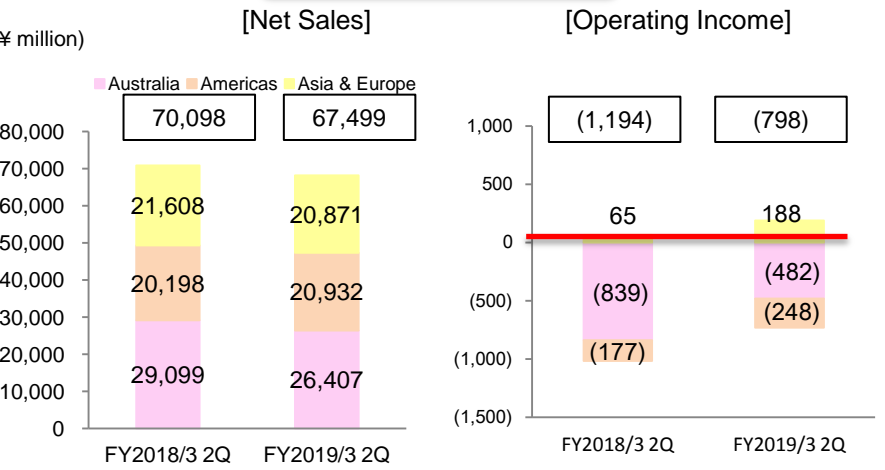
Gross profit ratio improved due to implementation of price revisions and item reduction of low income products, leading to improvement in operating income in the second quarter. However, operating income was down in the first half overall due to struggling sales.

(Dairy products business)

Operating income decreased due to lack of progress in efforts to shift rising raw material prices to sales prices, mainly for commercial-use cheeses, in addition to factors such as an increase in manufacturing costs.

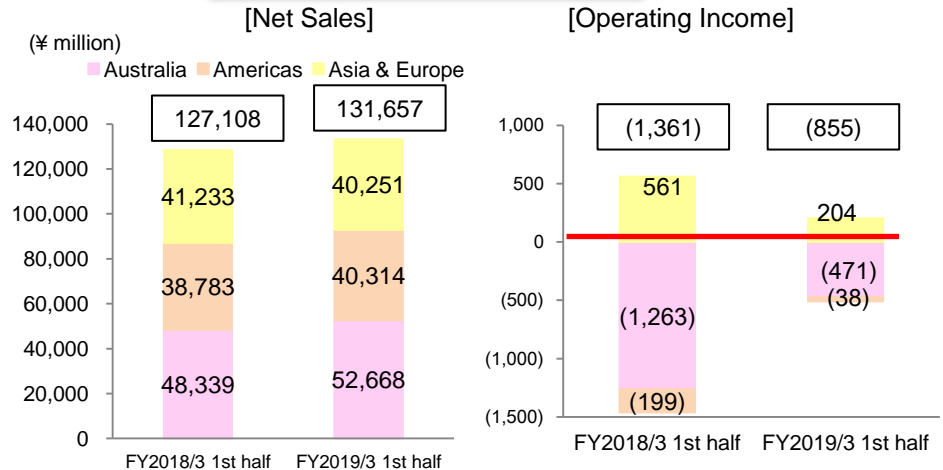
# 6. Segment Data: Overseas Business Division (1)

2Q Results (Jul.-Sep.)



		FY2018/3 2Q	FY2019/3 2Q	Variance (%)
Overseas total	Net sales	70,098	67,499	(3.7)
	Operating income	(1,194)	(798)	-
Australia (including Uruguay)	Net sales	29,099	26,407	(9.3)
	Operating income	(839)	(482)	-
Americas	Net sales	20,198	20,932	3.6
	Operating income	(177)	(248)	-
Asia & Europe	Net sales	21,608	20,871	(3.4)
	Operating income	65	188	189.2

1st Half Results (Apr.-Sep.)



		FY2018/3 1st half	FY2019/3 1st half	Variance (%)
Overseas total	Net sales	127,108	131,657	3.6
	Operating income	(1,361)	(855)	-
Australia (including Uruguay)	Net sales	48,339	52,668	9.0
	Operating income	(1,263)	(471)	-
Americas	Net sales	38,783	40,314	3.9
	Operating income	(199)	(38)	-
Asia & Europe	Net sales	41,233	40,251	(2.4)
	Operating income	561	204	(63.6)

\* Net sales and operating income amounts are prior to consolidation adjustments. (The figures for all overseas segments do not match the overseas total, due to elimination of intersegment transactions.)

**Net Sales in FY2019/3 1st Half (Apr.-Sep.)**  
 Revenue increased in Australia as a result of high sales prices and a favorable environment for fresh meat exports due to the weak Australian dollar.  
 Revenue in the Americas increased because of the strong performance of fresh meat exports to Japan.  
 Revenue decreased in Asia & Europe due to the struggling export volume of processed chicken products in Thailand, despite increased sales volume at Ege-Tav in Turkey.

**Operating Income in FY2019/3 1st Half (Apr.-Sep.)**  
 Although the business environment was harsh in Uruguay, Australia saw a shift to profitability due to decreased livestock procurement costs and strong sales, and the deficit shrank overall.  
 In the Americas, while the export environment improved owing to factors such as stable fresh meat procurement prices, this was not sufficient to eliminate the deficit.  
 In Asia & Europe, income declined as a result of Ege-Tav in Turkey struggling with falling sales prices, rising feed costs caused by the weak lira, and the decline in sales volume in Thailand.

## 6. Segment Data: Overseas Business Division (2)

### Factor Analysis: Changes in operating income

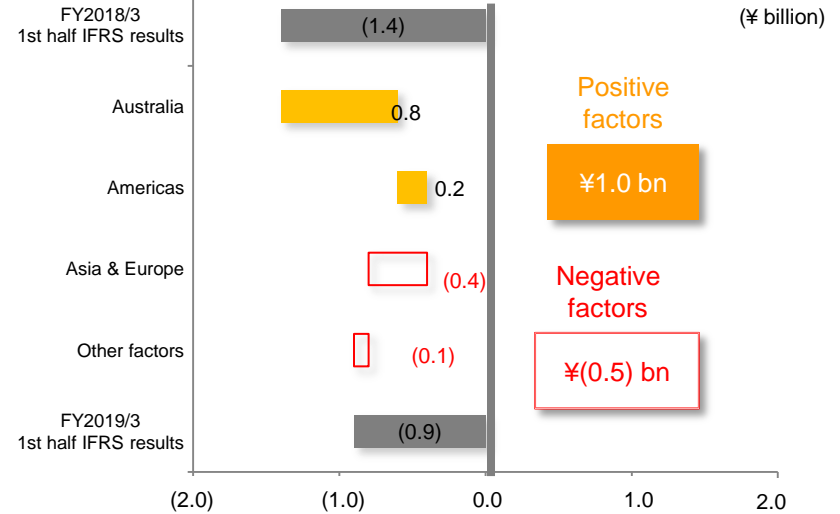
(¥ billion)

	FY2019/3				
	1Q results	2Q results	1st half forecasts	1st half results	Variance
Australia (including Uruguay)	0.4	0.4	1.3	0.8	(0.5)
Americas	0.2	(0.1)	0.2	0.2	(0.1)
Asia & Europe	(0.5)	0.1	(0.2)	(0.4)	(0.2)
Other factors	(0.1)	0.0	(0.2)	(0.1)	0.1
<b>Total</b>	0.1	0.4	1.1	0.5	(0.6)

\* Due to rounding, item tallies in each division may not match totals.

### Factor Analysis Graph: Changes in operating income results (1st half)

(¥ billion)



### Forecast Variation Factor Analysis

#### ● Australia operations:

Operating income fell short of forecasts as the operations struggled due to the deteriorating collection environment of livestock in Uruguay and the impact of weaker currencies in neighboring rival countries.

#### ● Americas operations:

Operating income remained within forecasted level due to tough sales competition in processed foods, despite the favorable environment for fresh meat exports to Japan.

#### ● Asia & Europe operations:

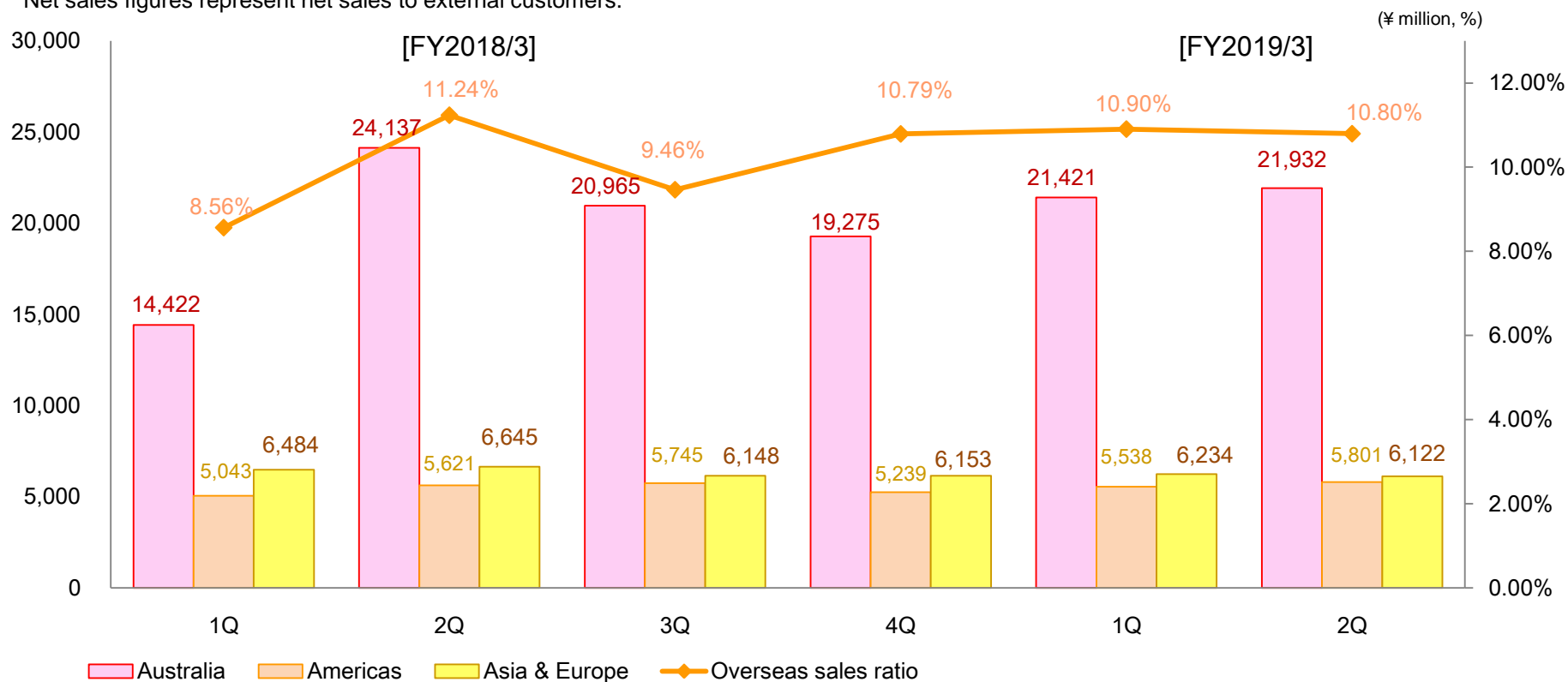
Operating income fell short of forecasts due to struggling export volume of processed chicken products in Thailand, although Ege-Tav in Turkey secured income in a harsh business environment.

# 7. External Customer Net Sales Results in Major Overseas Geographical Areas

(¥ million, %)

	FY2018/3 (IFRS)					FY2019/3 (IFRS)	
	1Q	2Q	3Q	4Q	Full year	1Q	2Q
Australia	14,422	24,137	20,965	19,275	78,799	21,421	21,932
Americas	5,043	5,621	5,745	5,239	21,648	5,538	5,801
Asia & Europe	6,484	6,645	6,148	6,153	25,430	6,234	6,122
Overseas total	25,949	36,403	32,857	30,668	125,877	33,192	33,857
Overseas sales ratio	8.56%	11.24%	9.46%	10.79%	10.00%	10.90%	10.80%

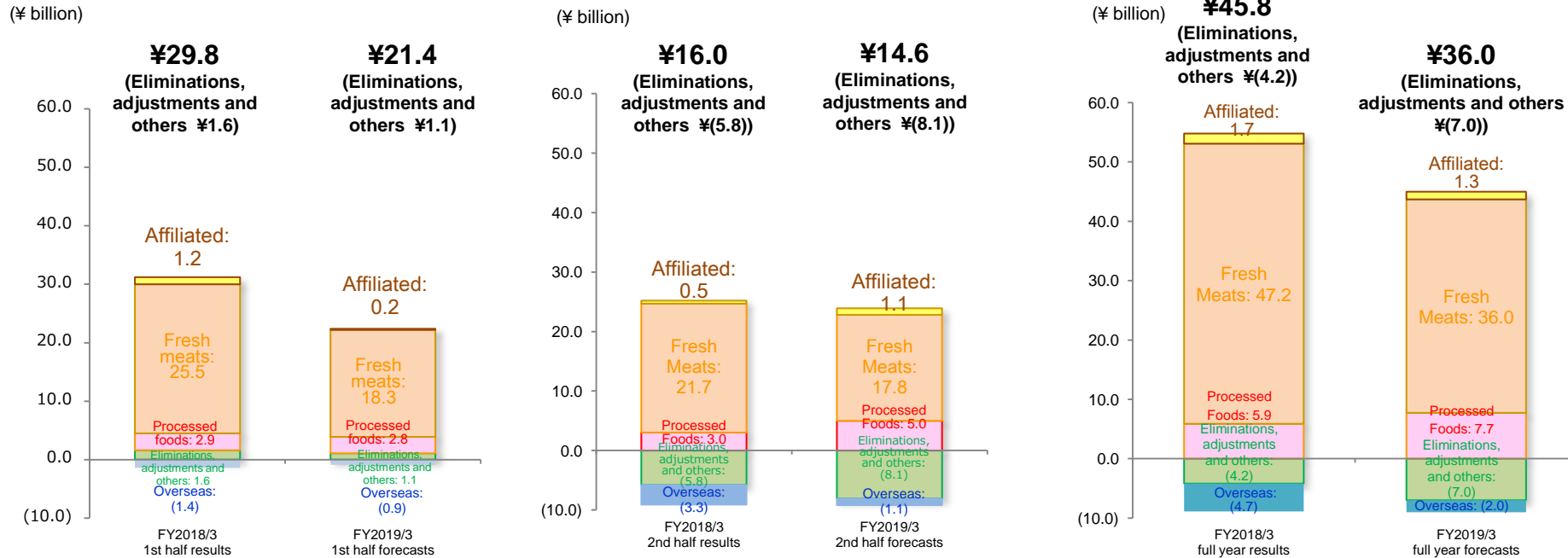
\*Net sales figures represent net sales to external customers.



## **II. Outlook for FY2019/3**

- 1. FY2019/3 Operating Income Forecasts**
- 2. Processed Foods Business Division: Outlook**
- 3. Fresh Meats Business Division: Outlook**
- 4. Affiliated Business Division: Outlook**
- 5. Overseas Business Division: Outlook**

# 1. FY2019/3 Operating Income Forecasts (1)



	FY2019/3 1st half			FY2019/3 2nd half			FY2019/3 full year		
	FY2018/3 1st half results	Results	Variance	FY2018/3 2nd half results	Forecasts	Variance	FY2018/3 full year results	Forecasts	Variance
Processed Foods Business Division	2.9	<b>2.8</b>	(0.1)	3.0	<b>5.0</b>	2.0	5.9	<b>7.7</b>	1.8
Fresh Meats Business Division	25.5	<b>18.3</b>	(7.3)	21.7	<b>17.8</b>	(3.9)	47.2	<b>36.0</b>	(11.2)
Affiliated Business Division	1.2	<b>0.2</b>	(1.0)	0.5	<b>1.1</b>	0.6	1.7	<b>1.3</b>	(0.4)
Overseas Business Division	(1.4)	<b>(0.9)</b>	0.5	(3.3)	<b>(1.1)</b>	2.2	(4.7)	<b>(2.0)</b>	2.7
Eliminations, adjustments and others	1.6	<b>1.1</b>	(0.5)	(5.8)	<b>(8.1)</b>	(2.3)	(4.2)	<b>(7.0)</b>	(2.9)
of which structural reform expenses	-	<b>0.0</b>	-	-	<b>0.0</b>	-	-	<b>0.0</b>	-
of which value creation expenses	-	<b>0.0</b>	-	-	<b>(0.2)</b>	-	-	<b>(0.2)</b>	-
of which profit or loss of baseball club	-	<b>1.7</b>	-	-	<b>(3.6)</b>	-	-	<b>(1.9)</b>	-
of which loss on disaster	-	<b>(1.4)</b>	-	-	<b>(0.0)</b>	-	-	<b>(1.4)</b>	-
of which others	-	<b>0.8</b>	-	-	<b>(4.4)</b>	-	-	<b>(3.6)</b>	-
<b>Total</b>	<b>29.8</b>	<b>21.4</b>	<b>(8.4)</b>	<b>16.0</b>	<b>14.6</b>	<b>(1.4)</b>	<b>45.8</b>	<b>36.0</b>	<b>(9.8)</b>

# 1. FY2019/3 Operating Income Forecasts (2)

## Variance from 1Q forecasts

\* Forecasts for the 3Q, 4Q, 2nd half, and full year are the forecasts revised after the 2Q

(¥ billion)

	FY2019/3 1st half			FY2019/3 3Q			FY2019/3 4Q			FY2019/3 2nd half			FY2019/3 full year		
	1Q forecasts	Results	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance
Processed Foods Business Division	3.7	<b>2.8</b>	(1.0)	5.1	5.3	0.2	(0.3)	<b>(0.4)</b>	(0.1)	4.8	5.0	0.2	8.5	<b>7.7</b>	(0.8)
Fresh Meats Business Division	21.3	<b>18.3</b>	(3.1)	14.2	10.5	(3.8)	8.5	<b>7.3</b>	(1.2)	22.7	17.8	(5.0)	44.0	<b>36.0</b>	(8.0)
Affiliated Business Division	1.4	<b>0.2</b>	(1.2)	1.7	1.4	(0.3)	(0.1)	<b>(0.3)</b>	(0.2)	1.6	1.1	(0.5)	3.0	<b>1.3</b>	(1.7)
Overseas Business Division	(0.3)	<b>(0.9)</b>	(0.6)	0.7	(0.9)	(1.6)	0.1	<b>(0.3)</b>	(0.4)	0.8	(1.1)	(1.9)	0.5	<b>(2.0)</b>	(2.5)
Eliminations, adjustments and others	3.9	<b>1.1</b>	(2.8)	(3.7)	(1.8)	1.9	(6.2)	<b>(6.3)</b>	(0.1)	(9.9)	(8.1)	1.8	(6.0)	<b>(7.0)</b>	(1.0)
of which structural reform expenses	0.0	0.0	0.0	(1.0)	0.0	1.0	(1.0)	0.0	1.0	(2.0)	0.0	2.0	(2.0)	0.0	2.0
of which value creation expenses	(0.5)	0.0	0.5	(0.5)	(0.0)	0.5	(1.0)	(0.2)	0.8	(1.5)	(0.2)	1.3	(2.0)	(0.2)	1.8
of which profit or loss of baseball club	2.4	1.7	(0.7)	(1.9)	(1.6)	0.3	(2.0)	(2.0)	0.0	(3.9)	(3.6)	0.3	(1.5)	(1.9)	(0.4)
of which loss on disaster	-	(1.4)	(1.4)	-	(0.0)	(0.0)	-	0.0	0.0	-	(0.0)	(0.0)	-	(1.4)	(1.4)
of which others	2.1	0.8	(1.3)	(0.3)	(0.2)	0.1	(2.2)	(4.1)	(1.9)	(2.6)	(4.3)	(1.8)	(0.5)	(3.5)	(3.0)
Total	30.0	<b>21.4</b>	(8.6)	18.0	<b>14.5</b>	(3.5)	2.0	<b>0.1</b>	(1.9)	20.0	14.6	(5.4)	50.0	<b>36.0</b>	(14.0)

- Structural reform expenses are not expected this fiscal year.
- Value creation expenses remains at approximately ¥0.2 billion.
- Loss on disaster caused a ¥1.4 billion decrease in operating income. Opportunity losses of approximately ¥1.0 billion occurred primarily in the Fresh Foods Business Division.

# 1. FY2019/3 Operating Income Forecasts (3)

## Factor Analysis: Changes in operating income forecasts

### ○ Processed Foods Business Division

(¥ billion)

Processed Foods Business Division	Variance from 1Q forecasts								
	3Q			4Q			Full year		
	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance
<b>Total existing businesses</b>	0.1	<b>0.4</b>	0.4	0.8	<b>0.3</b>	(0.5)	2.5	<b>1.5</b>	(1.0)
External factors	(0.5)	<b>0.0</b>	0.5	(0.3)	<b>(0.2)</b>	0.1	(1.2)	<b>(0.6)</b>	0.6
Principal raw material price	0.2	<b>0.7</b>	0.5	0.2	<b>0.7</b>	0.4	0.5	<b>1.4</b>	0.9
Other materials/fuels	(0.7)	<b>(0.6)</b>	0.0	(0.5)	<b>(0.8)</b>	(0.3)	(1.7)	<b>(2.0)</b>	(0.3)
Internal factors	0.5	<b>0.4</b>	(0.2)	1.1	<b>0.5</b>	(0.6)	3.7	<b>2.1</b>	(1.6)
Volume expansion	0.2	<b>0.0</b>	(0.2)	0.0	<b>0.0</b>	0.0	0.3	<b>0.0</b>	(0.2)
Improvement activities	0.3	<b>0.4</b>	0.1	1.1	<b>0.5</b>	(0.6)	3.5	<b>2.1</b>	(1.4)
<b>Developing businesses</b>	0.1	<b>0.1</b>	0.0	0.2	<b>0.1</b>	(0.0)	0.3	<b>0.2</b>	(0.1)
<b>Others</b>	0.4	<b>0.2</b>	(0.2)	0.3	<b>0.7</b>	0.4	(0.2)	<b>0.1</b>	0.3
<b>Total</b>	0.6	<b>0.8</b>	0.2	1.3	<b>1.2</b>	(0.1)	2.6	<b>1.8</b>	(0.8)

### ○ Fresh Meats Business Division

(¥ billion)

Fresh Meats Business Division	Variance from 1Q forecasts								
	3Q			4Q			Full year		
	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance
Imported fresh meat market	1.2	<b>(0.1)</b>	(1.3)	0.9	<b>0.9</b>	0.0	1.4	<b>(0.5)</b>	(1.8)
Domestic fresh meat market	0.0	<b>(0.5)</b>	(0.5)	(0.3)	<b>(0.6)</b>	(0.4)	(0.5)	<b>(2.4)</b>	(1.9)
Changes in farming operation in Japan	(0.3)	<b>(1.8)</b>	(1.5)	0.2	<b>(1.3)</b>	(1.4)	(2.6)	<b>(5.8)</b>	(3.2)
Growth in Nippon Food Group	(0.4)	<b>(0.4)</b>	(0.1)	(0.3)	<b>(0.2)</b>	0.1	(0.7)	<b>(1.7)</b>	(1.0)
Other factors	0.5	<b>0.0</b>	(0.5)	(0.5)	<b>0.0</b>	0.5	(0.7)	<b>(0.7)</b>	(0.1)
<b>Total</b>	1.0	<b>(2.8)</b>	(3.8)	0.0	<b>(1.2)</b>	(1.2)	(3.2)	<b>(11.2)</b>	(8.0)

### ○ Overseas Business Division

(¥ billion)

Overseas Business Division	Factors for changes in operating income								
	3Q			4Q			Full year		
	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance	1Q forecasts	Forecasts	Variance
<b>Australia (including Uruguay)</b>	1.2	<b>0.6</b>	(0.6)	0.8	<b>1.0</b>	0.2	3.2	<b>2.4</b>	(0.9)
<b>Americas</b>	0.6	<b>(0.1)</b>	(0.7)	0.3	<b>0.2</b>	(0.1)	1.2	<b>0.3</b>	(0.9)
<b>Asia &amp; Europe</b>	0.3	<b>0.3</b>	(0.0)	0.7	<b>0.4</b>	(0.4)	0.8	<b>0.3</b>	(0.5)
<b>Other factors</b>	0.2	<b>0.0</b>	(0.2)	(0.0)	<b>(0.2)</b>	(0.2)	0.0	<b>(0.3)</b>	(0.3)
<b>Total</b>	2.4	<b>0.8</b>	(1.6)	1.8	<b>1.4</b>	(0.4)	5.2	<b>2.7</b>	(2.5)

### Operating income forecasts

(¥ billion)

Overseas Business Division	Operating income					
	3Q		4Q		Full year	
	1Q forecasts	Forecasts	1Q forecasts	Forecasts	1Q forecasts	Forecasts
Australia (including Uruguay)	0.2	<b>(0.4)</b>	0.0	<b>0.2</b>	0.2	<b>(0.7)</b>
Americas	0.4	<b>(0.3)</b>	0.1	<b>0.0</b>	0.6	<b>(0.3)</b>
Asia & Europe	0.1	<b>0.1</b>	0.2	<b>(0.2)</b>	0.6	<b>0.1</b>
Other factors	(0.0)	<b>(0.3)</b>	(0.2)	<b>(0.4)</b>	(0.9)	<b>(1.2)</b>
<b>Total</b>	0.7	<b>(0.9)</b>	0.1	<b>(0.3)</b>	0.5	<b>(2.0)</b>

## 2. Processed Foods Business Division: Outlook

### ● Sales promotion measures for gift products

- Optimally leverage the publicity of consecutive wins of the Japan Gift Awards “Premium Gift Award” over two years.
- Expand the flagship brand *Utsukushi-no-Kuni* series by introducing new items.
- Enhance sales promotion for the regular brand *Honkakuha* and the side dish gift product *Shisen Meisai*.

Reference: Net sales results and forecasts of gift products (year-on-year comparison)

		FY2018/3 results	FY2019/3 results & forecasts
		Variance	Variance
Summer gift-giving season	Overall sales amount	98%	91%
	( <i>Utsukushi-no-Kuni</i> )	105%	90%
Year-end gift-giving season	Overall sales amount	93%	100%
	( <i>Utsukushi-no-Kuni</i> )	100%	102%
Total	Overall sales amount	95%	97%
	( <i>Utsukushi-no-Kuni</i> )	102%	98%
	Sales ratio of <i>Utsukushi-no-Kuni</i>	32%	32%

### ● Sales promotion measures for major consumer products

- 1) For hams and sausages, focus on securing new fans by enhancing area promotions in core products such as *SCHAU ESSEN* and *Hojun*, while also expanding regular products to secure stable income.
- 2) In deli and processed foods, further expand sales mainly of core products using commercials and enrich new products with the aim of increasing income.

Reference: Net sales and forecasts of major consumer products (year-on-year comparison)

Hams and sausages	FY2019/3 full year forecasts	Deli and processed foods	FY2019/3 full year forecasts
Wieners	101%	Chilled bakery	105%
Loin hams and bacons	102%	Chilled dish	107%
Yakibutas	101%	Fried chicken	100%
Total consumer products	100%	Hamburg and meatball	103%
		Total consumer products	106%

### ● Sales promotion measures by channel

- 1) Consumer products
  - Enhance store sales promotions to increase sales.
  - Increase brand recognition and win fans by expanding local area plans.
  - Expand sales routes including drug stores and e-commerce.
- 2) Commercial-use products
  - Acquire large product deals and introduce new products for CVS and restaurant channels.
  - Increase income in core categories by improving line operation with enhanced coordination between manufacturing and sales.

Reference: Net sales forecasts by channel (year-on-year comparison)

FY2019/3 full year forecasts (2Q revision)		Amount
Hams and sausages	Consumer	100%
	Commercial-use	97%
	Total	100%
Deli and processed foods	Consumer	106%
	Commercial-use	98%
	Total	102%

### 3. Fresh Meats Business Division: Outlook

#### ● Domestic production business

- Feed prices increased due to production conditions and the weak yen, but are expected to level off from the second half due to stabilized production. Although production of corn and soybeans has stabilized, attention must be given to the weak yen and movements in the US-China trade friction.
- Stable supply of chicken is expected due to increased production by companies. We also plan to improve breeding productivity for stable production in response to strong demand.
- The environment for raising hogs was unstable due to the extreme heat. The number of hogs is increasing mainly in eastern Japan, but supply conditions from the start of next year onwards remain uncertain.

#### ● Domestic fresh meat market

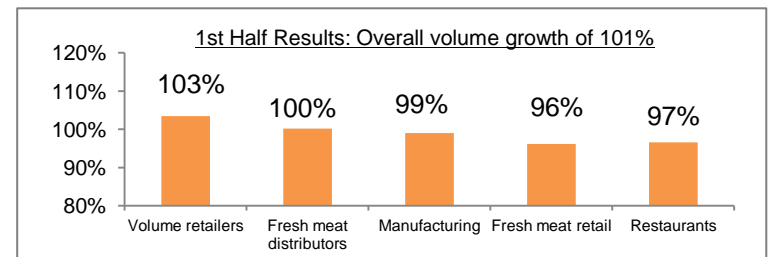
- Beef prices are remaining high due to the impact of supply shortages. Prices may rise further towards the end of the year during the high-demand season.
- Pork prices are expected to remain stable toward the end of the year due to stable supply volume despite the impact of occasional incidents of diseases.
- Chicken prices slackened amid stable supply, but prices for thigh meat are expected to rise towards the high-demand period in winter.

#### ● Imported fresh meat market

- Beef prices are expected to remain high because of strong demand especially in Asia.
- Pork prices are expected to remain stable due to increased production in North America and stable demand.
- Market prices for chicken are expected to settle towards the second half as the impact of decreased production in Brazil has mostly been eliminated.

#### ● Fresh meat sales (food companies)

- Further expand share by increasing sales to fresh meat, side dish, and deli departments at volume retailers and enhancing negotiations with restaurants in Tokyo.
- In addition to airing television commercials for *Sakurahime* and *Mugikomachi* in each area, carry out proposals and sales promotions for branded fresh meats on the radio and at stores to make actual sales.



## 4. Affiliated Business Division: Outlook

### ● Sales promotion measures for marine products business

#### (Marine Foods)

- Secure proprietary procurement routes in Japan and overseas to enhance raw materials procurement capacity.
- Increase profitability with enhanced sales of high value-added products and optimization of product mix.

#### (Hoko)

- Revise production lines and the product mix to enhance profitability.
- Proceed with price revisions reflecting market conditions for products such as canned mackerel for which raw material prices are expected to rise as a result of shortages in catches.

### ● Sales promotion measures for dairy products business

#### (Cheese)

- Continue price revision to cover soaring raw materials costs.
- Build a structure to increase production in our two plants in the east and west to enhance sales of consumer products.

#### (Yogurt)

- Improve profitability by promoting reduction of manufacturing costs through streamlining of production lines and revising the product mix.
- Strengthen sales of high-income products focused on yogurt drinks.

### ● Trends in the prices of principal raw materials and other materials

- Marine products prices are remaining high due to the impact of decreased supply volume caused by shrinking catches in Japan's exclusive economic zone and growing global demand.
- Prices of raw materials for cheese are expected to remain high due to a decline in raw milk production volume owing to drought and unseasonable weather amid increasing global demand.
- Prices of skim milk powder, a principal raw material, are expected to remain high, as with raw materials for cheese.

## 5. Overseas Business Division: Outlook

### ● Australia

#### <Australia>

- Fattening: Cattle procurement prices are expected to bottom out and costs such as grain prices are expected to rise.
- Processing: Livestock procurement costs are expected to rise due to the deteriorating collection environment.
- Sales: While sales prices have stabilized, attention must still be paid to trends in U.S. beef.

→Currently, more cattle are being processed, which means collection of livestock is moving ahead of schedule, and it will be difficult to secure income in the coming phase due to oversupply.

#### <Uruguay>

- It is expected that the difficult collection environment will have bottomed out by the second half and income will improve as a result of securing stable livestock supply.

### ● Americas

- Fresh meat exports are expected to secure stable income as procurement prices remain low.
- Processed food products are expected to struggle in securing income as sales competition remains severe.

### ● Asia & Europe

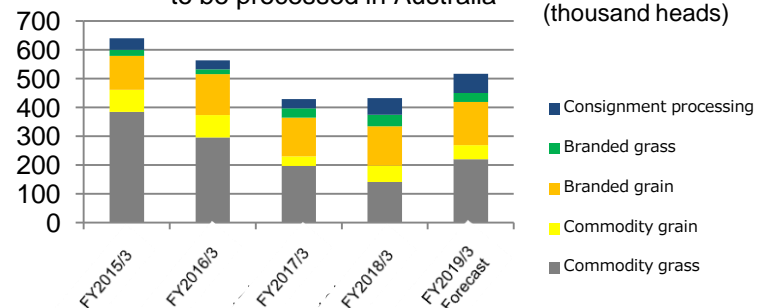
- Ege-Tav in Turkey is expected to see improvement in the bottom line, spurred by improved productivity, as sales prices are revised to reflect rises in procurement costs.
- Europe is expected to continue struggling in securing income due to persisting highs in fresh meat procurement prices.

Reference: FY2019/3 1H Australia sales results

Major countries for sales	Volume (ratio break down)	Volume (variance year on year)
Japan	25%	95%
United States	15%	111%
South Korea	11%	110%
China	10%	174%
Taiwan	3%	92%
Australia	24%	114%
Others	13%	97%
<b>Total</b>	<b>100%</b>	<b>108%</b>

\* Due to rounding, item tallies in each division may not match totals.

Reference: FY2019/3 Forecast of the number of cattle to be processed in Australia



## **III. Consolidated Financial Results for FY2019/3 2Q**

- 1. FY2019/3 Business Results at a Glance and Full Year Forecasts**
- 2. Balance Sheets / Capital Expenditures / Depreciation and Amortization**
- 3. Cash Flows**

# 1. FY2019/3 Business Results at a Glance and Full Year Forecasts

(¥ million, %)

	FY2018/3 results (IFRS)			FY2019/3 results and forecasts (IFRS)						
	1st half results	2nd half results	Full year results	1st half results	Variance	Volume growth rate	2nd half forecasts	Variance	Full year forecasts	Variance
Net sales	627,060	631,403	1,258,463	618,000	(1.4)	-	642,000	1.7	1,260,000	0.1
Hams and sausages	63,954	68,450	132,404	62,653	(2.0)	(1.1)	69,147	1.0	131,800	(0.5)
Processed foods	113,064	120,025	233,089	115,107	1.8	(0.6)	123,493	2.9	238,600	2.4
Fresh meats	360,220	356,123	716,343	353,222	(1.9)	1.2	365,078	2.5	718,300	0.3
Beef	146,965	146,322	293,287	150,455	2.4	9.2	152,345	4.1	302,800	3.2
Pork	113,278	113,908	227,186	111,937	(1.2)	1.2	113,163	(0.7)	225,100	(0.9)
Chicken	86,757	85,744	172,501	77,259	(10.9)	(3.8)	88,341	3.0	165,600	(4.0)
Other fresh meats	13,220	10,149	23,369	13,571	2.7	(0.9)	11,229	10.6	24,800	6.1
Marine products	45,198	48,606	93,804	42,116	(6.8)	(13.7)	48,984	0.8	91,100	(2.9)
Dairy products	17,115	17,076	34,191	17,058	(0.3)	(1.5)	17,542	2.7	34,600	1.2
Others	27,509	21,123	48,632	27,844	1.2	-	17,756	(15.9)	45,600	(6.2)
Cost of goods sold	517,249	530,229	1,047,478	514,481	(0.5)					
Gross profit	109,811	101,174	210,985	103,519	(5.7)					
Gross profit ratio	17.5%	16.0%	16.8%	16.8%	-					
SG&A expenses	79,997	85,158	165,155	82,097	2.6					
Operating income	29,814	16,016	45,830	21,422	(28.1)		14,578	(9.0)	36,000	(21.4)
Transfer fee for a professional baseball player	-	2,273	2,273	-	-		-	-	-	-
Other income and expenses	1,436	1,262	2,698	2,717	89.2		(2,117)	(267.7)	600	-
Finance income and costs	(1,078)	2,006	928	(1,611)	49.4		(2,989)	-	(4,600)	-
Equity in earnings (losses) of associated companies	544	525	1,069	645	18.6		355	(32.4)	1,000	(6.5)
Profit before tax	30,716	22,082	52,798	23,173	(24.6)		9,827	(55.5)	33,000	(37.5)
Income tax expense	9,732	5,342	15,074	7,051	(27.5)		2,949	(44.8)	10,000	(33.7)
Tax rate	31.7%	24.2%	28.6%	30.4%	-		30.0%	-	30.3%	-
Prof it	20,984	16,740	37,724	16,122	(23.2)		6,878	(58.9)	23,000	(39.0)
Profit attributable to owners of parent	20,617	16,935	37,552	16,371	(20.6)		6,629	(60.9)	23,000	(38.8)

\* Variance and volume growth rate: Year-on-year comparisons are expressed as % increases/decreases.

## 2. Balance Sheets / Capital Expenditures / Depreciation and Amortization

(¥ million, %)

Consolidated balance sheets		FY2018/3 Year-end results	FY2019/3 1st half	Variance (%)	Variance
★(1)	Total assets	734,528	748,863	2.0	14,335
	Cash and cash equivalents	58,290	45,098	(22.6)	(13,192)
	Trade and other receivables	154,781	156,302	1.0	1,521
★(2)	Inventories	105,422	120,379	14.2	14,957
	Property, plant and equipment	269,143	280,138	4.1	10,995
	Other financial assets - non-current	40,638	38,053	(6.4)	(2,585)
	Deferred tax assets	24,772	24,924	0.6	152
	Total liabilities	311,640	320,525	2.9	8,885
	Trade and other payables	113,984	121,111	6.3	7,127
★(3)	Interest-bearing debt	111,401	125,893	13.0	14,492
	Total equity attributable to owners of parent	417,982	423,753	1.4	5,771
	Non-controlling interests	4,906	4,585	(6.5)	(321)
	Total equity	422,888	428,338	1.3	5,450

### Major reasons for increase/decrease

- ★(1) **Total assets:** Total assets increased by approximately ¥14.3 billion mainly due to increased property, plant and equipment in inventories and capital expenditures, despite a decrease in cash and cash equivalents.
- ★(2) **Inventories:** Increased by approximately ¥15.0 billion, due to increases of all types of fresh meat livestock.
- ★(3) **Interest-bearing debt:** Increased by approximately ¥14.5 billion, due primarily to increase in short term bank loans.

(¥ million, %)

Capital expenditures, depreciation and amortization	FY2018/3	FY2019/3				
	1st half	1st half			Full year	
	Results	Results	Variance (%)	Variance	Initial forecasts	Revised forecasts
Capital expenditures	14,818	23,027	55.4	8,209	89,900	83,500
Processed Foods Business Division	4,041	3,974	(1.7)	(67)	19,900	20,000
Fresh Meats Business Division	5,761	8,815	53.0	3,054	38,900	37,100
Affiliated Business Division	2,675	6,555	145.0	3,880	12,100	11,500
Overseas Business Division	1,510	2,288	51.5	778	15,300	11,200
Other facilities	831	1,395	67.9	564	3,700	3,700
Depreciation and amortization	10,106	10,769	6.6	663	24,000	22,500

### 3. Cash Flows

(¥ million)

Consolidated statements of cash flows	FY2018/3	FY2019/3		FY2019/3
	1st half results	1st half results	Variance	Full year forecasts
★(1) Cash flow from operating activities	6,053	8,911	2,858	51,400
★(2) Cash flow from investing activities	(24,423)	(23,888)	535	(80,800)
★(3) Cash flow from financing activities	(7,308)	1,195	8,503	22,300

Major reasons for increase/decrease

★(1) Cash flow from operating activities:

An increase in trade receivables below that of the previous year led to a cash inflow of approximately ¥2.9 billion, despite a decrease in profit before tax compared to the previous year.

★(2) Cash flow from investing activities:

Cash used in investing activities was on par with the previous year overall due to a cash outflow associated with the business acquisition last year, despite increased capital expenditures.

★(3) Cash flow from financing activities:

An increase in short term bank loans led to a cash inflow surpassing that of the previous year of approximately ¥8.5 billion despite cash outflows mainly from cash dividends and repayments of debt.

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### Forward-looking statements

This presentation includes forecasts regarding targets, strategies and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as economic environment, market trends and exchange rates.

Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.