Gaining Momentum, Promising Fields, Sustainable Growth

NICHIREI

ANNUAL REPORT 2006

Year Ended March 31, 2006

Profile

Nichirei Corporation is a holding company that determines strategy for the entire Nichirei Group, one of Japan's leading corporate groups involved in food-related businesses. The Nichirei Group consists of Nichirei Corporation, 64 consolidated subsidiaries and 16 affiliates. Its principal businesses are processed foods, marine products, meat and poultry products, low-temperature logistics, and real estate. The Nichirei Group's network is unique in the domestic food industry: It covers every step from procurement of raw materials to processing and distribution, and serves as the base from which we aim to maximize shareholder value through sustainable group growth and expanded profits, by continually creating new customer value with uncompromising insistence on good taste and freshness.

Contents

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains, in addition to historical facts, forward-looking statements that are based on Nichirei's and its Group companies' current expectations, estimates and projections regarding plans, outlook, strategies and results for the future. All such statements are based on management's assumptions and beliefs derived from the information available to it at the time of publication of this annual report. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements, from which actual results may differ significantly. Thus, it is advised that investors refrain from making investment decisions based solely on these forward-looking statements. Nichirei and its Group companies will not necessarily revise their forward-looking statements in accordance with new information, future events and other results. Risks and uncertainties that could affect the actual results of Nichirei and its Group companies include, but are not limited to:

1) economic conditions and industry environment, particularly levels of consumer spending, surrounding the business activities of Nichirei and its Group companies;
2) currency exchange rate fluctuations, particularly involving U.S. dollars and euro;
3) Nichirei's and its Group companies' ability to establish a comprehensive quality assurance system that encompasses product development, raw materials procurement, production and sales.
4) Nichirei's and its Group companies' ability to develop new products and services.
5) Nichirei's and its Group companies' ability to implement growth strategies and build a low-cost structure;
6) Nichirei's and its Group companies' ability to reduce interest-bearing obligations;
7) Nichirei's and its Group companies' ability to gain benefits through alliance with other companies.
8) effect of natural disasters; and
9) serious and unpredictable effects that may be caused by future events.

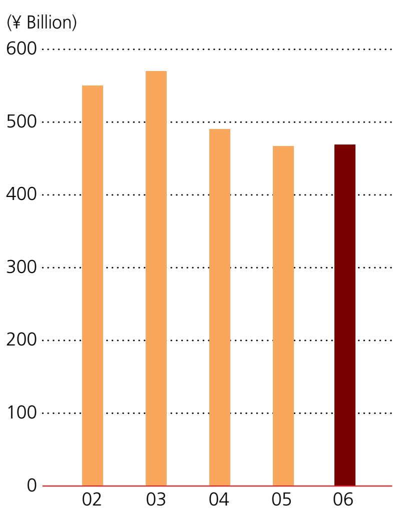
Financial Highlights

Nichirei Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

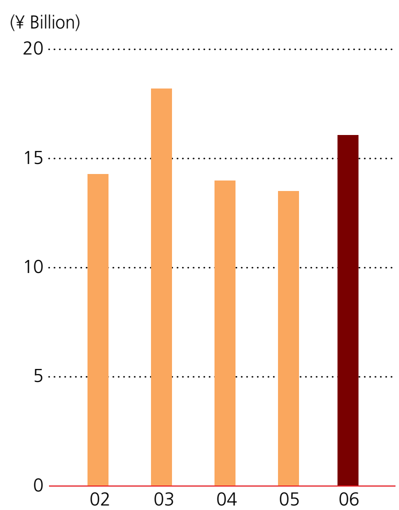
	Millions of yen except per share amounts		Percent change	Thousands of U.S. dollars except per share amounts
	2005	**2006**	**2006/2005**	**2006**
For the year				
Net sales	¥ 461,426	¥ 469,411	1.7 %	$ 3,996,011
Operating income	13,482	16,014	18.8	136,325
Income before income taxes	10,830	13,138	21.3	111,846
Net income	5,878	6,293	7.1	53,575
At year end				
Total assets	¥ 276,417	¥ 268,501	(2.9)%	$ 2,285,705
Interest-bearing debt	111,984	86,209	(23.0)	733,884
Shareholders’ equity	94,007	102,624	9.2	873,623
Per share data				
Net income				
Basic	¥ 18.45	¥ 19.83	7.5	$ 0.169
Fully diluted	-	-	-	-
Cash dividends	6	9	50.0	0.077
Shareholders' equity	302.50	330.40	9.2	2.813
Financial ratios				
Return on equity	6.4 %	6.4 %	-	-
Shareholders' equity ratio	34.01 %	38.22 %	-	-
Debt-to-equity	1.19	0.84	-	-

Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2006.
2. For the year ended March 31, 2006, two subsidiaries were included and 11 were excluded from consolidation, resulting in a total of 64 consolidated subsidiaries, while an affiliate ceased to be accounted for by the equity method, for a total of 16 equity-method affiliates.
3. On Oct. 1, 2003, Yukiwa Co., Ltd. merged with Ryoshoku Food Service Limited, a subsidiary of Ryoshoku Limited, to form RY Food Service Limited. As of the date of the merger, the former Yukiwa was no longer treated as a consolidated subsidiary, but was reclassified as an equity-method affiliate. Yukiwa’s exclusion from the consolidated accounting had a negative impact on this term's consolidated sales and operating income relative to the previous term. The negative effect for the year ended March 2004 was 52.8 billion yen in sales and 700 million yen in operating income. For the fiscal year ended March 2005, the negative impact was 53.5 billion yen in sales and 200 million yen in operating income.

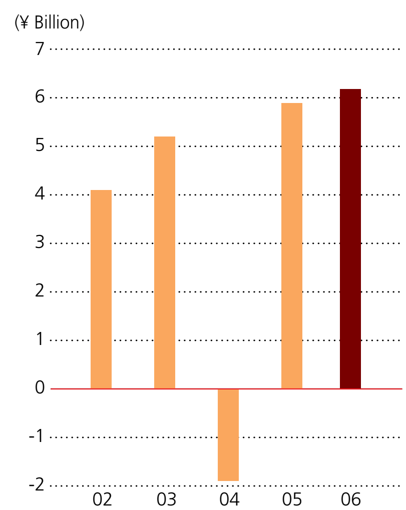
Net Sales 2002-2006



Operating Income 2002-2006

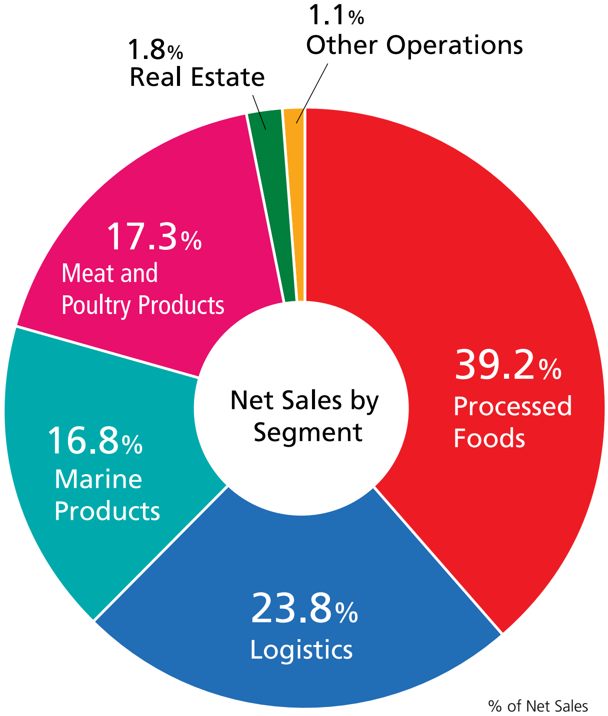


Net Income 2002-2006



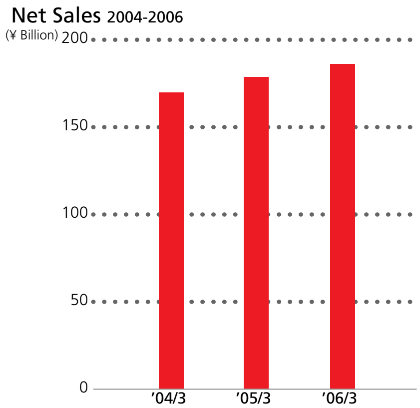
Nichirei at a Glance

The Nichirei Group has positioned two growth areas – Processed Foods and Logistics – as the core businesses that are the focus of its efforts. The Group also has Marine Products Business, Meat and Poultry Products Business, Real Estate Business and Other Operations.



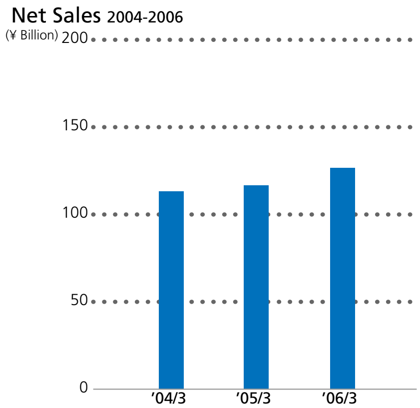
Processed Foods (Nichirei Foods Inc.)

Processed Foods is one of Nichirei's core operations. It includes frozen foods, an industry Nichirei leads in Japan, acerola-based beverages, retort-pouch foods, canned foods and health foods. Nichirei has established a comprehensive quality-assurance system that covers everything from product development and raw materials procurement to production and sales.



Logistics (Nichirei Logistics Group Inc.)

Logistics is Nichirei's other core operation. In addition to providing a wide range of logistics functions such as refrigerated warehousing, sorting, transportation and delivery, Nichirei combines those functions to offer solutions for optimizing customers' overall logistics flow. With market share that ranks No. 1 in Japan and No. 4 worldwide, Nichirei has secured a solid position in the refrigerated warehousing business.

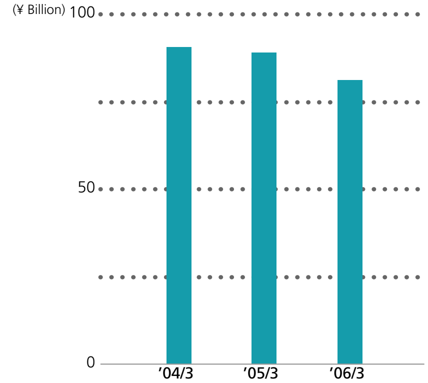


Nichirei at a Glance

Marine Products (Nichirei Fresh Inc.)

In Marine Products, Nichirei imports and sells seafood procured from all around the world. Net sales compare with those of Japan's leading marine products companies, with Nichirei being especially strong in the handling of several items such as shrimp, herring roe and octopus. Nichirei is enhancing its line of value-added products that meet customer needs, as well as handling more premium products.

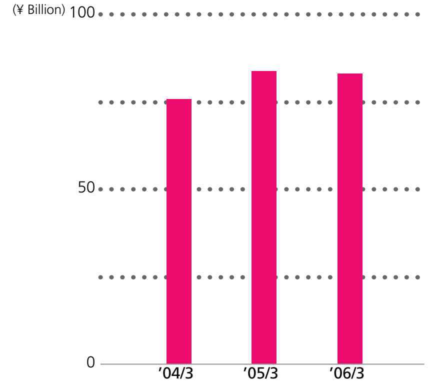
Net Sales 2004-2006



Meat and Poultry Products (Nichirei Fresh Inc.)

In Meat and Poultry Products, Nichirei provides large retailers and restaurants with poultry, pork and beef procured from established partners in Japan and overseas. Nichirei is committed to delivering products that are delicious, safe, reliable, healthful and environmentally friendly.

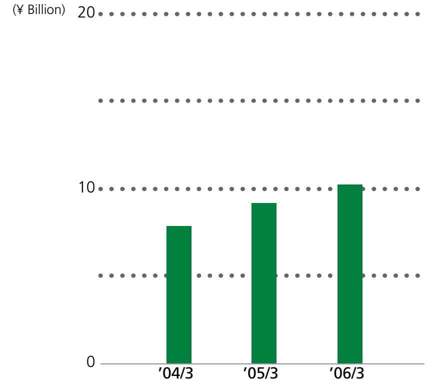
Net Sales 2004-2006



Real Estate (Nichirei Corporation)

The purpose of Nichirei's real estate operations is to make effective use of company-owned properties. Nichirei plans and executes projects that best suit the location, surroundings and social circumstances of company-owned properties all around Japan. Currently, we develop and lease office buildings in large cities, as well as develop and sell residential housing.

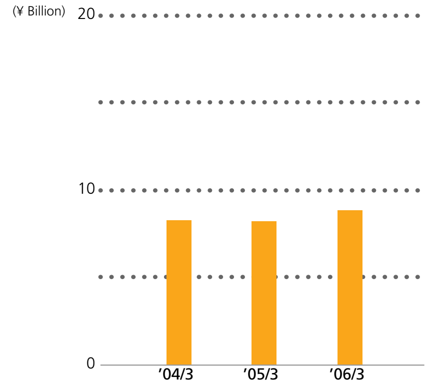
Net Sales 2004-2006



Other Operations (Nichirei Corporation, Nichirei Biosciences Inc., Nichirei Proserve Inc.)

Nichirei continues to nurture its bioscience and horticulture operations. The Company develops, manufactures and sells antibody products, cell-culture reagents and raw materials for cosmetic products, based on Nichirei's immunology-related technology and natural materials processing technology. Meanwhile, in its flower businesses, Nichirei engages in the development of rare and new species of orchids as well as developing mass propagation technologies and seedling cultivation technologies.

Net Sales 2004-2006



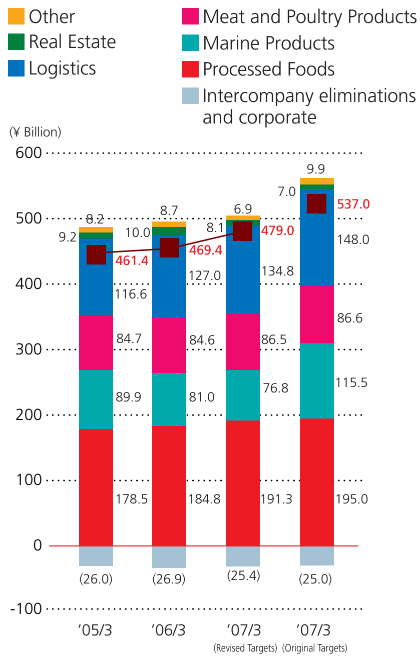
Note: For each segment, the percentage of sales figures are for outside customers, whereas the net sales figures include intercompany sales and transfers.

Nichirei is moving steadily forward on a sustainable growth track, with a focus on core operations

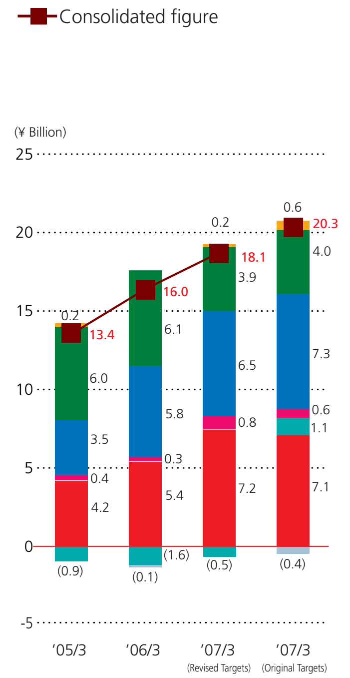
Pursuing steady growth in our two core operations

Our Medium-Term Plan (April 2004 to March 2007) focuses on growth in our core operations, Processed Foods and Logistics. We met our goals for building a foundation for growth in both businesses, and we have begun to move along a steady, medium and long-term growth track.

Net Sales by Segment



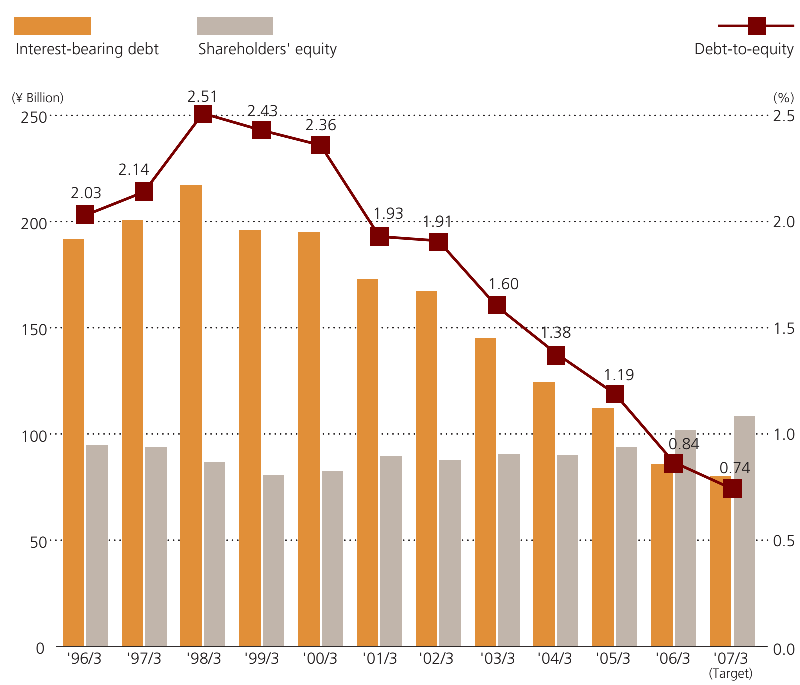
Operating Income by Segment



Achieved debt-reduction target one year ahead of schedule

Since the year ended March 1998, Nichirei management's top priority has been to improve the Group's balance sheet. Specifically, we aimed to reduce our debt-to-equity ratio to under 1.0 by the end of March 2007. We achieved this target one year early, in the year ended March 2006, after steadily reducing interest-bearing debt. This achievement will allow us to give priority to growth areas as we allot free cash flow generated in the coming years.

Reduction of Interest-Bearing Debt



New Group structure starts providing steady benefits

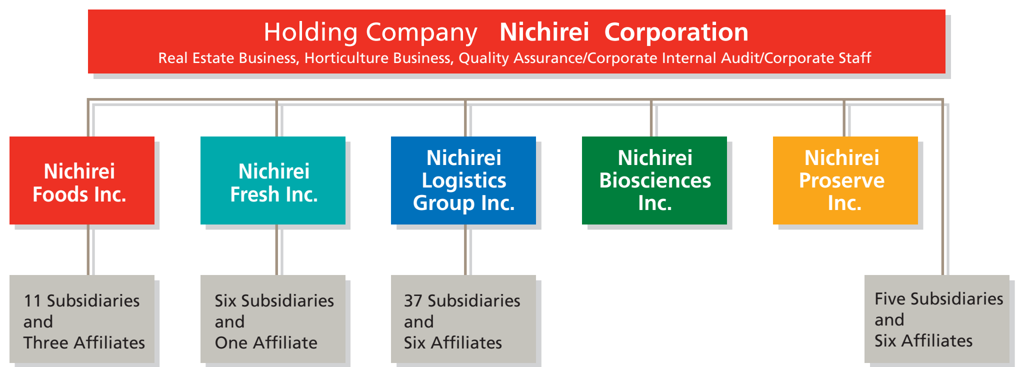
(1) Our holding company system, which was designed to increase management flexibility and clarify responsibility for profits, is now functioning effectively.

Thanks to the holding company system that we adopted in April 2005, we made significant progress toward transferring authority to operating companies, speeded up decision-making and policy implementation, and clarified responsibility for business performance. By having some of our operating companies share corporate directors, we have improved communication and strengthened cooperation among the operating companies.

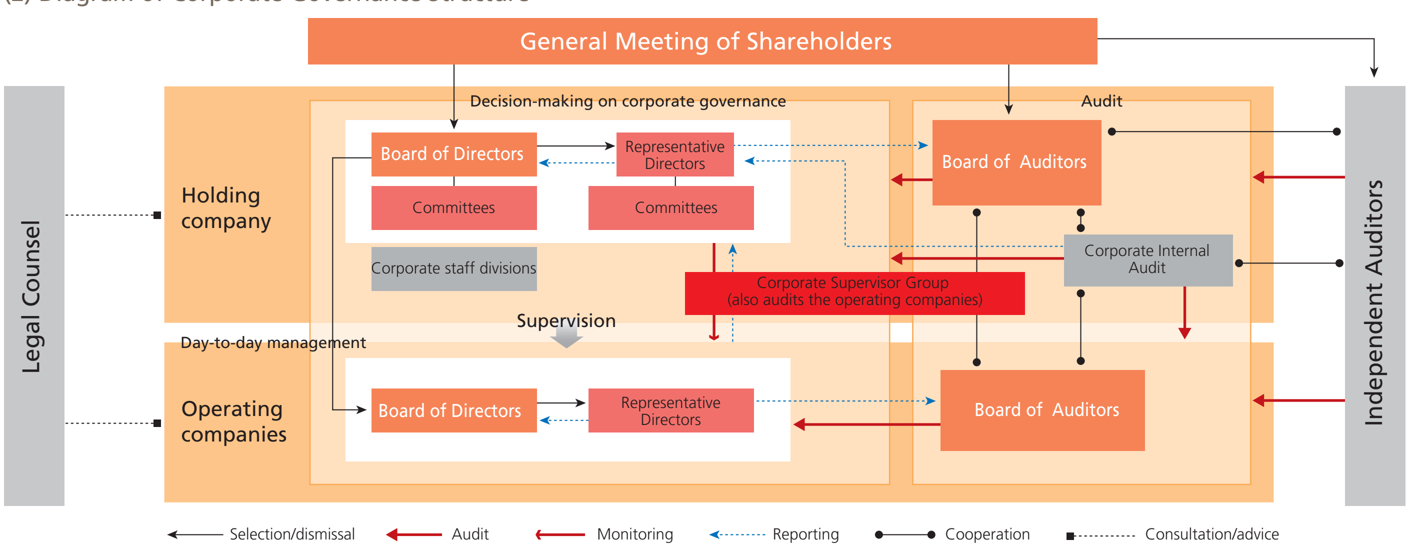
(2) The new Corporate Supervisor Group has made our governance system more effective.

In order to strengthen our holding company's monitoring capabilities as we transferred authority to operating companies, we established a Corporate Supervisor Group within the holding company, comprised of non-standing auditors from each business. Members of the Corporate Supervisor Group do not merely serve as auditors but also as "accessible outside evaluators" who monitor the status of each business's strategy implementation and report their findings to the holding company, and as "accessible advisers" who support business management.

(1) Diagram of Holding Company System



(2) Diagram of Corporate Governance Structure




Representative Director
and Chairman
Takemoto Ohto
Representative Director
and President
Mitsudo Urano

Message to Our Shareholders

In the year ended March 2006, Nichirei achieved growth in net sales of 7.9 billion yen, or 2%, and strong growth in operating income of 2.5 billion yen, or 19%, largely thanks to better performance by its core businesses, Processed Foods and Logistics. We also achieved our objective of bringing our debt-to-equity ratio to under 1.0 a year ahead of schedule. We view the year's results as a solid foothold for moving from foundation-building to pursuing growth.

On the other hand, there were large differences in the performance of the operating companies. Our Marine Products Business posted a loss for the third consecutive year as domestic retail prices languished and competition over raw materials procurement intensified. Based on these results, we intend to be bolder than ever in addressing the issues that confront us.

Japan is currently on the threshold of an enormous change in its demographic structure, as the population has begun to decline for the first time since the end of World War II. However, recent social trends such as a lower birth rate, growing number of elderly people, more women working outside the home, and increased concern with health maintenance present food industries with opportunities to achieve strong growth. Nichirei's assets include the food materials purchasing capacity of our Marine Products and Meat and Poultry Products Businesses, our networking strength, our Processed Foods Business's expertise in ingredient and calorie-control technology, our ability to develop products that provide new types of good taste, and safe, efficient food distribution capability. Using these strengths to maximum effect, we intend to make a full-force push to contribute to individuals and society, and to build a sustainable growth track as a trusted corporate body.

In the year ended March 2006, the year when Nichirei celebrated its 60th anniversary of its founding, we introduced a bold new system whereby we established a holding company system, transferred authority to operating companies, and clarified responsibility for performance. At the same time, we announced a brand statement to maintain our overall Group identity and to serve as a unifying force. In addition, we established a unique system of corporate governance incorporating a Corporate Supervisor Group and sharing of directors among operating companies. These new systems served us well in the year ended March 2006, so we intend to use them as a base from which we will strive to achieve even greater progress in the future.

Takemoto Ohto

Representative Director and Chairman
Takemoto Ohto

M. Urano

Representative Director and President
Mitsudo Urano

Q Please explain the content of the Medium-Term Plan and how its implementation is coming along.

A Purpose and Overview

Aim for growth while pursuing capital efficiency

We are currently working on implementing our three-year Medium-Term Plan; the year ended March 2006 is the second year covered by the plan, and the year ending March 2007 is the final year. Under the previous Medium-Term Plan, we made sufficient progress toward restoring our financial position to allow us to start our current Medium-Term Plan by looking once more at our business domains and finding ways to guide the company as much as possible onto a course of medium and long-term growth.

The Plan cites the following basic strategies for each business domain, with a focus on Nichirei's core businesses, Processed Foods and Logistics. The purpose of the Plan is to aim for sustainable growth while pursuing capital efficiency.

Processed Foods Business	We will reposition this business domain to focus on providing customers with ready-to-serve foods. We aim to expand the business, partly through development of chilled foods, which we have not pushed hard in the past. Also, Nichirei was a pioneer in the introduction of acerola products to Japan; we will aim for major growth in sales by developing new applications and new products using acerola.
Logistics Business	We will respond to industry trends such as the transfer of clients' production bases to overseas locations and consolidation of shippers' inventory bases based on supply chain management. We will also respond to the revolution in domestic logistics by meeting rising demand for new types of services at the middle and end of our distribution channels.
Marine Products Business	We will concentrate on our strongest products in order to use capital efficiently, and build a corporate constitution that allows us to resist the influence of market fluctuations and secure stable profits.
Meat and Poultry Products Business	In addition to the differentiated, premium products that we have handled in the past, we will devote ourselves to developing processed foods for retailers and restaurants, from the customers' perspective.

Numerical targets

The table below shows the numerical targets that we have established for the final year of our

(in billion yen except per share amounts)

	Mar. 2005 (Original targets)	Mar. 2005 (Actual)	Mar. 2007 (Original targets)	Mar. 2007 (Revised targets)
Net sales	¥ 477.0	¥ 461.4	¥ 537.0	¥ 479.0
Processed Foods	176.9	178.5	195.0	191.3
Marine Products	109.2	89.9	115.5	76.8
Meat and Poultry Products	76.6	84.7	86.6	86.5
Logistics	121.8	116.6	148.0	134.8
Operating income	14.0	13.4	20.3	18.1
Processed Foods	5.4	4.2	7.1	7.2
Marine Products	0.7	(0.9)	1.1	(0.5)
Meat and Poultry Products	0.4	0.4	0.6	0.8
Logistics	2.9	3.5	7.3	6.5
Net income	5.0	5.8	10.7	9.3
Net income per share	16.11	18.45	34.47	29.98
Interest-bearing debt	120.0	111.9	Less than 97.0	Less than 80.0

Medium-Term Plan. In the first year, the year ended March 2005, Processed Foods profits decreased because avian flu and BSE (mad cow disease) in U.S. beef pushed up materials costs. In our Marine Products Business, sales declined as a result of small octopus catches, and profits were hurt by the disposal of crab inventories that we had been holding at a loss since the year ended March 2005. As a result, we were unable to meet our overall targets for net sales and operating income.

Implementation of the Plan

For the most part, we met our consolidated targets, but performance varied between operating companies

If we look at Nichirei as a whole, we basically met our targets for net sales and operating income in the year ended 2006, the second year of our Medium-Term Plan. Our net sales were 469.4 billion yen, or 97% of the target. Operating income was 16.0 billion yen, which was 98% of the target. However, there were large disparities this year in the levels of performance achieved by the various operating companies.

The Processed Foods Business came very close to achieving its target. The main reasons for its success were cost-cutting benefits achieved mainly by boosting capacity utilization at our domestic production plants, and greater sales of industrial-use foods achieved by increasing the market share of our strongest products. Also, the surge in raw materials prices that hit us so hard in the previous year was not as much of a problem in the year ended March 2006.

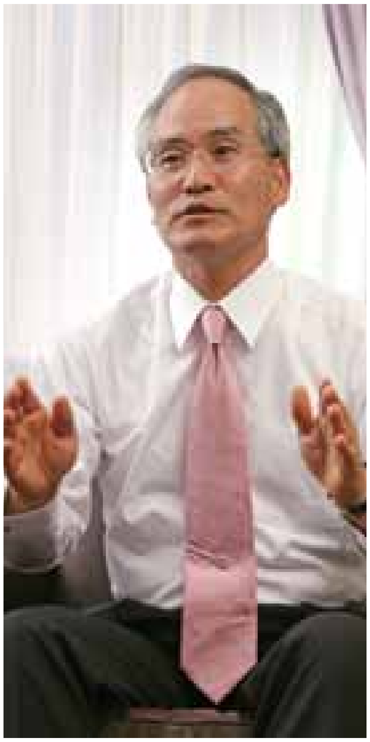
Logistics, our other core business, also performed well, for the most part. We still have some issues to resolve in our Logistics Network Business, where a decline in delivery efficiency and higher fuel prices put pressure on profits from transportation. On the other hand, we reaped the full benefit of the distribution centers that we built the previous year, and we achieved large increases in sales and revenues. Net sales by our Regional Storage Business grew nicely as we saw the results of local sales efforts. Cost-cutting measures also made a big contribution to the V-shaped recovery achieved in this business sector.

Meanwhile, the Marine Products Business posted a large loss, of 1.6 billion yen. The main reasons were intense competition over raw materials procurement amid growing worldwide demand for marine products, and our inability to secure enough sales to offset fixed costs as we were forced to pare down our product line due to floundering retail prices in Japan.

In Meat and Poultry Products, the market was unstable due to the effects of the global avian flu problem and the presence of BSE in the U.S. We managed to meet our sales target despite this environment, but we failed to meet our operating income target.

(in billion yen except per share amounts)

	Mar. 2006 (Revised targets)	Mar. 2006 (Actual)	Actual/Target
Net sales	¥ 486.0	¥ 469.4	96.6 %
Processed Foods	186.2	184.8	99.2
Marine Products	93.5	81.0	86.6
Meat and Poultry Products	84.1	84.6	100.6
Logistics	131.3	127.0	96.7
Operating income	16.3	16.0	98.2
Processed Foods	5.5	5.4	98.2
Marine Products	0	(1.6)	-
Meat and Poultry Products	0.7	0.3	42.9
Logistics	5.6	5.8	103.6
Net income	7.3	6.2	84.9
Net income per share	23.52	19.83	84.3
Interest-bearing debt	Less than 100.0	86.2	86.2



Issues and countermeasures from the second year of our Medium-Term Plan

Now that we have completed the second year of our Medium-Term Plan, we realize the urgent necessity of doing a thorough review of our Marine Products Business, which has posted operating losses for three consecutive years. During the year ended March 2006, we put together a "Marine Products Business Revitalization Plan." The plan consists of three steps: (1) reducing fixed costs to a level commensurate with net sales, (2) only handling products and materials for which we can establish competitive dominance, and (3) dramatically speeding up capital turnover and establishing a "Product Meister Model" from a medium-term standpoint.

We already achieved item (1), reduction of fixed costs, during the year ended March 2006. During the year ending March 2007, we intend to steadily implement this revitalization plan and significantly slash the size of the Marine Products loss, with the goal of getting the business back into the black by the term ending March 2008.

Even in operating companies that performed well, we saw issues that need to be addressed. In Processed Foods, the operating income margin was only about 3%, which we believe needs to be improved. The key to doing this involves identifying growth areas. We intend to boost our operating margin by increasing the proportion of value-added products that are even more clearly identifiable as having "health value." Examples include applying the calorie-control technology that we acquired by making foods for diabetics to foods for health-conscious consumers, and making a renewed push for acerola products.

In Logistics, we believe the main issue is improving profitability in the Logistics Network Business. Toward that end, we are continuing to make improvements at loss-generating offices, and actively working on expanding our expertise in transportation and delivery by making use of outside human resources and considering M&As for the medium-term.

Q Please explain Nichirei's long-term vision for its core business.

A

Processed Foods Business

Demographic changes present business opportunities

Japan's population peaked in 2005 and has begun to decline. Certainly if we were to look at this fact by itself, we might foresee a very harsh future for the food industry, but that's not how we see it. The reason for optimism is that changes in the demographic structure of the population have brought changes in the nation's eating habits.

For example, Japan's eating habits have changed since Japanese women began working outside the home and have less time for cooking for their families. Also, as society ages, there has been a big increase in awareness about obesity and lifestyle-related diseases. Furthermore, there are fewer professional chefs working in restaurants, leading to an increase in demand for industrial-use prepared foods. These changes in demand patterns present major business opportunities for the food industry. We believe that the key to success in this situation lies in a company's ability to propose solutions and its overall capacity to implement those solutions.

Keyword for growth: "Health Value"

Nichirei intends to respond to this environment by building a growth track with a focus on "health value."

Japan now spends more than 30 trillion yen per year on health care, and there is increasing interest in preventative health care. Dietary control is an important part of preventative health care, and we believe it will grow to be a huge market. We have already applied the calorie-control expertise that we gained through making foods for diabetics to the production of healthy foods for healthy people. The knowledge and expertise that we have in this area is an important asset that makes it hard for other companies to compete with us.

At the same time, Nichirei also has expertise in providing high-end "good taste," which we gained through our experience in processed foods. And in April 2006, we launched our "Kikubari-Gozen Chef's BALANCE Series" of products for healthy people, combining high-end "good taste" with good nutrition. We intend to achieve long-term growth by continuing to make the most of Nichirei's capacity for combining good health and good taste for healthy people as we launch new products and develop this market.

Logistics Business

Boosting earning capacity through shared logistics

In the past, the concept of sharing logistics services among unrelated companies was not well known in Japan. But as companies become increasingly aware of the importance of cutting costs and protecting the environment through measures like restricting automotive emissions, we believe that shared logistics will become well established. In light of this trend, Nichirei plans to form alliances with various companies so that we can use shared distribution to minimize the running of empty trucks and increase utilization of distribution centers. By making shared distribution services into a source of revenue, we intend to strengthen our long-term revenue-generating capacity.

Q **What are your thoughts about corporate social responsibility and shareholder value?**

A

Corporate social responsibility (CSR)

CSR means realizing Nichirei's management philosophy

Nichirei's starting point is our corporate philosophy and brand statement. We believe that fulfilling these would constitute true CSR. For Nichirei, CSR is not something special or extra; it's our philosophy, our purpose, and one of our reasons for existing.

Based on this awareness, Nichirei aims to be a corporate group that creates products and services that are truly useful to people in their everyday lives, and that helps people to live healthy and satisfying lives. We believe that in order to realize our corporate philosophy, it is essential that we remain a corporate group that is trusted and supported not only by customers, but also by our business partners, shareholders, employees and other stakeholders.

We designated the year ended March 2005 as Nichirei's "CSR Year 1" and initiated "CSR Promotion Projects." We took a fresh look at the status of our CSR, and adopted a policy of actively addressing CSR from six standpoints, and set to work. The six standpoints were creation of new customer value, improving employee job satisfaction, legal compliance, corporate governance, concern for the environment, and contribution to society. Realizing that smooth operation of our business is the most important "corporate social responsibility" for us to address in the year ended March 2006, we established a CSR Headquarters in order to give our Group companies a framework for working together to promote CSR activities.

In the future, we intend to work harder than ever to actively address CSR concerns.

Shareholder value

Maximizing shareholder value by realizing sustainable growth

We believe that the most important thing we need to do in order to maximize shareholder value is to achieve growth by concentrating management resources in our strongest areas, while keeping an eye on capital efficiency. We firmly believe that we can only achieve this by using our unique technology and expertise to provide products and services of outstanding quality, and by having management steer the company with constant awareness of our long-term goals.

Until this year, improving our balance sheet was an urgent necessity, so we placed priority on using cash to reduce interest-bearing debt. In the fiscal year ended March 2006, we reduced our debt-to-equity ratio to under 1.0, thereby achieving one of the targets set forth in our Medium-Term Plan a year ahead of schedule. We believe that by doing so we have restored our fiscal freedom, which will allow us to prioritize the investment of cash into the growth of our core businesses, whereas we had been restricting such investment during the years when we concentrated on rehabilitation. In the past, returns to shareholders mainly consisted of steady payments of fixed-amount dividends, but in the future we want to consider other ways of returning profits to stockholders, for example through dividends that are based on a new indicator reflecting consolidated performance.

Processed Foods

Nichirei Foods Inc.
Mitsudo Urano, President

Market and Industry Trends

- The amount that the average Japanese spent on prepared frozen foods for household use increased 3.3% compared to the previous year. However, product prices continued to flounder as discount sales have become standard practice.
- Because U.S. beef imports to Japan were suspended, prices for Australian beef have been high; ground fish meat prices have also been high due to insufficient supply.
- Because of the surge in crude oil prices, packaging materials, energy used in factories, and distribution have all become more costly.
- Due to the yen's relative weakness against the dollar, imported products and materials were more expensive in yen terms.

In the fiscal year through March 2007, we will strive to communicate to consumers the full value of the advanced technology that goes into Nichirei products and how our products contribute to "creating health value." In the market for prepared frozen foods for industrial use, we will make a push into large-scale markets like restaurants and institutional meal service with the high-end products that are our strength. For Processed Foods as a whole, we will aim for an operating income margin of 5%, which would be very high for the domestic food processing industry.

Basic Strategies

Achieve growth by changing the focus of the Processed Foods domain to ready-to-serve dishes

- In the market for prepared frozen foods for household use, establish solid brands like "Obento-ni-Good (Good for Bento Boxed Lunches) Series" and develop product groups that emphasize high value-for-money, like the "Joto Series," in order to avoid getting drawn into price competition
- In the market for prepared frozen foods for industrial use, greatly expand market share and achieve high growth by bringing our most competitive products to markets that we haven't yet developed
- In order to cut overall costs, improve facility utilization rates by focusing on production of best-selling products. Review manufacturing processes product by product and improve coordination between sales and production functions in order to reduce production and distribution expenses

Acerola: establish a brand and product lineup that no competitor can match; expand sales by introducing non-beverage products

New businesses: product sales in China, direct sales, expanded sales of wellness and gourmet products

Major Policies for the Year Through March 2007

Continue horizontal expansion of high-quality prepared frozen foods for industrial use, based on our "new category strategy"

We have achieved good results by focusing on the rapidly growing domestic market for prepared foods, backed by the advanced food processing technology and quality-control skills that we cultivated in the course of serving the hotel industry. In the past several years, we have developed a "new category strategy" whereby we dissect and evaluate the market in terms of industry types and product groups. Based on this strategy, we pushed the high-quality products that are our strength in large-scale markets like family restaurants and institutional meal services, and we met with great success. We intend to continue targeting these industries, which suffer from a shortage of labor in the kitchen, by expanding our product lineup and strengthening sales efforts. We will aim for sales growth of 5% in the fiscal year ending March 2007.

Review sales methods and prices in order to improve profitability of prepared frozen foods for household use

We are alarmed by the fact that discounted sales of prepared frozen foods for household use have become normal due to fierce competition in the retail market. Consumers are very suspicious of such discounted sales. If this situation continues, not only will the value of frozen food products not be accurately reflected in prices, but consumers may come to be suspicious of frozen foods in general. As a first step toward correcting this problem, we stopped printing "recommended retail prices" on our packages, beginning with products sold in March. Based on our analysis of the profitability of various sales channels in the fiscal year ended March 2006, we are working to improve profitability in specific channels. For example, we will continue to review our activity in channels where we are not profiting despite large sales volumes, and develop products whose competitive edge does not depend on price.

Convert our advanced technology into added product value, through full-scale direct marketing in our "health value creation" business

Nichirei has advanced technologies that other companies lack, such as the expertise we gained by developing and selling ingredient-guaranteed foods for diabetics, and we can develop products that make the most of these unique technologies. In the past, however, our technological strength has not always been accurately conveyed to consumers via our products. In other words, consumers have not recognized our technological strength as added value, and have not viewed it accurately when evaluating our products. We have positioned the creation of health value as a new direction for growth, and we intend to actively and effectively market our advanced technology and gain appropriate recognition of the added value of our products by highlighting "maintaining health through everyday foods." Specifically, in April 2006 we established a direct-marketing subsidiary called "Nichirei Foods Direct," through which we started full-scale selling direct to consumers via the Internet. Its website provides information from nutritionists, doctors and other experts to help market good-tasting products directly to consumers who are concerned about health and beauty. We will do our utmost to develop new customers through the Internet and make a success of this direct-marketing business.


Website of "Nichirei Foods Direct"


"Chef's BALANCE Series"

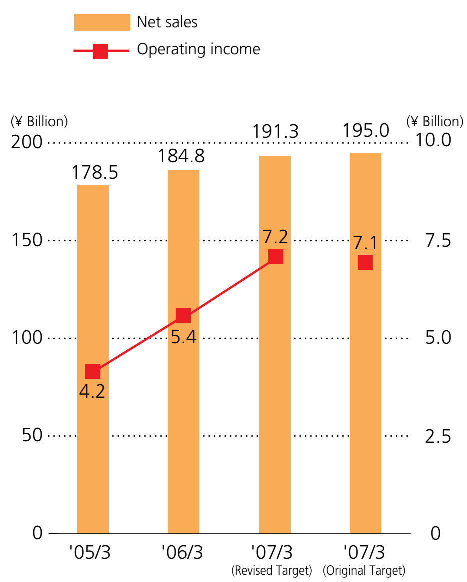
We will continue to cut costs by boosting capacity utilization rates and consolidating production lines

Improving capacity utilization rates at group factories and reducing production costs will continue to drive improvement in Nichirei's profitability. We are making good progress toward consolidating production of major products, and we will expand sales of strategically designated products even further, so that in the year ending March 2007 we can achieve group-wide capacity utilization rates of 71%. We will also expect to continue to construct production systems and streamline costs so that we can boost operating income at all Nichirei Group plants by 1.0 billion yen. At the same time, we will increase our competitive edge in the area of quality through efficient operations.

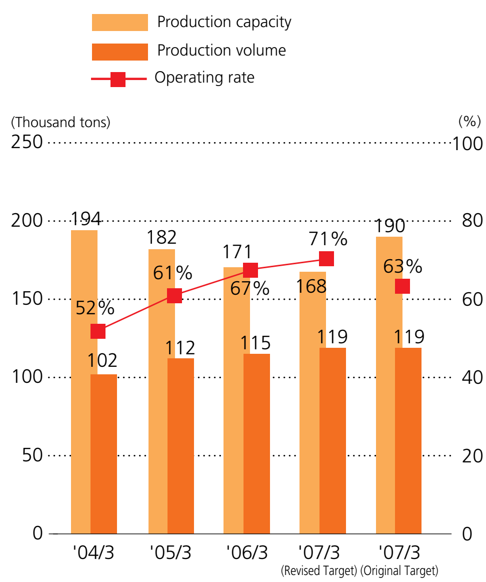

Acerola-Drink


"Obento-ni-Good Series"

Net Sales and Operating Income of Processed Foods



Production Capacity and Production Volume at Plants in Japan



Performance in the Year Through March 2006

- In the market for prepared frozen foods for household use, processed chicken products such as "Honwafu-Wakadori-Kara-age (Genuine Japanese-Style Fried Chicken)" sold well, but sales of our "Obento-ni-Good (Good for Bento Boxed Lunches) Series" were lackluster. Net sales in this sector increased by 0.7% over the previous year.
- In the market for prepared frozen foods for industrial use, processed chicken products like "Wakadori-no-Yawaraka-Kara-age (Japanese-Style Soft Fried Chicken)" served as the driving force. "The Hotto Suru Okazu (Thank Goodness for Ready-made Dishes) Series," which is aimed at the ready-to-eat foods industry, also sold well. Overall, sales grew 8.1% year on year.
- Sales of agricultural products increased 3.6% over the previous year, due to strong sales of potatoes and broccoli. Acerola sales also increased, by 5.1% over the previous year.
- Net sales by the segment as a whole amounted to 184.8 billion yen, an increase of 3.5%, while operating income was 5.4 billion yen, an increase of 27.3%.

Logistics

Nichirei Logistics Group Inc.
Toshiaki Murai, President

Market and Industry Trends

- In Japan's 12 largest cities, the value of inventories in storage increased by about 0.5% from the previous term, and the average inventory ratio rose 2.1 points from a year earlier, to 36.3%.
- Imports of pork, beef and chicken all increased.
- Imports of marine products declined overall, including bonito and tuna.
- Imports of agricultural products increased overall, with increased frozen potato imports making up for lackluster demand for other vegetables.

In the fiscal year ending March 2007, we will continue our aggressive push to expand shared distribution services. By tailoring operations to specific local areas, we have been successful in our Regional Storage Business in the Kyushu and Kansai regions and we will work to expand that success to the rest of Japan. At the same time, we will boost efficiency and sales capacity in our overseas operations in order to increase profits.

Basic Strategies

In response to strong demand for new types of logistics services at every stage from upstream to downstream, including more efficient systems and shared distribution services, reinforce the Logistics Network Business that we have positioned as a growth area

- Work to develop new 3PL accounts
- Establish transfer centers that do not store inventories; provide new functions like our Pre-Distribution Centers; increase utilization of delivery vehicles; achieve greater capital efficiency by making it possible for multiple customers to share transfer centers

Meet local customer needs and improve cost competitiveness in Regional Storage Business

- Enhance local collections; provide meticulous service by making quick decisions
- Shift to lower-cost constitution
- Expand business opportunities by tying up with our Logistics Network Business

Develop Overseas Business

- Expand European low-temperature logistics business into Eastern Europe
- Expand transport business in Shanghai

Major Policies for the Year Through March 2007

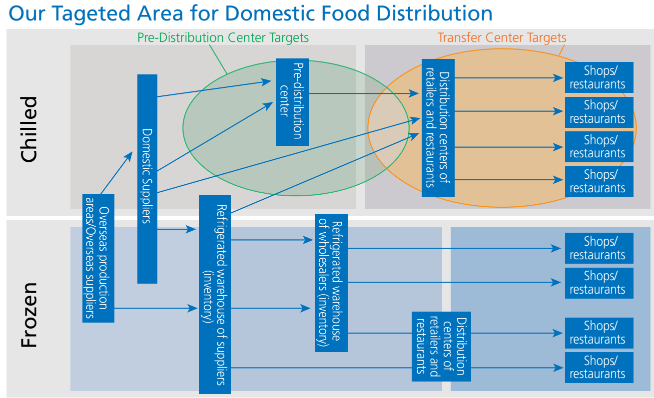
Take steps to expand shared distribution services in the medium term

Given the current harsh business environment marked by soaring crude oil prices and sagging distribution prices, Nichirei believes that the key to future growth in our Logistic Network Business (consisting of transfer centers, transport, 3PL etc.) lies in shared distribution, which means that multiple customers transport their freight in the same vehicles. In order to promote shared distribution in a systemized way, we are working proactively on building alliances with other companies, including consideration of capital tie-ups. During the year ended March 2006, our Kawasaki Takatsu Distribution Center was designated to receive goods on behalf of a major department store. In the fiscal year ending March 2007, we will strengthen sales efforts aimed at vendors located within the department store, to actively promote shared distribution. We are also working on applying shared distribution to major frozen foods processors in the medium term.

Fix problems at unprofitable centers in our Logistics Network Business

Nichirei operates transfer centers where we deliver a full assortment of perishables such as chilled processed foods, meats and vegetables to individual retail stores. Six new accounts that began during the year ended March 2005 contributed fully in the year ended March 2006, the second year covered by our Medium-Term

Our Tageted Area for Domestic Food Distribution



Plan. Also, we no longer had the expense of starting up these centers, so sales and profits were on target. On the other hand, startup expenses for a new transfer center that we opened in the Tohoku region during the fiscal year ended March 2006 were larger than expected, and we posted an operating loss. We aim to turn unprofitable centers into the black in the fiscal year ending March 2007. We will also work to stabilize profits by having more customers share the use of each distribution center, partly by getting new customers.

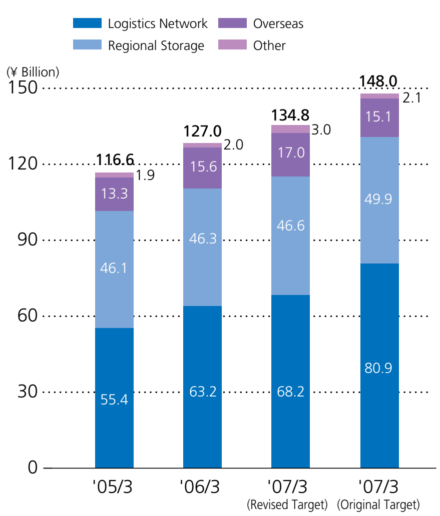
Spread the success of Regional Storage Businesses in Kyushu and Kansai to other areas

Because we provided services that are tailored to the needs of local customers and promoted low-cost operations, for example by introducing variable work schedules, operating income for our Regional Storage Business in the year through March 2006 increased by 1.6 billion yen over the previous year. The Kyushu and Kansai regions were particularly successful as they were the first to take steps toward improvement. In the year through March 2007, we intend to apply what we learned from this success in other regions. On the other hand, temporary circumstances prevented inventories of meat and poultry products from leaving refrigerated warehouses, mainly in greater metropolitan Tokyo, and this prevented inventory rates from rising much. At the same time, a surge in crude oil and other prices pushed up costs. Once these temporary circumstances are resolved, we expect to see a 200 million-yen increase in profits, as a result of securing remaining cargo and replacing unprofitable wares.

In Europe: boost efficiency and liquidate unprofitable businesses;
In Asia: reinforce sales systems in order to win new customers

In response to the entry of Eastern European nations into the EU, we purchased and established a new refrigerated base in Poland during the fiscal year ended March 2006. Due to inefficiencies in its operation, however, we assigned Japanese staff for the year through March 2007 and we are working on boosting efficiency. In other businesses that we are developing mainly in the Netherlands, we will boost the efficiency of overall operations by selling off unprofitable bases and moving cargo to other locations. Also, by strengthening our sales systems, we intend to boost our earning capacity. Meanwhile, a client that is a major convenience store operator has faced delays in opening stores in China, so Nichirei was not able to turn a profit there. Going forward, we will enhance our human resources and reinforce selling to Japanese companies other than convenience stores, and to non-Japanese companies, in order to stabilize profits by dispersing risk.

Net Sales by Sub-segment of Logistics



Operating Income by Sub-segment of Logistics

Performance in the Year Through March 2006

- Net sales by our Logistics Network Business grew by 14.0% over the previous year, thanks in part to the opening of a new transfer center during the second half of the year and to the fact that the transfer centers that we opened during the year ended March 2005 contributed for the entire year through March 2006.
- In our Regional Storage Business, net sales rose by only 0.6%, but if we discount the negative impact of selling our Kyushu Food Products Business, net sales rose by 2%.
- Overseas, storage of fruit juice and transportation boosted sales by 17.5% from a year earlier.
- Overall Logistics net sales were 127.0 billion yen, up 8.9%, and operating income was 5.8 billion yen, up 62.9%.

Our motto is "creating value for consumers, starting from raw ingredients." Nichirei will make full use of its networking strength and product planning and development capacities so that we stand out from our competitors by providing premium ingredients procured in ways that conserve natural resources and that respect the environment. By increasing the proportion of sales of such products, we aim to improve profitability and capital efficiency.

Our Marine Products Business posted losses for three consecutive fiscal years, so for the fiscal year through March 2007, we feel an urgent need to reduce fixed expenses in order to reduce this business's operating loss. We aim to turn the business into the black in the fiscal term through March 2008.

Nichirei Fresh Inc.
Masahiro Ara, President (left) Hisashi Hasegawa, Executive Vice-President (right)

Marine Products

Basic Strategies

Steadily implement plan to revitalize Marine Products Business

- Handle only products that have the potential to perform well in competition
- Establish a "Product Meister Model" from a medium-term standpoint

Major Policies For the Year Through March 2007

Cut fixed costs and trim product line to improve profitability

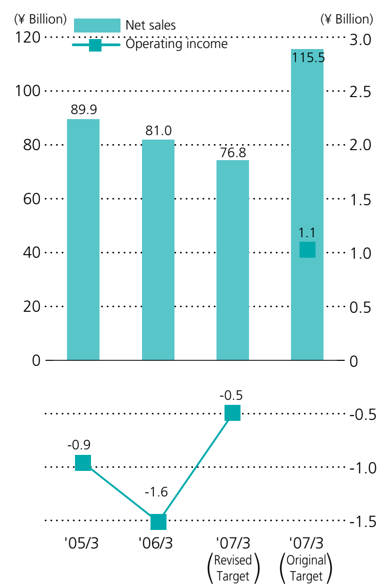
Our Marine Products Business posted operating losses in the fiscal years ended March 2004 and March 2005. In order to get back into the black, we took a variety of steps in the year ended March 2006, but at the start of the second half, we still saw no prospects for recovery. We realized that the Marine Products Business had structural problems, so we compiled a "Marine Products Business Revitalization Plan" during the second half. The plan consists of three steps: (1) reducing fixed costs to a level commensurate with net sales, (2) only handling products and materials for which we can establish competitive dominance, and (3) dramatically speeding up capital turnover and establishing a “Product Meister Model” from a medium-term standpoint.

During the year ended March 2006, we reduced fixed costs by 700 million yen. In the year through March 2007, we will identify the areas where Nichirei can expect to beat the competition and concentrate investment of management resources in those areas.

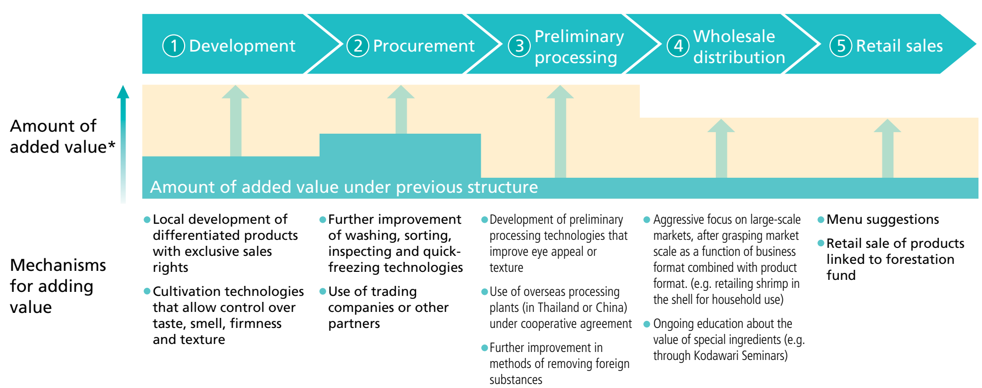
Establish "Product Meister Model" from a medium-term standpoint

We are working on establishing a Product Meister Model as the medium-term business model for our most competitive products. In this model, we will add value not only in the upstream portion of the value chain, i.e. procurement and development of advantages pertaining to the product itself, but also through preliminary processing, and wholesale and retail sales. Historically, Nichirei has mainly used product development and procurement as mechanisms for converting our products' strong points into added value; now we want to construct such mechanisms to use also in the preliminary processing, wholesale and retail sales phases to make our products more competitive.

Net Sales and Operating Income of Marine Products



Product Meister Model



*The difference in the height of this graph does not denote an exact difference of monetary value, as "Amount of added value" is only denoted conceptually.

Market and Industry Trends

- Due to increased demand for marine products worldwide, international prices for marine products have soared while demand in Japan has been stagnant.
- In 2005, nationwide per-household expenditures for fish and shellfish fell by 2.5% compared to the previous year.
- In 2005, marine product imports to Japan fell by 4.1% in volume while the monetary value rose 1.9% from the previous year.

Performance in the Year Through March 2006

- We trimmed our product line in response to lackluster demand in the domestic market and soaring international prices for marine products. As a result, we were unable to sell enough to cover fixed costs. Net sales for the Marine Products Business as a whole declined 9.9% year on year to 81.0 billion yen.
- Shrimp is one of our main products, but sales and profits declined as we trimmed our raw shrimp product line due to floundering prices.
- The Marine Products Business's loss grew by 69.8% year on year, to 1.6 billion yen, due to factors like the disposal of crab and fish roe inventories that we had carried over from the previous year.

Meat and Poultry Products

Basic Strategies

- Continually develop differentiated meat and poultry materials, and promote their use
- Develop more processed products for retailers and restaurants, mainly in collaboration with customers

Major Policies For the Year Through March 2007

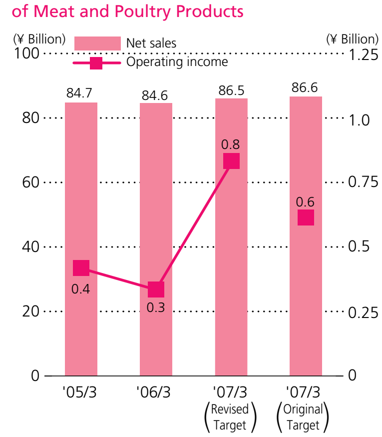
Improve capital efficiency by further strengthening Nichirei's capacities for networking, and for planning and developing products

Our business is based on our ability to work with producers and processors who can help us turn our ideas into products. Our capital efficiency rate is high because we use outsourcing rather than maintaining our own facilities for production and processing. Going forward, we will continue to conduct systematic training of personnel, especially in the area of planning, in order to further strengthen our capacities for networking, and product planning and development, and in order to continue to increase capital efficiency. For example, we will enhance employees' ability to make presentations that accurately explain products to customers.

Aim for greater expansion of profits through the concepts of health and environmental friendliness

To date, Nichirei has aimed for good taste, safety, reliability, health and environmental responsibility in our product planning. In the future, we will focus especially on health and environment as we plan products and collaborate with producers and processors who can implement our ideas. We developed and already sell pork with an ideal proportion of fatty acids to contribute to health maintenance, and in the year through March 2006 we succeeded in developing healthy chicken. From the fiscal year ending March 2007, we aim to step up marketing of these products and work on expanding this sector of the market and reinforcing our brands. To protect the environment, we are working on developing products that do not rely on antibiotics or growth hormones, and therefore do not pollute the ground with chemicals that impose a burden on the environment.

Net Sales and Operating Income of Meat and Poultry Products



Market and Industry Trends

- In the domestic poultry market, prices of imported products have stagnated due to increased imports of cooked processed poultry and Brazilian products, but prices of Japanese poultry have risen due to short supply.
- Prices of both Japanese and imported beef have been unstable due in part to the suspension of beef imports from the U.S.
- Pork continues to be in short supply as it is being used to cover for the lack of U.S. beef; pork prices in the Japanese market have been high.

Performance in the Year Through March 2006

- Despite natural disasters and a harsh business environment, we met our sales target.
- Poultry: Due to the worldwide spread of avian flu, we were unable to supply chicken except from Brazil, and profits declined.
- Beef: Japanese prices fluctuated wildly due to the influence of BSE in the U.S., but we achieved stable sales thanks to our reputation for reliability.
- Pork: Due to illicit actions by some Japanese dealers, domestic prices soared; this was one reason that our sales and profits increased.

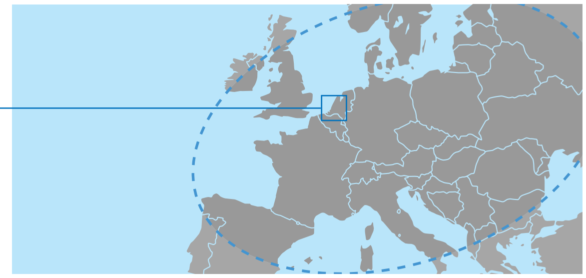
Development of Overseas Business

Nichirei's overseas business began with the procurement of high-quality marine products from all over the world, along with low-temperature logistics in Europe. Today we are also developing healthy and eco-friendly meat and poultry products and cultivating vegetables in China using smaller amounts of agricultural chemicals than normal. We intend to further expand our global network based on our boundless attention to quality, wealth of technological expertise, and new ideas.

Logistics

Europe

Nichirei has secured a base at Rotterdam port in the Netherlands – the center of European logistics and the largest port in the world – from which we provide comprehensive support for logistics between Europe and Japan. Recently, with more Eastern European countries poised to enter the EU, we have been expanding our target area.

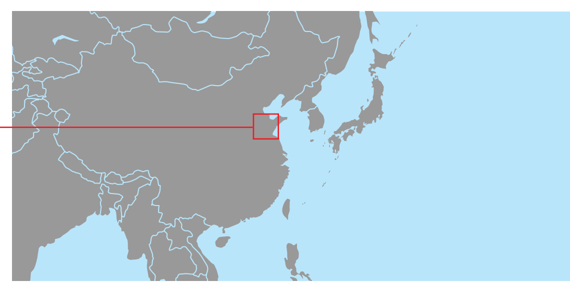


China

We have developed a modern low-temperature logistics service in China, with Shanghai as our base of operations. Currently, we are mainly working in the Shanghai area, operating distribution centers for mass retailers and making deliveries. However, we plan to expand into other major cities.

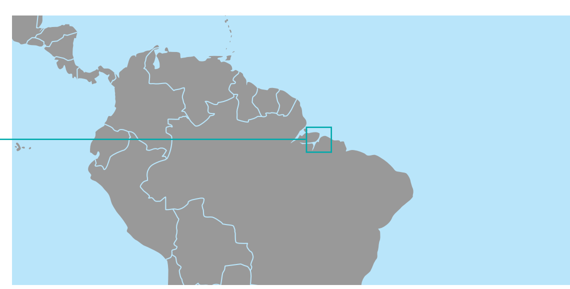
Processed Foods

We dispatched consultants and contracted with farms in Shandong Province to raise robust, delicious vegetables using smaller amounts of agricultural chemicals than normal. To ensure the safety of these vegetables, we established a joint venture with the Nisshin Seifun Group to do analysis, research, and development.



Marine Products

Natural shrimp from South America are said to be the most delicious in the world, and Nichirei was the first in the industry to implement a develop-and-import program for these shrimp. Nichirei is the only Japanese-affiliated company with a production base for natural shrimp that benefit from the natural bounty of the Amazon's tropical rain forest in Brazil. We control every step from procurement of raw materials to final product.



Corporate Governance

Core Philosophy

We at Nichirei believe that the basic mission of corporate management is to make effective use of the capital that shareholders have entrusted to us, in order to continually maximize shareholder value by earning solid profits from business activities. With this mission in mind, we believe that the Nichirei Group benefits society when we achieve steady growth while fulfilling our responsibilities to all stakeholders – not only shareholders and other investors, but also customers, business partners, employees and society as a whole. In order to achieve this, we understand that it is important for management to establish greater transparency in corporate management and more effective internal control and auditing so as to guard against excessive control by any one manager. In order to manage our diverse businesses, including Processed Foods, Marine Products, Meat and Poultry Products, Logistics, Real Estate and Bioscience, we are using our holding company system to achieve a clearer division between business execution and management monitoring, speedier decision-making, and stronger and more thorough legal compliance. We believe that our corporate auditing system, including outside auditors, is functioning adequately as required by Japanese corporate law. As of now, we intend to maintain our existing auditing system. We believe it is appropriate to further strengthen our Board of Directors and Board of Auditors and to enhance our management monitoring function.

Corporate Governance Structure, Policies and Implementation

Organizational structure	Company with statutory auditor system	
Number of directors	10 (term of office: one year)	
Number of outside directors	Three (attendance at regular board meetings: 70%)	
Business execution/ management monitoring	Board of Directors meetings: at least once a month Corporate Supervisor Group established within holding company; members also audit operating companies: convenes (monitors) once a month	
Committees	Group Ethics Committee	Convened by the committee chairperson
	Group Environmental Protection	Convened by the committee chairperson
	Group Quality Assurance Committee	Convened by the committee chairperson
	Management Committee	Meets every Tuesday
	Group Risk Management Committee	Convened by the committee chairperson
	Group Information Strategy Committee	Convened by the committee chairperson
	Intellectual Property Management Committee	Convened by the committee chairperson

Risk management structure	Group Risk Management Committee headed by the Company's Representative Director and President Internal reporting system Group companies audited by Corporate Internal Audit
Internal audits, audits by outside auditors, financial auditing	Number of auditors: Four Establishment of Corporate Internal Audit Facility Group in Corporate Internal Audit Number of outside auditors: Two (attendance at regular board meetings: 70%) Financial auditing: Ernst & Young ShinNihon Auditors of three core operating companies and Corporate Internal Audit: meet once a month
Strengthening of compliance and corporate ethics	Internal Compliance meetings: 16 times during the fiscal year (954 participants) Group Committee on Personal Information Protection (permanent committee)
Improvement of quality assurance	Group-wide rules govern quality management

Internal Control

The Nichirei Group recognizes that we increase our corporate value when we establish and use a system of internal controls with such goals as improving operational validity and efficiency, establishing the reliability of our financial reports, constructing risk management systems, and reinforcing thorough legal and regulatory compliance.

The following is our basic policy regarding the establishment of an internal control system as required by the corporate law that took effect in May 2006. Going forward, we intend to hone this policy in response to various factors including changes in the business environment.

Basic Policy Regarding Construction of Internal Control System

1. Ensuring that Directors and employees execute their duties in ways that are efficient and comply with the law and with Nichirei's articles of association
   (a) The Nichirei Group's management creed lays down this principal regarding the assessment of its activities: "Nichirei does not recognize any value whatsoever in results that were achieved by violating its code of conduct." We firmly maintain not only respect for the law and our articles of association, but also opposition to any corrupt or antisocial corporate behavior. We are committed to fair competition as befits a public entity.
   (b) As a holding company, Nichirei Corporation shall promote Group management and reinforce corporate governance through such activities as formulating management strategies for the Group as a whole, auditing within the Group, monitoring our operating companies, and procuring funds for the Group as a whole.
   (c) Nichirei Corporation shall increase transparency by implementing timely, accurate, and fair disclosure, and by always remaining accountable to shareholders and other stakeholders.
   (d) Nichirei Corporation shall establish an internal reporting system (Nichirei Hotline) to respond to reports or requests for advice from employees regarding actions that violate our corporate ethics.
   (e) Nichirei Corporation shall establish a framework to enable appropriate and efficient execution of duties in accordance with rules governing administrative authority and decision-making, based on our Board of Directors regulations, organizational regulations and other corporate regulations.

2. Storing and managing information related to Directors' execution of duties
   (a) The Board of Directors shall record, preserve and maintain control of Board of Directors meeting minutes, proposals that are circulated for approval or comment, and other information pertaining to the execution of their duties, as determined in the Board of Directors regulations and other corporate regulations such as those pertaining to document management.
   (b) Directors and Auditors may view directly and copy information related to the execution of duties that any division has recorded electronically and stores, manages or maintains.
   (c) At the request of a Director or Auditor, all divisions must quickly submit requested information for perusal.

3. Regulations regarding risk management
   (a) Nichirei Corporation (holding company) and all Group operating companies must handle risks related to corporate activities autonomously and proactively, according to the nature of each type of risk. In cases of serious risk, a report should be made to the appropriate body such as the Board of Directors of the holding company, and countermeasures should be discussed.
   (b) Nichirei Corporation shall take thorough measures to prevent problems and prepare an emergency response framework to be used if an accident should occur, by establishing a Group Risk Management Committee headed by the Company's Representative Director and President. The committee will consider, coordinate and determine measures for preventing accidents or other undesirable incidents that could affect the entire Group, as well as measures for responding to such events.
   (c) Nichirei Corporation shall conduct internal Group auditing with a focus on risk-management verification through the Corporate Internal Audit, and shall minimize risk by raising awareness of risk management within the Group.

4. Ensuring appropriate operations in the corporate Group consisting of Nichirei Corporation and its subsidiaries
   (a) As a holding company, Nichirei Corporation shall propose, determine and execute Group strategies, allocate management resources appropriately, monitor the Group as a whole and manage risk on its behalf in order to realize the Nichirei Group's mission and purpose. Nichirei Corporation shall also fulfill all the responsibilities of a publicly traded corporation.
   (b) Nichirei Corporation shall form a CSR Headquarters consisting of corporate staff who support the Board of Directors, internal auditors who monitor the Group, and the committee in charge of quality assurance for the Group.
   (c) Each operating company shall take on all the functions of an independent company (including all management functions from planning, development, and production to sales), build its organizational autonomy based on the executive authority of its Representative Director and President, and cultivate its ability to respond to its surroundings until it can do so with the speed that the market demands.
   (d) All intra-Group transactions among the Nichirei operating companies and Nichirei Corporation shall be executed appropriately, in accordance with accounting principles, tax laws and other regulations.

5. Assignment of assistants in the event that Auditors ask for an employee to assist in their duties; independence of such assistants from the Board of Directors
   (a) Nichirei Corporation shall establish an internal auditing division and take steps, such as holding regular conferences with Auditors, to ensure that Auditors function more effectively and efficiently than ever.
   (b) Nichirei Corporation does not currently have any staff assigned to assist Auditors in their work. However, if the Board of Auditors should request such assistance, the Company shall assign dedicated personnel to be selected and hired, etc. through consultation between the Board of Directors and the Board of Auditors.

6. Reporting to Auditors by Directors and employees
   (a) If a Director or employee knows that there has been a serious violation of the law or the Group's articles of association or an improper action related to the execution of his or her duties, or learns of a possibility of serious damage to the Company, he or she must promptly report the situation to the Board of Auditors.
   (b) Directors and employees must promptly report to the Board of Auditors the results of internal audits and any decision that can have a significant effect on the business or the organization.

7. Other systems for ensuring that Auditors conduct effective audits
   (a) The Representative Director and President, in addition to reporting the status of business execution to the Board of Directors, shall also construct mechanisms that allow the Auditors to adequately perform their auditing function, such as opportunities to regularly report the status of business execution to the Board of Auditors.
   (b) The Board of Directors shall secure Auditors' attendance at operational meetings that are important from the standpoint of assuring the Group's proper conduct.

Corporate Social Responsibility

In April 2006, the Nichirei Group established a CSR (corporate social responsibility) Headquarters within our holding company, and a CSR promotion office within each operating company, so that every company in the Group can work together to promote CSR. In order to develop in a sustainable way, we intend to actively fulfill our corporate responsibilities to society from six standpoints: 1) creation of new customer value, 2) improving employee job satisfaction, 3) legal compliance, 4) corporate governance, 5) concern for the environment, and 6) contribution to society. Below is an explanation of our policies and achievements regarding environmental preservation and social contributions. (For details, see "Nichirei CSR Report 2006.")

Environmental Preservation

Nichirei views environmental preservation as an important issue. We engage in "zero emission" activities aimed at completely eliminating our business activity's impact on the environment. We are working on reducing CO_2 emissions through a variety of methods, including procurement and development of raw ingredients that impose relatively little burden on the environment, reduced use of packaging materials, proposing "shared distribution" that helps conserve energy, and a "modal shift" from transport by truck to more energy-efficient rail transport.

Implementation of Environmental Measures

Reduction of Waste Material

Our goal for fiscal 2006 (through March 2007) is to reduce the volume of final waste disposal at our food production plants and logistics service centers to 70% of the amount generated in the fiscal year ended March 2000, and our goal for the year through March 2011 is zero final waste disposal. In the term ended March 2006, we worked on boosting our recycling rate, and reduced the volume of final waste disposal to 18% of the amount generated in the year ended March 2000, thereby meeting our target for fiscal 2006 ahead of schedule.

Reduction of Carbon Dioxide Emissions

By March 2011, the Nichirei Group aims to reduce carbon dioxide emissions from its food processing plants to 385 kg per ton of product output, which is 15% below the generation rate of the fiscal year ended March 2000. This term, we continued our efforts to operate production equipment using less energy and to improve our production processes, but the volume of carbon dioxide emitted per ton of product output was little changed from the previous year. This was partly due to the introduction of new equipment that consumes a large amount of energy.

Contributing to Society

The Nichirei Group aims to make social contributions that are in keeping with our corporate character. As a food manufacturer that aims to provide "health value," we would especially like to make various contributions related to exercise, which, like food, is a vital element of health maintenance.

Support for Systematic Testing of Swimming Skills

Swimming is a widely practiced national sport that contributes greatly to the health of the Japanese people. There are reportedly 30 million swimming fans in Japan alone. The Japan Swimming Federation has introduced a system for testing swimming ability according to uniform standards. To date, the federation has held more than 660 testing events at federation-affiliated swimming clubs and other venues. We support these swimming tests in the hope that they will encourage more widespread, lifelong participation in swimming.

The test is called the "Nichirei Challenge Swimming Badge Test."

Support for Women's Soccer Team

Since February 2005, Nichirei has been the uniform sponsor for NTV Beleza, a women's soccer team in Japan's L-League. The Japanese Football Association (JFA) has designated the enlivening of women's soccer as a priority, and the number of fans is expected to rise sharply in the future. Nichirei most recently supported Beleza by displaying Nichirei's logo on its uniforms and by sponsoring soccer clinics taught by Beleza athletes. This fiscal year, Nichirei held four such soccer clinics attended by more than 300 women. Through activities like these, Nichirei hopes to help generate more enthusiasm for women's soccer.

Soccer clinic sponsored by Nichirei

Selected Financial Data

Nichirei Corporation and Consolidated Subsidiaries
For the years ended March 31

	1997	1998	1999
Income Statement Data (¥ Million)			
Net sales	¥ 591,190	¥ 594,469	¥ 571,775
Cost of sales	496,187	498,618	477,692
Gross profit	95,003	95,850	94,082
Selling, general and administrative expenses	86,521	89,636	86,036
Operating income	8,481	6,214	8,046
Income (loss) before income taxes and minority interests	4,946	(3,414)	2,406
Net income (loss)	1,977	(5,172)	233
Balance Sheet Data (¥ Million)			
Total assets	¥ 388,613	¥ 393,032	¥ 365,838
Property, plant and equipment-net	179,701	176,254	168,812
Interest-bearing debt	200,632	217,322	195,994
Long-term liabilities	131,091	137,078	130,157
Total liabilities	294,715	306,342	284,777
Shareholders' equity	93,898	86,689	80,567
Other Selected Data (¥ Million)			
Capital expenditures	¥ 19,213	¥ 12,158	¥ 11,103
R&D expenditures	2,189	2,530	2,554
Depreciation and amortization expenses	14,504	15,357	15,572
Number of common shares outstanding	310,848,485	310,851,065	310,851,065
Per Share Data			
Net income - basic	¥ 6.36	¥ (16.63)	¥ 0.74
Net income - fully diluted		(data prior to 2000 not prepared)	
Cash dividends	6	6	6
Shareholders' equity	302.07	278.88	259.18
Financial Ratios (%, Times)			
As a percent of net sales:			
Gross profit	16.07%	16.12%	16.45%
Selling, general and administrative expenses	14.64	15.08	15.05
Operating income	1.43	1.05	1.41
Income (loss) before income taxes and minority interests	0.84	(0.57)	0.42
Net income (loss)	0.33	(0.87)	0.04
Return on equity	2.1	(5.7)	0.3
Current ratio	0.98	1.00	1.00
Debt-to-equity	2.14	2.51	2.43

* Prior to the year ended March 31, 1999, total liabilities include minority interests.

Selected Financial Data

2000	2001	2002	2003	2004	2005	**2006**
¥ 569,482	¥ 560,006	¥ 558,191	¥ 563,440	¥ 496,611	¥ 461,426	**¥ 469,411**
465,641	456,121	458,708	461,318	401,101	372,589	**377,834**
103,840	103,884	99,482	102,121	95,510	88,836	**91,577**
86,866	85,287	85,466	83,845	81,533	75,354	**75,563**
16,973	18,596	14,016	18,275	13,976	13,482	**16,014**
7,979	6,503	5,235	9,377	(3,817)	10,830	**13,138**
4,326	4,020	4,062	5,216	(1,891)	5,878	**6,293**
¥ 370,623	¥ 367,770	¥ 353,385	¥ 330,703	¥ 284,700	¥ 276,417	**¥ 268,501**
178,716	172,943	167,277	158,893	126,767	116,963	**108,041**
194,840	172,704	167,439	145,394	124,388	111,984	**86,209**
143,392	120,043	100,062	119,515	92,055	88,399	**82,181**
287,008	277,229	264,728	238,925	194,010	181,779	**165,246**
82,624	89,395	87,649	90,666	90,176	94,007	**102,624**
¥ 31,310	¥ 11,672	¥ 10,282	¥ 9,537	¥ 6,848	¥ 6,397	**¥ 7,496**
2,339	2,238	2,294	2,279	2,090	2,075	**2,042**
16,547	14,003	13,570	12,767	11,904	11,139	**10,775**
310,851,065	310,851,065	310,851,065	310,851,065	310,851,065	310,851,065	**310,851,065**
¥ 13.91	¥ 12.93	¥ 13.06	¥ 16.16	¥ (6.28)	¥ 18.45	**¥ 19.83**
13.87	12.93	13.05	16.08	-	-	**-**
6	6	6	6	6	6	**9**
265.80	287.58	282.00	291.46	290.38	302.50	**330.40**
18.23%	18.55%	17.82%	18.12%	19.23%	19.25%	**19.51%**
15.25	15.23	15.31	14.88	16.42	16.33	**16.10**
2.98	3.32	2.51	3.24	2.81	2.92	**3.41**
1.40	1.16	0.94	1.66	(0.77)	2.35	**2.80**
0.76	0.72	0.73	0.93	(0.38)	1.27	**1.34**
5.3	4.7	4.6	5.9	(2.1)	6.4	**6.4**
1.06	0.83	0.78	0.98	1.06	1.17	**1.30**
2.36	1.93	1.91	1.60	1.38	1.19	**0.84**

Operations

Business Environment

In the year ended March 2006, the Japanese economy continued to recover despite unstable conditions including soaring crude oil prices. Capital expenditures increased thanks to improved corporate profits, and there was modest expansion in personal consumption due to an improved employment picture.

In the food industry in which each Nichirei does business, consumers are clamoring for safe and reliable foods and services, because no radical solution has yet been found for the worldwide spread of avian flu or for the stoppage of imports of U.S. beef to Japan amid fears of BSE. In addition to taking stronger measures than ever to ensure safety and reliability, for example by responding to the Positive List System for agricultural chemicals remaining in foods (a system that the Japanese government introduced May 29, 2006), we at Nichirei need to be answerable for our overall corporate stance, including environmental protection measures, corporate responsibility and contributions to society.

Overview

The Nichirei Group is currently implementing a group-wide Medium-Term Plan that covers the fiscal years ending March 2005 to March 2007. Under this plan, we are building a slim, tough corporate structure with a strong awareness of the need to use capital efficiently. On April 1, 2005, we initiated a holding company system consisting of a holding company and several operating companies, in order to manage our operations even more efficiently. Under this system, operating companies have a much greater degree of autonomy than they did under the previous business division structure. Along with this greater autonomy, the operating companies are subject to governance and monitoring by the holding company. This system has benefited the operating companies to a certain degree, for example by speeding up decision-making and increasing employees' sense of participating in management.

Meanwhile, we established a joint venture in Shandong Province, China, with Nisshin Seifun Group Inc., to improve our quality-assurance system by checking the safety of foods imported to Japan from China and to conduct research and development.

Operating Results

Nichirei's net sales for the year ended March 2006 increased by ¥7,984 million (US$67.9 million) or 1.7% from a year earlier, to ¥469,411 million (US$3,996.0 million). Net sales increased in the Processed Foods and Logistics businesses, but fell sharply in Marine Products, partly because we pared down our main product lines due to the greatly increased cost of raw materials. Meat and Poultry Products sales were about the same as the previous year.

Operating income was ¥16,014 million (US$136.3 million), up 18.8% from a year earlier. Our operating income margin improved from 2.9% to 3.4%. In the Logistics segment, our Logistics Network Business and Regional Storage Business served as the driving forces for giving a sharp boost to operating income. In Processed Foods, operating income rose thanks to cost-cutting and a relative leveling-off of raw chicken price increases. Profits from our Real Estate Business also rose, thanks in part to increased land sales. However, operating income declined in our Marine Products and Meat and Poultry Businesses.

Our overall cost of sales increased 1.4% from last year to ¥377,834 million (US$3,216.4 million). We were able to reduce costs mainly in the core businesses, and our cost-to-sales ratio improved by 0.2% to 80.5%. Selling expenses increased 1.0% from the previous term to ¥44,803 million (US$381.3 million). In the first half, we invested a large amount in promoting sales of frozen, prepared foods for household use. General and administrative expenses declined 0.3% year on year to ¥30,759 million (US$261.8 million).

■Performance by Segment

Due to our shift to a holding company system in April 2005, we changed the allocation basis for our operating expenses as of the consolidated fiscal year ended March 2006 and began allocating management and operating expenses incurred by the holding company among the operating companies. Accordingly, we revised each segment's operating income in line with the new allocation basis.

Processed Foods

	2005.3	2006.3	Change (%)
Net sales	¥ 178,548	¥ 184,844	3.5
Operating income	4,285	5,454	27.3
Operating income margin	2.4%	3.0%	

(¥ Million)

In the year ended March 2006, Processed Foods net sales rose 3.5% over the previous year to ¥184,844 million (US$1,573.5 million). Sales of ready-to-serve Chinese-style dishes and precooked marine products declined, but we enjoyed increased sales of processed chicken products, processed meats and retort pouch foods, among other items. Sales of processed chicken products, especially fried chicken, rose especially sharply, and made a large contribution to the overall net sales of our Processed Foods Business. In particular, sales of processed chicken for industrial use exceeded the levels that preceded the outbreak of avian flu.

We developed our "Chef-no-Ippin-Lunch Series" as value-for-money offerings in the prepared frozen foods for household use category, with cooperation from chefs at well-established or well-known restaurants. In the agricultural products (frozen vegetables) category, we introduced the "Quickvege Series" of pre-washed, precut vegetables in small quantities.

Operating income increased 27.3% to ¥5,454 million (US$46.4 million), and the operating income margin rose from 2.4% to 3.0%. We spent more on discount sales and advertising, but increased sales volume led to greater capacity usage at our group factories in Japan, which in turn reduced manufacturing costs. This in combination with a leveling-off of chicken, rice and other materials costs improved profitability and resulted in a significant increase in operating income for Processed Foods as a whole.

(a) Prepared frozen foods for the household market

Sales of prepared frozen foods for household use grew 0.7% year on year to ¥55.6 billion (US$473.3 million) in the fiscal year ended March 2006. There was especially strong growth in sales of processed chicken products such as "Honwafu-Wakadori-Kara-age (Genuine Japanese-Style Fried Chicken)," and "Minihamburg" and "Imagawa-yaki" also contributed to the increase in sales. Overall, sales were lackluster for "Obento-ni-Good Series," which are made without artificial colorings, preservatives or chemical seasonings, but a few of the items sold well, including "Minihamburg" and "Yawaraka Hitokuchi Katsu (Soft Bite-size Cutlets)."

Consumption of processed chicken products has recovered after dropping due to avian flu, but discount sales have become an everyday occurrence, so prices remain low. In this tough business climate, our priority products such as "Honkaku-itame Cha-han (Authentic Fried Rice)" and "Ebi Pirafu (Shrimp Pilaf)" have been performing well.

(b) Prepared frozen foods for the industrial market

Sales of prepared frozen foods for the industrial market rose 8.1% from the previous year to ¥79.8 billion (US$679.3 million). Sales of processed chicken products rose considerably amid a sharp rebound in sales of fried chicken products such as "Wakadori-no-Yawaraka-Kara-age (Japanese-Style Soft Fried Chicken)." "The Hotto Suru Okazu (Thank Goodness for Ready-made Dishes) Series," which is aimed at the ready-to-eat foods industry, also sold well. For the restaurant and institutional meal service markets, the best-selling processed meat product was "Ton-katsuya-no Rosu Katsu (Roast Cutlets from the Cutlet Shop)," while various types of pilaf were the most popular rice products.

(c) Agricultural products

Sales of agricultural products rose 3.6% from the previous year. Sales of potatoes and broccoli increased. Among the items in our "Quickvege Series" of pre-washed, precut vegetables sold in small quantities, the shredded burdock group was particularly popular.

(d) Acerola

Sales in the acerola business rose 5.1% from the previous year. We sold more acerola beverages in plastic bottles and acerola vitamin C to convenience stores. We advertised aggressively, including through television commercials.

Marine Products

	2005.3	2006.3	Change (%)
Net sales	¥ 89,998	¥ 81,068	-9.9
Operating income	(977)	(1,659)	-
Operating income margin	-	-	-

(¥ Million)

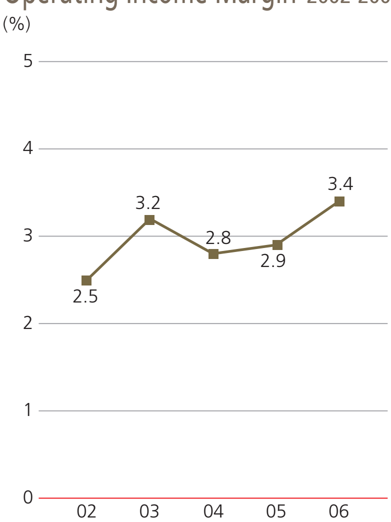
In the marine products industry, expanded worldwide demand (mainly from the U.S., Europe and China) caused greater competition over ingredient procurement, and pushed up international prices. At the same time, the domestic market for marine products was sluggish. Domestic spending per household on seafood from January to December 2005 slipped 2.5% from the previous year, according to a survey of household expenditures conducted by the Ministry of Internal Affairs and Communications.

During the same period, marine products imports declined by 4.1%, according to the Japan Fish Traders Association.

Nevertheless, the monetary value of marine products imports reflected the rise in international prices, and increased 1.9% over the previous year.

In this business environment, Nichirei strove to develop and sell marine products with freshness, good taste, safety and reliability as our guiding concepts. At the "Nichirei Fresh Kodawari Seminar 2005" held in December 2005, we introduced added-value ingredients like Mauritanian octopus and natural prawns from Brazil. In order to promote high added-value processed products in our major sales channels — restaurants, ready-to-serve food retailers, and buying cooperatives — we reorganized our business structure in October 2005. However, because we trimmed our main product lines in response to the surge in international marine product prices and stagnation in domestic sale prices, net sales

Operating Income Margin 2002-2006



declined 9.9% from the previous year. The business's operating loss grew from ¥977 million (US$8.3 million) the previous year, to ¥1,659 million (US$14.1million). The main reasons for this decline in performance were the drop in sales that resulted from paring down our main product lines and losses from the disposal of inventories of crab and fish eggs held over from the previous year.

Meat and Poultry Products

	2005.3	2006.3	Change (%)
Net sales	¥ 84,745	¥ 84,641	-0.1
Operating income	447	309	-30.8
Operating income margin	0.5%	0.4%	

(¥ Million)

In the fiscal year through March 2006, market prices for meat and poultry fluctuated substantially with the prolongation of Japan's bans on imports of U.S. beef amid concerns about BSE and on imports of chicken from East Asia because of avian flu.

Under these conditions, we worked to expand our line of differentiated ingredients. For example, we raised chickens on an experimental basis with an eye toward commercializing "Omega Balance Chicken," and worked on developing new procurement channels for our already successful "Omega Balance Pork." At "Nichirei Fresh Kodawari Seminar 2005," we introduced the latter two products and "Honoo-no Yakitori (Open-flame Grilled Chicken)." Until the fiscal year ended March 2005, we had been commissioning production of lightly processed chicken products to China, but we dispersed the country risk by gearing up to also produce in Thailand.

Sales of both fresh domestic and imported frozen pork have been strong due to the need to replace U.S. beef. Pork sales rose 2.2% year on year. The market for imported chicken was poor, but sales of domestic chicken were strong, so chicken sales increased by 0.9%. With fresh domestic and frozen Australian beef covering for the lack of U.S. beef, beef sales sagged by only 0.2%. Altogether, net sales in these three categories increased, but sales of lightly processed products declined, resulting in a 0.1% year-on-year drop in net sales for the Meat and Poultry Business. Operating income dropped by 30.8% from the previous year to ¥309 million (US$2.6 million) due to a loss resulting from a sudden change in the market for beef tongue.

Logistics

	2005.3	2006.3	Change (%)
Net sales	¥ 116,671	¥ 127,077	8.9
Operating income	3,577	5,825	62.9
Operating income margin	3.1%	4.6%	

(¥ Million)

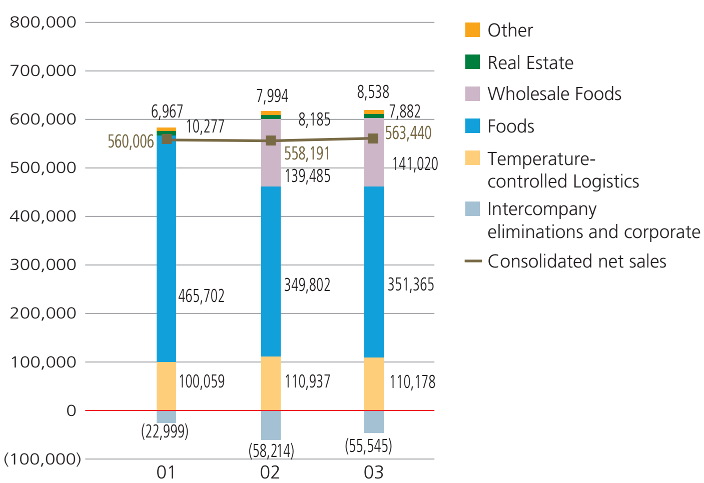
In the temperature-controlled logistics industry, the intake volume in Japan's 12 major cities increased by 0.5% from the previous year to 10,560,000 tons, while the average utilization rate rose 2.1 percentage points to 36.3%. The intake volume by the Nichirei Group grew by 3.4% to 2,825,000 tons and the average utilization rate rose 2.0 percentage points to 38.3%.

Imports of meat and poultry to Japan increased compared to the year before. While the ban on imports of U.S. beef continued, imports of Australian beef increased as a replacement. Imports of both raw and processed chicken increased, and pork imports increased slightly. Overall, imports of marine products, including bonito and tuna, declined relative to the previous year. The volume of agricultural product imports increased year on year as demand for potatoes made up for lackluster demand of other frozen vegetables.

Given this environment, domestic net sales by Nichirei's Logistics Business increased by 8.9% to ¥127,077 million (US$1,081.7

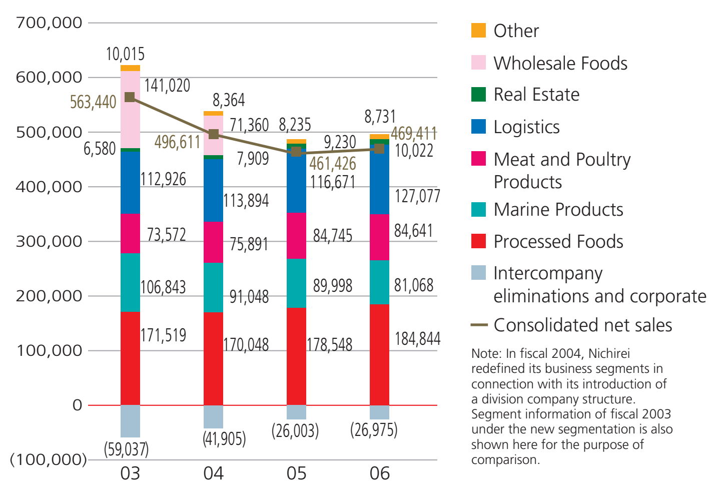
Net Sales by Segment 2001-2003

(¥ Million)



Net Sales by Segment 2003-2006

(¥ Million)



Note: In fiscal 2004, Nichirei redefined its business segments in connection with its introduction of a division company structure. Segment information of fiscal 2003 under the new segmentation is also shown here for the purpose of comparison.

million), helped in part by the launch of new distribution centers during the previous year, and domestic operating income also rose. Overseas sales increased but overseas operating income declined. Overall, Logistics operating income rose 62.9% from the previous year to ¥5,825 million (US$49.5 million).

(a) Logistics Network Business

Net sales in Nichirei's Logistics Network Business increased 14.0% to ¥63,166 million (US$537.7 million) and operating income rose twelve-fold to ¥1,307 million (US$11.1 million).

New distribution centers opened during the previous year contributed fully to this year's growth. We opened one more new distribution center in the second half of the year ended March 2006, and this contributed to the large growth in sales. Although higher fuel costs and a decline in transport efficiency put pressure on profits, we improved profitability at centers that had been performing poorly, and achieved a significant increase in operating income.

(b) Regional Storage Business

Net sales in the Regional Storage Business increased 0.6% year on year to ¥46,340 million (US$394.4 million) and operating income climbed 52.4% to ¥4,734 million (US$40.2 million). Discounting the impact of the previous year's sale of our Kyushu Food Products Business, sales effectively increased by 2.0%. As a result of an aggressive push for sales tailored to local areas, we were particularly successful in boosting net sales in the Kansai and Kyushu regions, and we even saw a significant recovery in storage volumes in the Tokyo harbor area. We also achieved a large increase in operating income by restructuring so that we could eliminate redundant managers and convert fixed costs to variable costs.

The Kansai region not only increased storage volumes, but also led other areas in reducing costs, for example by introducing variable work schedules. The Kyushu region continued its locally oriented sales drive and was successful in drumming up new business storing local agricultural and meat and poultry produce. Sales recovered in eastern Japan, mainly in metropolitan Tokyo, after lagging due to the prohibition against imports of U.S. beef. Nationwide, net sales increased significantly.

(c) Overseas Business

Net sales by our Overseas Business increased 17.5% to ¥15,604 million (US$132.8 million) but operating income plunged 35.6% to ¥558 million (US$4.7 million).

In the European region (the Netherlands and Germany) that accounts for the majority of our Overseas Business, we saw a nice increase in sales of fruit juice storage and transportation. In our Overseas Business as a whole, however, operating income fell despite larger sales, partly because of a delay in filling storage space in certain refrigerated warehouses, and because intensified competition forced storage rates down.

Meanwhile, in China (Shanghai), we did not meet our initial targets, partly because of delays in our customer's plans to add new stores.

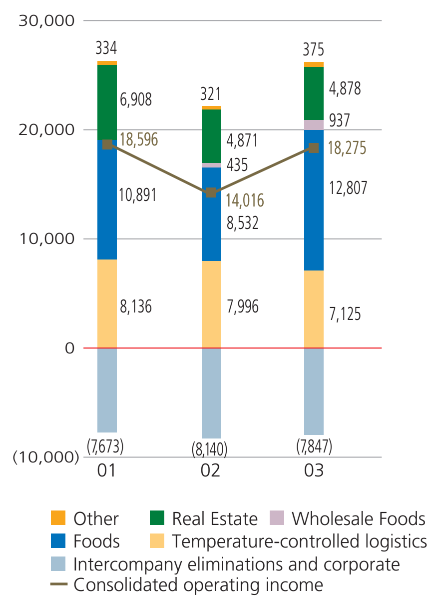
Real Estate

		2005.3		2006.3	Change (%)
Net sales	¥	9,230	¥	10,022	8.6
Operating income		6,003		6,146	2.4
Operating income margin		65.0%		61.3%	

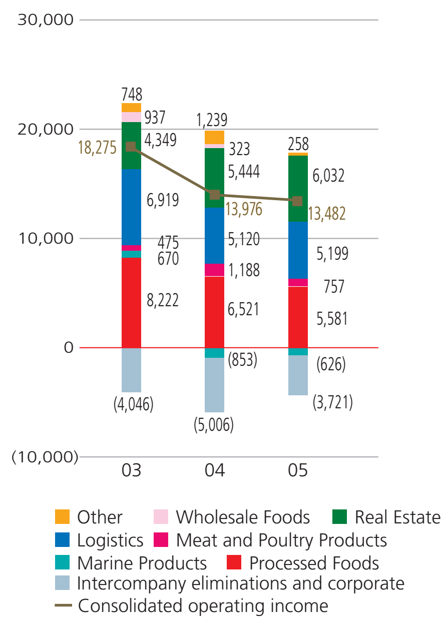
(¥ Million)

Our main goal for our Real Estate Business in the fiscal year ended

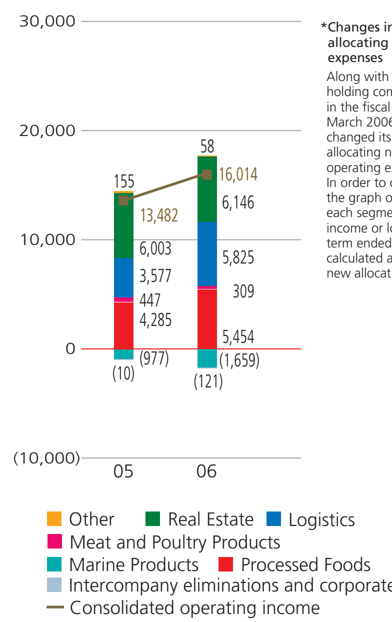
Operating Income by Segment 2001-2003
(¥ Million)



Operating Income by Segment 2003-2005
(¥ Million)



Operating Income by Segment* 2005-2006
(¥ Million)



*Changes in standard for allocating operating expenses

Along with its shift to a holding company structure in the fiscal term ended March 2006, Nichirei changed its basis for allocating nonapportionable operating expenses. In order to compare results, the graph on the left shows each segment's operating income or loss from the term ended March 2005 calculated according to the new allocation basis.

March 2006 was to boost competitiveness through such measures as making efficient use of group real estate holdings, offering better property management support, and updating facilities in our rental office buildings. Nationwide, sales of land and condominiums increased, contributing substantially to growth in profits.

As a result, net sales rose year on year by 8.6% to ¥10,022 million (US$85.3 million). Operating income increased 2.4% to ¥6,146 million (US$52.3 million).

(a) Real estate sales

In the Real Estate Sales Business, we sold a total of 11 residential lots and three other parcels of land. We sold condominiums as part of a jointly operated business.

(b) Real estate rentals

In the fiscal year ended March 2006, we started renting office space to new tenants in Kita-ku, Osaka and Atsuta-ku, Nagoya. We also improved facilities at some of our real estate holdings; for example, we improved energy efficiency at our office buildings in central Tokyo.

Other Operations

	2005.3	2006.3	Change (%)
Net sales	¥ 8,235	¥ 8,731	6.0
Operating income	155	58	-62.6
Operating income margin	1.9%	0.7%	

(¥ Million)

In the fiscal term ended March 2006, net sales by our Biosciences Business increased as we sold more cell-culture media and simple diagnostic kits. However, sales were sluggish in the more profitable category of functional materials, such as raw materials for cosmetics, and operating income declined in the Biosciences Business as a whole.

At Tengu Company, Inc. in the U.S., production of beef jerky — the main product — remains sharply reduced because of concerns about BSE in U.S. beef.

Overall, net sales in our Other Operations rose 6.0% to ¥8,731 million (US$74.3 million), but operating income dropped 62.6% to ¥58 million (US$0.4 million).

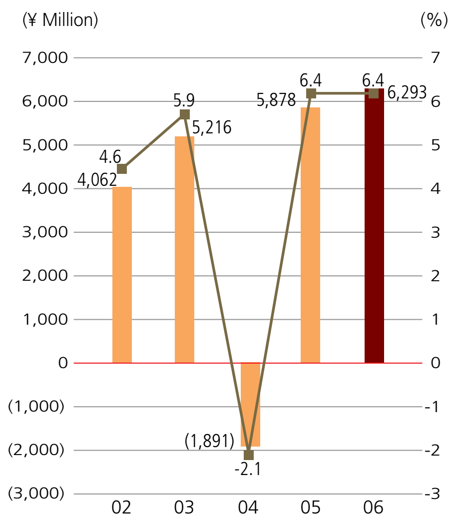
Other Income and Expenses

The net amount of other income and expenses in the fiscal year ended March 2006 was a loss of ¥2,875 million (US$24.4 million), compared with a loss of ¥2,651 million (US$22.5 million) the previous year. The main sources of other income were ¥5,453 million (US$46.4 million) in profits on the sale of fixed assets resulting from sale of land and buildings, etc. in various parts of Japan, and ¥970 million (US$8.2 million) in gains on the sale of investment securities. Under "other expenses," we posted an impairment loss of ¥4,153 million (US$35.3 million) arising from our adoption of asset-impairment accounting, a loss of ¥2,421 million (US$20.6 million) on the sale of fixed assets, and the loss of ¥1,439 million (US$12.2 million) arising from the closing of Nichirei Foods Pro's Hakata Product Manufacturing Plant and other facilities.

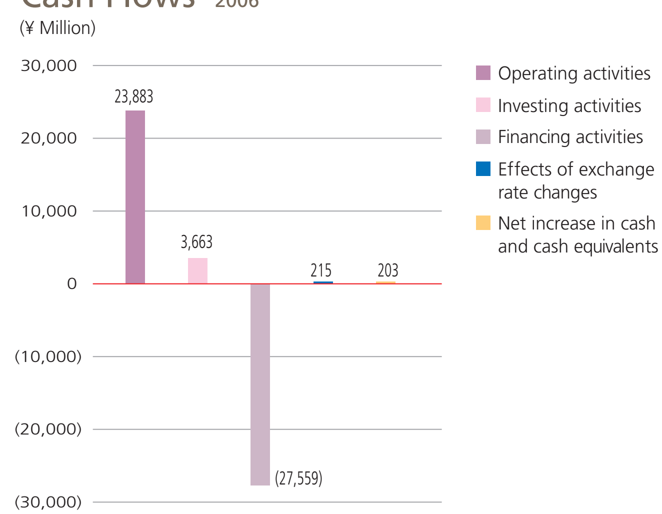
Income before Income Taxes and Net Income

As a result of the above, income before income taxes and minority interests totaled ¥13,138 million (US$111.8 million), up 21.3% from the previous year, and net income was ¥6,293 million (US$53.5 million), up 7.1%. Net income per share was ¥19.83 (US$0.169), compared with ¥18.45 (US$0.157) the previous year.

Net Income and ROE 2002-2006



Cash Flows 2006



Liquidity and Capital Resources

Net cash provided by operating activities this fiscal year increased by ¥8,319 million (US$70.8 million) over the previous year to ¥23,883 million (US$203.3 million). One of the main reasons for this was the fact that income before income taxes and minority interests rose by ¥2,308 million (US$19.6 million) from the previous fiscal term to ¥13,138 million (US$111.8 million). Also, the balance of operating funds (notes and accounts receivable + inventories - notes and accounts payable) improved by ¥7,727 million (US$65.7 million), largely due to the fact that we optimized inventory levels. Other factors that contributed to the increase in cash flow provided by operating activities included the impairment loss on fixed assets of ¥4,153 million (US$35.3 million) that resulted from our adoption of asset-impairment accounting for real estate holdings and an increase in income of ¥2,316 million (US$19.7 million) from fluctuation in the amount of increase of prepaid pension expenses.

Net cash provided by investing activities this fiscal year increased by ¥4,501 million (US$38.3 million) from the previous year, to a net gain of ¥3,663 million (US$31.1 million). The main reason for the increase was that the net proceeds of sales of tangible fixed assets were ¥6,222 million (US$52.9 million) higher than the previous year, as a result of increased sales of property, plant and equipment. On the other hand, the net result of trading in investment securities was a ¥3,464 million (US$29.4 million) bigger expense compared to the previous year.

Net cash used in financing activities decreased by ¥12,379 million (US$105.3 million) from the previous year to ¥27,559 million (US$234.6 million). We reduced interest-bearing debt by liquidating assets: as of March 31, 2006, Nichirei's interest-bearing debt was down ¥25,775 million (US$219.4 million) from a year earlier to ¥86,209 million (US$733.8 million). The target for March 31, 2007 according to our Medium-Term Plan is under ¥97.0 billion (US$825.7 million), which we achieved a year ahead of schedule. We also made progress toward keeping our financing costs low and becoming more financially stable by shifting from short- to long-term sources of debt financing. As a result, our fixed assets to long-term capital ratio declined from 91.9% at the end of the previous fiscal year to 86.7% at the end of the fiscal year ended March 2006.

Net interest expenses improved by ¥317 million (US$2.6 million), from ¥1,371 million (US$11.6 million) in the previous year to ¥1,054 million (US$8.9 million) this fiscal year thanks to significant reduction in interest-bearing debt and lower financing costs. As a result of the activities described above, our balance of cash and cash equivalents at the end of the fiscal year increased by ¥203 million (US$1.7 million) from the previous year to ¥3,290 million (US$28.0 million).

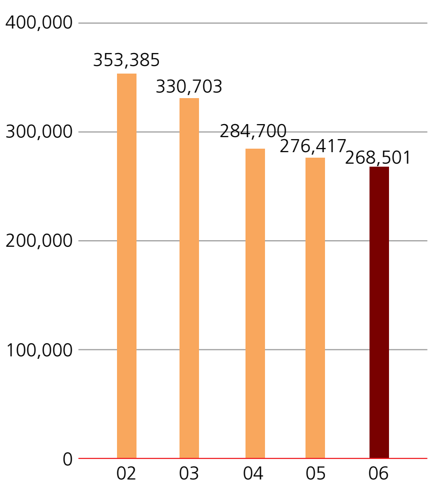
The Balance Sheet

This fiscal year, we reduced the Nichirei Group's total assets by ¥7,915 million (US$67.3 million) to ¥268,501 million (US$2,285.6 million). Total assets declined despite the fact that the market value of our investment securities increased along with the general rise in domestic share prices, because we took steps to improve capital efficiency, such as reducing inventories to appropriate levels and selling fixed assets.

Current assets decreased by ¥649 million (US$5.5 million) to ¥108,185 million (US$920.9 million). Inventories declined by ¥2,028 million (US$17.2 million) due to inventory adjustments. Notes and accounts receivable increased by ¥165 million (US$1.4 million) to ¥64,315 million (US$547.5 million). Among other current assets, accounts receivable related to sources like sale of fixed assets increased by ¥2.7 billion (US$22.9 million), while the

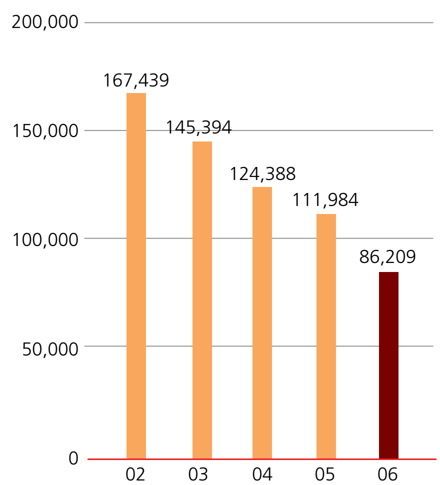
Total Assets 2002-2006

(¥ Million)



Interest-Bearing Debt 2002-2006

(¥ Million)



unrealized gain on the market value of coupon swaps and other derivative transactions fell by ¥1.5 billion (US$12.7 million) because of the yen's depreciation.

Property, plant and equipment declined by ¥8,922 million yen (US$75.9 million) to ¥108,041million yen (US$919.7 million). Capital expenditures increased by ¥6.5 billion (US$55.3 million), but depreciation caused a decline of ¥8.9 billion (US$75.7million), and the disposal and sale of land and buildings in order to improve capital efficiency caused a decline of ¥4.7 billion (US$40.0 million), while the impairment of fixed assets also contributed ¥1.7 billion (US$14.4 million) to the decline. Our major capital investments during the term were expansions of manufacturing plants in conjunction with the consolidation of Nichirei Foods' plants, the addition of production lines, expansion of the distribution center in Miyakonojo and construction of the new distribution center in Ishikari.

Investments and other assets increased by ¥1,657 million (US$14.1 million) to ¥52,274 million (US$445.0 million). Of these, investment securities increased by ¥5,576 million (US$47.4 million) due to a rise in market value in line with a general increase in share prices, and due to other factors such as a rise in the value of shares of affiliated companies accounted for by the equity method. On the other hand, because a larger amount was offset against the deferred tax liability related to the unrealized gain on other securities, deferred tax assets declined by ¥1,591 million (US$13.5 million).

The amount of total liabilities as of March 31, 2006 was ¥165,246 million (US$1,406.7 million), down ¥16,533 million (US$140.7 million) from a year earlier.

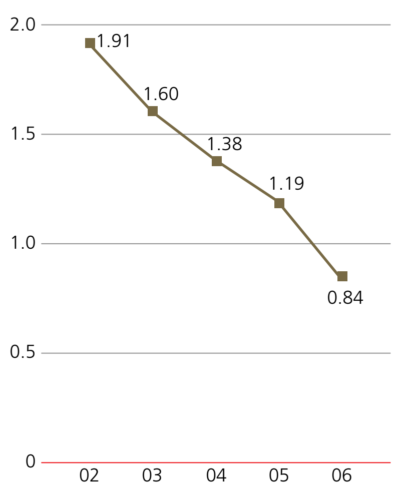
We used the large increase in free cash flow to pay down interest-bearing debt.

Current liabilities decreased by ¥10,315 million (US$87.8 million) to ¥83,064 million (US$707.1 million). By category, we paid off ¥15,000 million (US$127.6 million) worth of commercial paper to leave a balance of zero, and short-term bank loans declined by ¥3,288 million (US$27.9 million). Meanwhile, in order to redeem the Company's Series 15 unsecured bonds in May 2006, we increased the current portion of straight bonds by ¥10,000 million (US$85.1 million).

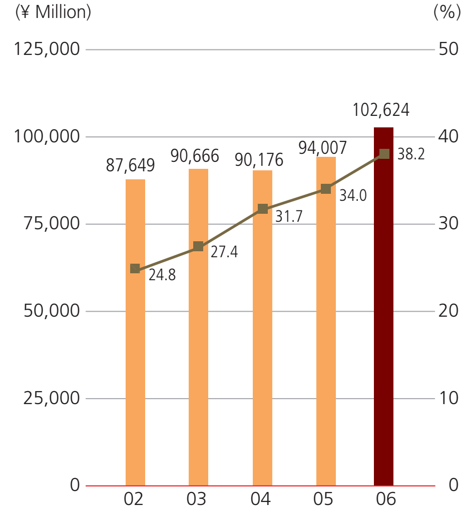
Long-term liabilities decreased by ¥6,217 million (US$52.9 million) to ¥82,181 million (US$699.5 million). Specifically, the Company's Series 15 unsecured bonds were transferred to the current portion of long-term debt, so corporate bonds decreased by ¥10,000 million (US$85.1 million). We took out ¥800 million (US$6.8 million) in new long-term loans, but the overall amount of long-term debt declined by ¥10,944 million (US$93.1 million) because of a reclassification of ¥1.7 billion (US$14.4 million) as the current portion of long-term debt. We also posted ¥2,196 million (US$18.6 million) in impairment losses on non-capitalized finance leases.

The amount of total shareholders' equity as of March 31, 2006 was ¥102,624 million (US$873.6 million), up ¥8,617 million (US$73.3 million) from the end of the previous term. Retained earnings rose by ¥4,132 million (US$35.1 million) as the increase in net income was far larger than the reduction from interim dividends and other appropriations of retained earnings for the previous year. The net unrealized holding gain on securities increased by ¥3,819 million (US$32.5 million), largely because the stock market rose. As a result of the above factors, shareholders' equity as a percentage of total assets came to 38.2%, up 4.2 percentage points from the previous year.

Debt-to-Equity 2002-2006



Shareholders' Equity and Equity Ratio 2002-2006



Significant Risk Factors Impacting Operating Results

Significant risk factors we can determine as of the end of March 2006 that could affect investors' investment decisions, of which some involve possible future developments, include the following:

(a) Food safety issues

One of our primary businesses is the importation of food products and materials from outside Japan. The Nichirei Group's consolidated results this fiscal year, as well as the previous fiscal year, were affected by difficulties in procuring food products and materials because of food safety issues that arose in countries from which we import food products and materials. Basically, imports of processed chicken products and materials, the mainstays of our Processed Food Business, continued to be banned because of an outbreak of avian flu. In the Meat and Poultry Products Business, imports of U.S. beef also continued to be banned because of the discovery of BSE. As for spinach imports from China, the volume has not recovered to previous levels because of the substantial impact of problems with residual pesticides. The reduction in imports resulting from these food-safety issues affected our results through a decline in volume handled in the Logistics Business. The Nichirei Group will continue to import products and materials, but the emergence of food safety issues in countries from which we import could have an impact on the Group's results.

(b) Fluctuations in prices of food products and materials

In the Marine Products Business, the prices of the main products (e.g., shrimp, crab, and octopus), which we import from countries around the world, are affected by worldwide demand and the amounts that are caught and imported. Prices of frozen fish imports are also affected by prices and the amount of fish caught off the coasts of Japan. In the Meat and Poultry Products Business, market prices for both domestic and imported meat and poultry can become very volatile in reaction to events that dramatically affect supply and demand, such as import bans imposed in response to food safety issues or the imposition of emergency import restrictions ("safeguard measures"). In the Processed Foods Business, in which these products are used as materials to produce other food products, fluctuations in the market prices of food products and materials we use could have a significant impact on the Group's results such as procurement costs of raw materials and manufacturing costs.

(c) Product recalls

With the goal of earning customer trust in our products and services, the Nichirei Group has been working to establish a comprehensive quality assurance system that covers everything from product development and raw materials procurement to production and sales. With product safety and reliability as our highest priorities, we are establishing a solid trace-back system that allows us to track down the origin of raw materials and setting up a team of production control specialists. Despite such precautions, a major product recall stemming from claims against our products could have a significant impact on the Group's results.

(d) Risks involving long-term assets

In the Logistics Business, the Nichirei Group owns many cold-storage facilities, which are different from ordinary warehouses and require substantial capital investment. The recent expansion of highway networks and increased pace of consolidation in the food-delivery business have made such facilities in certain areas less important to shippers and thereby made it more difficult to secure cargo. In addition, a slump in warehousing demand as shippers reduce inventory levels could lead to increased price competition and a consequent deterioration in our earnings. In the Processed Foods Business, Nichirei owns production facilities in a number of areas and has been improving productivity and product quality in response to a challenging operating environment stemming from a slump in sales, the obsolescence of plant and equipment, and demand for higher product quality. The consolidation of unprofitable facilities and the disposal of fixed assets, as part of our efforts to use capital more efficiently in all our businesses, could have a significant impact on the Group's results.

(e) Securities price risk

We own shares of Group companies and securities issued by companies we do business with, the latter of which are held for strategic business purposes. We make changes to our securities holdings as needed, based on our business strategies, efforts to improve the quality of our assets, and other factors. All of the investment securities as of the end of this fiscal year, except shares of subsidiaries and affiliates, are classified as available-for-sale securities. Losses associated with write-downs for impairments in their value could be incurred and affect the Group's results as a result of fluctuations in the values of those securities with market prices because of trends in the economic environment and corporate earnings, and in the values of those securities without market prices because of changes in the financial condition of the issuer.

(f) Exchange-rate risks

Insofar as one of our primary businesses is the importation of food products and materials from outside Japan, we face exchange-rate risks in our business transactions denominated in foreign currencies. To minimize these risks, we hedge by using currency exchange forward contracts, coupon swaps, and other types of derivatives. Nevertheless, exchange-rate fluctuations could have a significant impact on the Group's results.

Consolidated Balance Sheets

Nichirei Corporation and Consolidated Subsidiaries

As of March 31, 2005 and 2006

Assets	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current Assets:			
Cash and cash equivalents	¥ 3,087	¥ **3,290**	$ **28,011**
Notes and accounts receivable - trade	64,150	**64,315**	**547,508**
Less allowance for doubtful accounts	(285)	**(295)**	**(2,516)**
Inventories (Note 4)	33,065	**31,037**	**264,213**
Deferred tax assets (Note 10)	3,460	**3,138**	**26,721**
Other current assets	5,357	**6,698**	**57,027**
Total current assets	108,835	**108,185**	**920,965**
Property, plant and equipment (Notes 6 and 7):			
Land	29,486	**26,087**	**222,075**
Buildings and structures	191,248	**186,796**	**1,590,160**
Machinery and equipment	64,911	**65,112**	**554,291**
Construction in progress	14	**1,058**	**9,011**
	285,660	**279,054**	**2,375,538**
Less accumulated depreciation	(168,696)	**(171,013)**	**(1,455,801)**
Property, plant and equipment, net	116,963	**108,041**	**919,736**
Investments and other assets (Note 6):			
Investment securities (Notes 5 and 7)	19,969	**25,545**	**217,464**
Investment in affiliates	7,830	**9,374**	**79,803**
Deferred tax assets (Note 10)	3,219	**1,627**	**13,854**
Other (Note 7)	20,856	**16,875**	**143,661**
Less allowance for doubtful accounts	(1,257)	**(1,148)**	**(9,779)**
Total investments and other assets	50,617	**52,274**	**445,003**
Total assets	¥ 276,417	¥ **268,501**	**$2,285,705**

The accompanying notes are integral parts of these statements.

Liabilities, minority interests and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Current liabilities:			
Short-term bank loans (Note 7)	¥ 16,289	¥ **13,001**	$ **110,679**
Commercial paper	15,000	**-**	**-**
Current portion of long-term debt (Note 7)	8,187	**11,645**	**99,134**
Notes and accounts payables – trade	24,563	**25,994**	**221,284**
Income taxes payable	1,648	**3,505**	**29,837**
Accrued expenses	18,615	**19,254**	**163,911**
Other current liabilities	9,075	**9,664**	**82,268**
Total current liabilities	93,380	**83,064**	**707,116**
Long-term liabilities:			
Long-term debt (Note 7)	72,506	**61,562**	**524,071**
Accrued directors', statutory auditors' and employees' retirement benefits (Note 15)	3,984	**3,780**	**32,179**
Deferred tax liabilities (Note 10)	391	**3,134**	**26,680**
Accrued impairment loss on non-capitalized finance leases (Notes 9 and 11)	-	**2,196**	**18,700**
Other	11,516	**11,508**	**97,966**
Total long-term liabilities	88,399	**82,181**	**699,598**
Total liabilities	181,779	**165,246**	**1,406,714**
Contingent liabilities (Note 13)			
Minority interests	630	**630**	**5,367**
Shareholders' equity (Note 8):			
Common stock, with no par value:			
Authorized - 720,000,000 shares			
Issued and outstanding -			
310,851,065 shares as of March 31, 2005 and 2006	30,307	**30,307**	**258,004**
Capital surplus	23,705	**23,706**	**201,809**
Retained earnings	35,495	**39,627**	**337,344**
Net unrealized holding gain on securities	4,533	**8,353**	**71,110**
Translation adjustments	189	**890**	**7,580**
Less treasury stock, at cost	(224)	**(261)**	**(2,226)**
Total shareholders' equity	94,007	**102,624**	**873,623**
Total liabilities, minority interests and shareholders' equity	¥ 276,417	¥ **268,501**	**$2,285,705**

The accompanying notes are integral parts of these statements.

Consolidated Statements of Operations

Nichirei Corporation and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Net sales	¥ 461,426	¥ **469,411**	**$3,996,011**
Operating costs and expenses:			
Cost of sales	372,589	**377,834**	**3,216,430**
Selling, general and administrative expenses (Note 14)	75,354	**75,563**	**643,254**
	447,944	**453,397**	**3,859,685**
Operating income	13,482	**16,014**	**136,325**
Other income (expenses):			
Interest and dividend income	288	**320**	**2,732**
Interest expense	(1,657)	**(1,374)**	**(11,699)**
Other – net (Note 9)	(1,282)	**(1,822)**	**(15,512)**
	(2,651)	**(2,875)**	**(24,479)**
Income before income taxes and minority interests	10,830	**13,138**	**111,846**
Income taxes (Note 10):			
Current	2,085	**4,499**	**38,300**
Deferred	2,779	**2,247**	**19,129**
	4,865	**6,746**	**57,430**
Minority interests	87	**98**	**839**
Net income	¥ 5,878	¥ **6,293**	$ **53,575**

Amounts per share:	Yen		U.S. dollars (Note 1)
Net income:			
Basic	¥ 18.45	¥ **19.83**	$ **0.169**
Diluted	-	**-**	**-**

The accompanying notes are integral parts of these statements.

Consolidated Statements of Shareholders' Equity

Nichirei Corporation and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Common stock:			
Balance at beginning of year	¥ 30,307	¥ **30,307**	$ **258,004**
Balance at end of year	30,307	**30,307**	**258,004**
Capital surplus:			
Balance at beginning of year	¥ 23,704	¥ **23,705**	$ **201,800**
Gain from disposal of treasury stocks	0	**1**	**9**
Balance at end of year	¥ 23,705	¥ **23,706**	$ **201,809**
Retained earnings:			
Balance at beginning of year	¥ 31,525	¥ **35,495**	$ **302,164**
Net income	5,878	**6,293**	**53,575**
Cash dividends	(1,862)	**(1,862)**	**(15,855)**
Bonuses to directors and statutory auditors	(45)	**(135)**	**(1,153)**
Decrease due to change in accounting principles at consolidated overseas subsidiaries	-	**(162)**	**(1,386)**
Balance at end of year	¥ 35,495	¥ **39,627**	$ **337,344**
Net unrealized holding gain on securities:			
Balance at beginning of year	¥ 4,890	¥ **4,533**	$ **38,596**
Net change during the year	(356)	**3,819**	**32,515**
Balance at end of year	¥ 4,533	¥ **8,353**	$ **71,110**
Translation adjustments:			
Balance at beginning of year	¥ (60)	¥ **189**	$ **1,611**
Net change during the year	249	**701**	**5,969**
Balance at end of year	¥ 189	¥ **890**	$ **7,580**
Treasury stock, at cost:			
Balance at beginning of year	¥ (191)	¥ **(224)**	$ **(1,913)**
Net change during the year	(33)	**(36)**	**(312)**
Balance at end of year	¥ (224)	¥ **(261)**	$ **(2,226)**

The accompanying notes are integral parts of these statements.

Consolidated Statements of Cash Flows

Nichirei Corporation and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	**2006**	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,830	¥ **13,138**	$ **111,846**
Depreciation and amortization	11,139	**10,775**	**91,725**
Impairment loss on fixed assets	-	**4,153**	**35,356**
Increase/(decrease) in allowance for doubtful accounts	140	**(39)**	**(339)**
Increase/(decrease) in accrued employees' retirement benefits	377	**(334)**	**(2,843)**
Equity in earnings of affiliates	(1,423)	**(1,071)**	**(9,120)**
Loss on devaluation of real estate held for sales	942	**-**	**-**
Loss on disposal of property, plant and equipment	428	**365**	**3,110**
Loss on devaluation of investment securities	62	**-**	**-**
Loss on devaluation of goodwill	513	**-**	**-**
Loss on discontinued operation	118	**1,213**	**10,330**
Adjustment on prior year loss on discontinued operations	(161)	**-**	**-**
Loss on futures contract	158	**-**	**-**
Expenses related to establishment of the holding company structure	339	**-**	**-**
Additional payment to withdraw from the welfare pension fund plans	221	**-**	**-**
Interest and dividend income	(288)	**(320)**	**(2,732)**
Interest expense	1,657	**1,374**	**11,699**
(Gain)/loss on sales of property, plant and equipment	347	**(3,032)**	**(25,815)**
Gain on sales of investment securities	(1,288)	**(970)**	**(8,264)**
Gain on sales of investment in affiliates	(344)	**(52)**	**(447)**
Increase in notes and accounts receivable - trade	(5,049)	**(139)**	**(1,190)**
(Increase)/decrease in inventories	(1,105)	**1,624**	**13,828**
Increase in notes and accounts payable - trade	1,342	**1,431**	**12,186**
Gain due to increase in capital at affiliates	-	**(58)**	**(500)**
Other, net	674	**(757)**	**(6,451)**
Sub total	19,634	**27,297**	**232,376**
Interest and dividend income received	662	**525**	**4,476**
Interest expense paid	(1,691)	**(1,355)**	**(11,540)**
Income taxes paid	(3,040)	**(2,583)**	**(21,993)**
Net cash provided by operating activities	15,564	**23,883**	**203,319**
Cash flows from investing activities:			
Purchase of investment securities	(186)	**(682)**	**(5,811)**
Proceeds from sales of investment securities	4,664	**1,695**	**14,434**
Purchase of property, plant and equipment	(5,317)	**(4,564)**	**(38,860)**
Proceeds from sales of property, plant and equipment	2,278	**8,500**	**72,367**
(Increase)/decrease in short-term loans receivable	1	**(77)**	**(656)**
Increase in long-term loans receivable	(1)	**-**	**-**
Proceeds from collection of long-term loans receivable	33	**3**	**28**
Other, net	(2,309)	**(1,211)**	**(10,313)**
Net cash (used in) provided by investing activities	(837)	**3,663**	**31,187**
Cash flows from financing activities:			
Decrease in short-term bank loans	(3,094)	**(3,266)**	**(27,807)**
Increase/(decrease) in commercial paper	5,000	**(15,000)**	**(127,692)**
Proceeds from long-term debt	4,503	**800**	**6,810**
Repayment of long-term debt	(9,735)	**(8,271)**	**(70,409)**
Redemption of bonds	(10,000)	**-**	**-**
Dividends paid	(1,865)	**(1,864)**	**(15,876)**
Other, net	10	**42**	**365**
Net cash used in financing activities	(15,180)	**(27,559)**	**(234,609)**
Effects of exchange rate changes on cash and cash equivalents	(2)	**215**	**1,832**
Net increase (decrease) in cash and cash equivalents	(456)	**203**	**1,729**
Cash and cash equivalents at beginning of year	3,543	**3,087**	**26,281**
Cash and cash equivalents at end of year	¥ 3,087	¥ **3,290**	$ **28,011**

The accompanying notes are integral parts of these statements.

Notes to Consolidated Financial Statements

Nichirei Corporation and Consolidated Subsidiaries

Note 1: Basis of Presentation

The accompanying consolidated financial statements of Nichirei Corporation (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals in yen shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating Japanese yen amounts at ¥117.47 = US$1.00, the exchange rate prevailing on March 31, 2006.

Note 2: Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its 64 majority-owned subsidiaries (73 in 2005). All significant intercompany balances, transactions and profits have been eliminated in consolidation.

The excess of cost over underlying net assets at the dates of the investments in the consolidated subsidiaries is included in other assets and is being amortized on the straight-line basis over a period of five years except for immaterial amounts which are charged to income in the year of acquisition.

Investments in all of its 16 affiliates (14 in 2005) are accounted for by the equity method.

(b) Cash Equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in their value attributable to changes in interest rates, are considered cash equivalents.

(c) Securities

Securities are classified into three categories depending upon the holding purpose and accounted for as follows: i) trading securities, which are held for the purpose of earning capital gains in the short-term, are stated at fair market value, with related gain and loss realized on disposal and unrealized gain and loss from market fluctuations recognized as gain or loss in the statement of income in the year of the change; ii) held-to-maturity debt securities, which a company has the positive intent to hold until maturity, are stated at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned types of securities but are stated at fair market value if such value is available, or, if not, at moving-average cost, with unrealized gain and loss, net of the applicable taxes, reported as a separate component of shareholders' equity. Realized gain and loss on sales of such securities are calculated based on the moving-average cost. Securities held by the Company and its consolidated subsidiaries are all classified as available-for-sale securities.

(d) Foreign Currency Translation

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

(e) Translation of Financial Statements of Consolidated Overseas Subsidiaries

In translating the financial statements of the consolidated overseas subsidiaries, the balance sheet accounts are translated at the exchange rate in effect at each year-end except that shareholders' equity accounts are translated at their historical rates. Revenues and expenses are translated at the average rate of exchange prevailing during the year. Translation adjustments are presented as a component of shareholders' equity and minority interests.

(f) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the monthly average-cost method.

Inventories of the consolidated overseas subsidiaries are generally stated at the lower-of-cost-or-market, cost being determined principally by the first-in, first-out method.

(g) Property, Plant and Equipment, Intangible Fixed Assets, and Depreciation

Property, plant and equipment are stated at cost. Depreciation at the Company and its consolidated domestic subsidiaries is computed primarily by the declining-balance method except that the straight-line method is applied to office buildings for lease and to buildings acquired on or after April 1, 1998. Property, plant and equipment are depreciated at rates based on the estimated useful lives of the respective assets, ranging from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment as prescribed in the Corporation Tax Law of Japan.

Depreciation at all foreign consolidated subsidiaries is computed by the straight-line method, subject to local rules, at rates based on the estimated useful lives of the respective assets.

Intangible assets are amortized by the straight-line method.

(h) Employees' Severance and Retirement Benefits

Accrued retirement benefits for employees are stated principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years.

Unrecognized prior service cost is amortized using the straight-line method over certain years (10 years) within the employees' average remaining service period at incurrence.

(i) Directors' and Statutory Auditors' Retirement Benefits

Accrued retirement benefits for directors and statutory auditors are provided at the amount to be paid if all eligible directors and statutory auditors would have been retired at the balance sheet date.

(j) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Net Income per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds.

"Diluted net income per share" for the years ended March 31, 2005 and 2006 are not presented because there were no bonds to be converted to shares at the year ends.

(l) Leases

Non-cancelable finance leases are accounted for as operating leases except that lease agreements which stipulate the transfer of the ownership of the leased assets to the lessee are accounted for as finance leases.

Note 3: Accounting Change

Effective April 1, 2005, the Company and its consolidated domestic subsidiaries have adopted a new accounting standard for the impairment of fixed assets ("Opinion on Establishment of An Accounting Standard of the Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the guidance on the accounting standard for the impairment of fixed assets (the "Financial Accounting Standard Guidance No.6" issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of adopting the accounting standard and the guidance, income before income taxes and minority interests for the year ended March 31, 2006 decreased by ¥3,944 million ($33,578 thousand) compared to what would have been reported under the previous method. The effects on segment information are disclosed at Note 16.

Note 4: Inventories

Inventories as of March 31, 2005 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2005	2006	2006
Finished goods and merchandise	¥ 31,285	**¥ 28,083**	**$ 239,072**
Raw materials and supplies	1,780	**2,953**	**25,140**
	¥ 33,065	**¥ 31,037**	**$ 264,213**

Note 5: Securities

a) The following table summarizes the acquisition costs, book value and net unrealized gain (loss) on the available-for-sale securities as of March 31, 2005 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Acquisition costs:			
Equity securities	¥ 8,657	¥ 8,115	$ 69,089
Bond	107	100	851
	¥ 8,764	¥ 8,215	$ 69,940
Book value:			
Equity securities	¥ 15,527	¥ 21,147	$ 180,025
Bond	107	100	851
	¥ 15,635	¥ 21,247	$ 180,876
Net unrealized gain (loss):			
Equity securities	¥ 6,869	¥ 13,031	$ 110,935
Bond	0	0	0
	¥ 6,870	¥ 13,031	$ 110,935

b) Information regarding sales of securities for the years ended March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Proceeds from sales	¥ 4,045	¥ 1,600	$ 13,621
Gains on sales	1,288	970	8,264
Losses on sales	-	6	51

c) The following table shows the aggregate book value of available-for-sale securities with no available fair value as of March 31, 2005 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Non-listed equity securities (excluding equity securities traded on the OTC market)	¥ 4,222	¥ 4,237	$ 36,069

d) The redemption schedule for securities with maturity dates classified as available-for-sale securities as of March 31, 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Bonds	¥ 100	¥ -	$ 851	$ -

Note 6: Impairment of Fixed Assets

For the purpose of identifying fixed assets that are impaired, the Company grouped their fixed assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets or group of assets. As a result, each of the following assets was assessed for impairment individually. Due to significant decrease in market prices, continuing loss from the operation and the decision not to use those assets, the Company reduced book value of the assets to recoverable amounts, and recognized the reduced values as impairment losses amounting to ¥4,153 million ($35,356 thousand). Net realized values are calculated based on real-estate appraisal or assessed value for property tax. Recoverable amounts are measured by net realizable values or values in current uses. Values in current use are calculated based on the present values of future cash flows, using discount rate of 5%.

Primary use	Type of asset	Location	Impairment loss: *Millions of yen*	Impairment loss: *Thousands of U.S. dollars*	Collectible value
Idle assets	Land	Saizyo City, Ehime Prefecture, etc.	¥ 164	$ 1,401	Market value
	Intangible asset	Cyuo-ku, Tokyo, etc.	6	51	
Leasing assets	Land	Izumisano City, Osaka Prefecture	1,134	9,656	
		Higashimurayama City, Tokyo	328	2,799	
	Leasing assets	Kanazawa-ku, Yokohama City	1,205	10,263	Value in use
		Konohana-ku, Osaka City	738	6,287	
Assets for Pro Serve	Leasing assets	Fujimicyo, Suwashigun, Nagano Prefecture	461	3,927	
	Intangible asset		0	6	
Distribution center (To be closed)	Building and structure	Cyuo-ku, Sapporo City	70	597	
	Machinery and equipment		16	141	
	Intangible asset		1	10	
Welfare facilities (To be closed)	Building and structure	Yamanouchimachi, Shimotakaigun, Nagano Prefecture	24	209	Market value
	Intangible asset		0	2	

Note 7: Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent notes maturing within one year.

The weighted average interest rates of all outstanding short-term borrowings as of March 31, 2005 and 2006 were 1.492% and 1.353%, respectively.

Long-term debt as of March 31, 2005 and 2006 are summarized as follows (The given interest rates, which may be denominated in more than one currency, are calculated after consideration of the related interest-rate swaps or currency swaps utilized as hedges.):

	Millions of yen		*Thousands of U.S. dollars*
	2005	**2006**	**2006**
The Company:			
0.97% bonds due 2006	¥ 10,000	**¥ 10,000**	**$ 85,128**
0.99% bonds due 2007	10,000	**10,000**	**85,128**
1.43% bonds due 2008	5,000	**5,000**	**42,564**
1.42% bonds due 2009	10,000	**10,000**	**85,128**
Unsecured loans, principally from banks and life insurance companies	38,538	**32,875**	**279,863**
Secured loans, principally from government-sponsored agencies	425	**400**	**3,405**
Consolidated subsidiaries:			
Loans, principally from banks	6,731	**4,932**	**41,989**
Less current portion	(8,187)	**(11,645)**	**(99,134)**
	¥ 72,506	**¥ 61,562**	**$ 524,071**

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

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2007	¥ 11,645	$ 99,134
2008	11,987	102,047
2009	11,169	95,086
2010	35,134	299,092
2011 and thereafter	3,270	27,845
	¥ 73,208	$ 623,206

The assets pledged as collateral for long-term debt as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Property, plant and equipment	¥ 7,735	¥ **7,192**	$ **61,230**
Investment securities	958	**765**	**6,512**
Other assets	352	**352**	**3,001**
	¥ 9,046	¥ **8,310**	$ **70,744**

Note 8: Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and capital reserve account equals 25% of the common stock account. The legal reserve amounted to ¥39 million ($336 thousand) as of March 31, 2005 and 2006.

The Code provides that neither capital reserve nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. If the total amount of capital reserve and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

Note 9: Other Income (Expenses)

Other income (expenses) for the years ended March 31, 2005 and 2006 consisted primarily of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Gain on sales of property, plant and equipment	¥ 569	¥ **5,453**	$ **46,427**
Gain on sales of investment securities	1,288	**970**	**8,264**
Reversal of retirement allowances due to the transfer of employees (Note 15)	908	**-**	**-**
Loss on sales and disposal of property, plant and equipment	(1,545)	**(3,029)**	**(25,785)**
Impairment loss on fixed assets (Note 6)	-	**(4,153)**	**(35,356)**
Loss on discontinued operations	(346)	**(1,439)**	**(12,250)**
Loss on devaluation of investment securities	(62)	**-**	**-**
Loss on devaluation of real estate held for sales (*1)	(942)	**-**	**-**
Loss on devaluation of goodwill (*2)	(513)	**-**	**-**
Expenses relating to establishment of the holding company structure	(441)	**-**	**-**
Additional payment to withdraw from the welfare pension fund plans	(428)	**-**	**-**
Special retirement benefits paid	(987)	**(530)**	**(4,512)**
Other, net (*3)	1,219	**904**	**7,701**
	¥ (1,282)	¥ **(1,822)**	$ **(15,512)**

(*1) The Company and its consolidated subsidiaries reviewed their portfolio of real estate holdings when they transitioned to a holding company structure on April 1, 2005. ¥1,731 million of land was classified as "Inventories" (held-for-sale assets), and ¥942 million of the devaluation loss on the land was recognized for the year ended March 31, 2005.

(*2) For the year ended March 31, 2005, the loss was recognized from the devaluation of the goodwill in Tengu Company, Inc. (a US subsidiary) based on the local accounting principle (US GAAP).

(*3) "Other, net" for the year ended March 31, 2005 includes the following gains/(losses):

a. The following gain and loss derived from the execution of a futures contract, where some of the shares in The Kyoto Hotel, Ltd. were transferred:

Gain on sales of investment in affiliate:	¥ 465 million
Loss on futures contract:	¥(158) million

b. Adjustment of estimated loss on discontinued operation to actual, where the actual loss realized from the liquidation of a domestic subsidiary was less than the estimation: ¥148 million

Note 10: Income Taxes

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2005 and 2006. The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2006 differ from the statutory tax rate for the following reasons:

	2005	2006
Statutory tax rate	40.6%	**40.6%**
Entertainment and other non-deductible expenses	2.2	**1.8**
Elimination of dividends received from overseas affiliates	1.4	**-**
Undistributed earnings of affiliates	-	**1.3**
Equity in earnings of affiliates	(5.5)	**(3.3)**
Inhabitant per capita taxes	0.9	**0.9**
Change in valuation allowance	6.4	**7.3**
Loss on sales of investment in affiliates	(1.9)	**-**
Devaluation loss on goodwill	2.0	**-**
Other, net	(1.0)	**2.8**
Effective tax rates	44.9%	**51.3%**

The components of deferred tax assets and deferred tax liabilities as of March 31, 2005 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2005	2006	2006
Deferred tax assets:			
Impairment loss on fixed assets	¥ -	**¥ 1,645**	**$ 14,008**
Establishment of employees' retirement benefit trust	6,309	**6,309**	**53,713**
Excess allowance for employees' retirement benefits	1,300	**1,132**	**9,640**
Net operating loss carryforwards	5,867	**3,522**	**29,989**
Loss on devaluation of investment securities	245	**-**	**-**
Accrued employees' bonus	693	**712**	**6,068**
Inventories - unrealized profits and write-downs	135	**120**	**1,022**
Property, plant and equipment - unrealized profits and losses	1,426	**530**	**4,519**
Allowance for doubtful accounts	410	**182**	**1,556**
Depreciation	851	**659**	**5,612**
Other	1,310	**2,252**	**19,173**
Total gross deferred tax assets	18,551	**17,069**	**145,305**
Less valuation allowance	(1,932)	**(2,637)**	**(22,453)**
Deferred tax assets	16,619	**14,431**	**122,852**
Deferred tax liabilities:			
Net unrealized holding gain on securities	(2,790)	**(5,287)**	**(45,009)**
Gain on securities contributed to employees' retirement benefit trust	(3,135)	**(3,135)**	**(26,688)**
Special depreciation reserve	(2)	**-**	**-**
Reserve and special reserve for advanced depreciation of property, plant and equipment	(2,193)	**(1,928)**	**(16,412)**
Other, net	(2,210)	**(2,448)**	**(20,845)**
Deferred tax liabilities	(10,331)	**(12,799)**	**(108,956)**
Net deferred tax assets	**¥ 6,287**	**¥ 1,632**	**$ 13,895**

Note 11: Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005 and 2006, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		*Thousands of U.S. dollars*
	2005	2006	2006
Acquisition costs	¥ 37,946	**¥ 43,651**	**$ 371,594**
Less accumulated depreciation	(14,373)	**(16,432)**	**(139,888)**
Less accumulated impairment loss	-	**(2,405)**	**(20,478)**
Net book value	¥ 23,573	**¥ 24,812**	**$ 211,227**

Future minimum lease payments subsequent to March 31, 2006 on finance leases are summarized as follows:

		Millions of yen		Thousands of U.S. dollars
Future lease payments:				
One year or less	¥	**3,534**	$	**30,091**
More than one year		**24,755**		**210,737**
Total	¥	**28,290**	$	**240,829**

Future minimum lease payments and income subsequent to March 31, 2006 on noncancelable operating leases are summarized as follows:

		Millions of yen		Thousands of U.S. dollars
Future lease payments:				
One year or less	¥	**710**	$	**6,051**
More than one year		**7,616**		**64,836**
Total	¥	**8,327**	$	**70,888**

		Millions of yen		Thousands of U.S. dollars
Future lease income:				
One year or less	¥	**2,888**	$	**24,591**
More than one year		**1,877**		**15,982**
Total	¥	**4,766**	$	**40,573**

Note 12: Derivative Financial Instruments

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts, coupon swaps, interest rate swaps and other derivatives primarily to manage the risks associated with the exposure of their assets and liabilities to adverse fluctuations in the underlying markets.

The Company and its consolidated subsidiaries also use these agreements for the purpose of lowering their funding costs, accessing a variety of funding resources and locking in yields while investing in fixed income markets. Under no circumstances, however, do the Company and its consolidated subsidiaries use derivatives for speculative trading purposes.

Because of their purpose as hedges and the high correlation between the hedging instruments and the underlying hedged items, all gains and losses on derivatives positions are deferred in order to offset the reciprocal changes in the value of the underlying items.

No derivative positions remained outstanding as of March 31, 2005 and 2006.

Note 13: Contingent Liabilities

As of March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

		Millions of yen		Thousands of U.S. dollars
As guarantor of indebtedness of affiliates	¥	**2,790**	$	**23,754**
As guarantor of indebtedness of employees		**166**		**1,418**
As guarantor of indebtedness of other companies		**1**		**15**
Total	¥	**2,958**	$	**25,188**

Note 14: Research and Development Expenses and Advertising Costs

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2005 and 2006 were ¥2,075 million and ¥2,042 million ($17,385 thousand), respectively.

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 2005 and 2006 were ¥4,466 million and ¥3,896 million ($33,172 thousand), respectively.

Note 15: Accrued Directors', Statutory Auditors' and Employees' Retirement Benefits

Accrued directors', statutory auditors' and employees' retirement benefits as of March 31, 2005 and 2006 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Employees' retirement benefits	¥ 3,387	¥ 3,275	$ 27,886
Directors' and statutory auditors' retirement benefits	596	504	4,293
Total	¥ 3,984	¥ 3,780	$ 32,179

The Company and certain number of its consolidated domestic subsidiaries have defined-benefit pension plan (cash balance plan) and defined-contribution pension plan that cover substantially all their employees after one year of service. Upon retirement for reasons other than dismissal for cause, eligible employees are entitled to lump-sum payments or tax qualified pension plan based on their earnings and years of service. On occasion, the Company may also provide programs that entitle employees to additional supplemental benefits as an early retirement incentive.

In a management reform plan for the temperature-controlled logistics business, the employees who were temporarily seconded from the Company to the consolidated subsidiaries have been transferred to the consolidated subsidiaries on January 1, 2005. In connection with this transfer, the Company recognized ¥908 million of "Reversal of retirement allowances due to transfer of the employees" as other income for the year ended March 31, 2005, in accordance with the "Accounting for transfer of retirement benefit scheme" (Business Accounting Standard Guidelines No. 1, January 31, 2002), the amount of which was calculated as follows:

	Millions of yen
Decrease in the retirement benefit obligation	¥ 4,638
Retirement allowance paid, including the allowance paid from the pension plan assets	(3,786)
Write-off of unrecognized actuarial gain	56
Net (Other income)	¥ 908

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2005 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected retirement benefit obligation	¥ 21,361	¥ 19,860	$ 169,072
Fair value of plan assets	(20,541)	(32,425)	(276,028)
Unrecognized actuarial gain/(loss)	(1,235)	10,139	86,316
Unrecognized prior service cost	-	1,842	15,684
Prepaid pension cost	3,804	3,857	32,841
Accrued employees' retirement benefits	¥ 3,387	¥ 3,275	$ 27,886

Due to a large number of employee transfers under the business reorganization, the projected retirement benefit obligation and the fair value of plan assets were reduced by ¥4,638 million and ¥2,729 million, respectively, while the unrecognized actuarial loss and the prepaid pension cost were increased by ¥56 million and ¥1,057 million, respectively, as of March 31, 2005. As a result, ¥908 million of "Reversal of retirement allowances due to the transfer of employees" is reported as "Other income" for the year ended March 31, 2005.

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The components of retirement benefit expenses for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥ 1,466	¥ 1,725	$ 14,685
Interest cost	391	302	2,573
Expected return on plan assets	(152)	(112)	(957)
Amortization of prior service cost	-	(204)	(1,742)
Amortization of unrecognized actuarial loss	444	343	2,927
Other	-	163	1,395
Retirement benefits expenses	¥ 2,150	¥ 2,218	$ 18,881

In addition to the retirement benefit expenses above, ¥428 million of "Additional payment to withdraw from the welfare pension fund plan" is reported as "Other income" for the year ended March 31, 2005.

The actuarial assumptions used for the years ended March 31, 2005 and 2006 are set forth as follows:

	2005	2006
Discount rate	2.0 %	**2.0 %**
Expected rate of return on pension plan assets	2.0 %	**2.0 %**
Amortization period of unrecognized actuarial gain/loss	10 years	**10 years**
Amortization period of unrecognized prior service cost	-	**10 years**

Note 16: Segment Information

The Company and its consolidated subsidiaries are engaged in the following six segments: processed foods, marine products, meat and poultry products, logistics, real estate and other. Processed foods mainly comprises production, processing and sales of frozen foods, retort-pouch foods and other processed foods. Marine products mainly comprises processing and sales of marine products. Meat and poultry products mainly comprises processing and sales of meat and poultry products. Logistics mainly comprises refrigerated storage, distribution and transportation of fresh, chilled and frozen foods. Real estate comprises the leasing of office buildings and other. Other comprises the diagnostic medicine business and other.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 was summarized as follows:

Year ended March 31, 2005 (Millions of yen)

	Processed foods	Marine products	Meat and poultry products	Logistics	Real estate	Other	Total	Intercompany eliminations and corporate	Consolidated
Operating revenues	¥ 177,471	¥ 87,934	¥ 80,431	¥ 101,146	¥ 8,721	¥ 5,720	¥ 461,426	¥ –	¥ 461,426
Intercompany sales and transfers	1,076	2,064	4,313	15,524	509	2,514	26,003	(26,003)	–
Total	178,548	89,998	84,745	116,671	9,230	8,235	487,430	(26,003)	461,426
Operating expenses	174,262	90,976	84,297	113,094	3,227	8,079	473,938	(25,993)	447,944
Operating income	4,285	(977)	447	3,577	6,003	155	13,492	(10)	13,482
Total assets	¥ 66,624	¥ 28,636	¥ 14,040	¥ 106,516	¥ 24,751	¥ 6,966	¥ 247,535	¥ 28,882	¥ 276,417
Depreciation and amortization	¥ 2,386	¥ 140	¥ 47	¥ 6,400	¥ 961	¥ 359	¥ 10,295	¥ 844	¥ 11,139
Capital expenditures	¥ 1,251	¥ 180	¥ 5	¥ 4,221	¥ 235	¥ 78	¥ 5,973	¥ 424	¥ 6,397

Year ended March 31, 2006 (Millions of yen)

	Processed foods	Marine products	Meat and poultry products	Logistics	Real estate	Other	Total	Intercompany eliminations and corporate	Consolidated
Operating revenues	**¥ 183,904**	**¥ 78,856**	**¥ 80,984**	**¥ 111,650**	**¥ 8,583**	**¥ 5,431**	**¥ 469,411**	**¥ –**	**¥ 469,411**
Intercompany sales and transfers	**939**	**2,211**	**3,657**	**15,427**	**1,438**	**3,299**	**26,975**	**(26,975)**	**–**
Total	**184,844**	**81,068**	**84,641**	**127,077**	**10,022**	**8,731**	**496,386**	**(26,975)**	**469,411**
Operating expenses	**179,390**	**82,728**	**84,331**	**121,252**	**3,875**	**8,673**	**480,251**	**(26,854)**	**453,397**
Operating income	**5,454**	**(1,659)**	**309**	**5,825**	**6,146**	**58**	**16,135**	**(121)**	**16,014**
Total assets	**¥ 69,956**	**¥ 24,546**	**¥ 15,160**	**¥ 106,567**	**¥ 29,276**	**¥ 7,167**	**¥ 252,674**	**¥ 15,827**	**¥ 268,501**
Depreciation and amortization	**¥ 2,167**	**¥ 85**	**¥ 42**	**¥ 6,499**	**¥ 846**	**¥ 247**	**¥ 9,888**	**¥ 886**	**¥ 10,775**
Impairment loss on fixed assets	**0**	**-**	**-**	**89**	**3,572**	**462**	**4,124**	**28**	**4,153**
Capital expenditures	**¥ 2,766**	**¥ 133**	**¥ 42**	**¥ 3,749**	**¥ 425**	**¥ 79**	**¥ 7,197**	**¥ 299**	**¥ 7,496**

Year ended March 31, 2006 (Thousands of U.S. dollars)

	Processed foods	Marine products	Meat and poultry products	Logistics	Real estate	Other	Total	Intercompany eliminations and corporate	Consolidated
Operating revenues	**$ 1,565,548**	**$ 671,291**	**$ 689,403**	**$ 950,457**	**$ 73,069**	**$ 46,241**	**$ 3,996,011**	**$ –**	**$ 3,996,011**
Intercompany sales and transfers	**7,999**	**18,830**	**31,132**	**131,332**	**12,248**	**28,091**	**229,636**	**(229,636)**	**–**
Total	**1,573,548**	**690,121**	**720,536**	**1,081,790**	**85,317**	**74,332**	**4,225,647**	**(229,636)**	**3,996,011**
Operating expenses	**1,527,113**	**704,248**	**717,900**	**1,032,196**	**32,993**	**73,836**	**4,088,289**	**(228,603)**	**3,859,685**
Operating income	**46,434**	**(14,126)**	**2,635**	**49,593**	**52,324**	**496**	**137,358**	**(1,032)**	**136,325**
Total assets	**$ 595,524**	**$ 208,959**	**$ 129,061**	**$ 907,184**	**$ 249,227**	**$ 61,011**	**$ 2,150,969**	**$ 134,736**	**$ 2,285,705**
Depreciation and amortization	**$ 18,450**	**$ 726**	**$ 357**	**$ 55,328**	**$ 7,206**	**$ 2,110**	**$ 84,181**	**$ 7,544**	**$ 91,725**
Impairment loss on fixed assets	**4**	**-**	**-**	**765**	**30,408**	**3,934**	**35,112**	**243**	**35,356**
Capital expenditures	**$ 23,550**	**$ 1,133**	**$ 359**	**$ 31,922**	**$ 3,625**	**$ 680**	**$ 61,271**	**$ 2,547**	**$ 63,818**

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
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Report of Independent Auditors

The Board of Directors
Nichirei Corporation

We have audited the accompanying consolidated balance sheets of Nichirei Corporation and consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nichirei Corporation and consolidated subsidiaries at March 31, 2005 and 2006, 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.

Supplemental Information

As discussed in Note 3, Nichirei Corporation and its domestic subsidiaries have adopted a new accounting standard for the impairment of fixed assets.

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

Ernst & Young ShinNihon

June 27, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

Overseas Network

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* Affiliates accounted for by the equity method

Directors, Auditors and Officers

Representative
Director and Chairman
Takemoto Ohto

Representative
Director and President
Mitsudo Urano

Managing Executive Officer
Masahiro Ara

Managing Executive Officer
Yoshihiko Soma

Directors

Representative Director and Chairman
Takemoto Ohto

Representative Director and President
Mitsudo Urano

Managing Executive Officers
Masahiro Ara
Yoshihiko Soma

Executive Officers
Hisashi Hasegawa
Toshiaki Murai
Yutaro Mita

Directors
Mitsuo Hirose
(Representative Chairman & President, Pacific Golf Group International Holdings K.K)

Toshiki Sumitani
(Professor, Kenichi Ohmae Graduate School of Business)

Miyuri Kawamata
(Associate Professor, International Graduate School of Social Sciences Yokohama National University)

Auditors

Corporate Auditors
Yasuyuki Inoue
Kazuaki Nagatsuka
Kazuo Kawakami
Masaaki Sato

Officer

Executive Officer
Hiroki Yamamoto

Investor Information

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http://www.nichirei.co.jp/ir/en/index.html

Established
December 1, 1945

Common Stock Listing
Nichirei's common stocks are listed on the following exchanges:
Tokyo, Osaka
(Code: 2871)

Paid-in Capital
¥30,307 million

No. of Shareholders (who possess 1,000 shares or more)
32,013

Common Stock
Authorized 720,000,000 shares
Outstanding 310,851,065 shares

No. of Full-Time Employees
5,603

Shareholder Register Administrator
Mizuho Trust & Banking Co., Ltd.
Stock Transfer Agency Division
TEL:81(3)3642 4004

Annual Meeting of Shareholders
The annual meeting of shareholders is normally held in June each year in Tokyo, Japan.

Independent Auditors
Ernst & Young ShinNihon

This annual report is printed on recycled paper.
Printed in Japan

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