

# Building a Vigorous Business Framework for Sustainable Medium-Term Growth

*—Delivering a substantial profit increase driven by Processed Foods and Logistics—*

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Note: Figures shown in graphs and tables have been rounded to the nearest unit where necessary, except where otherwise specified.

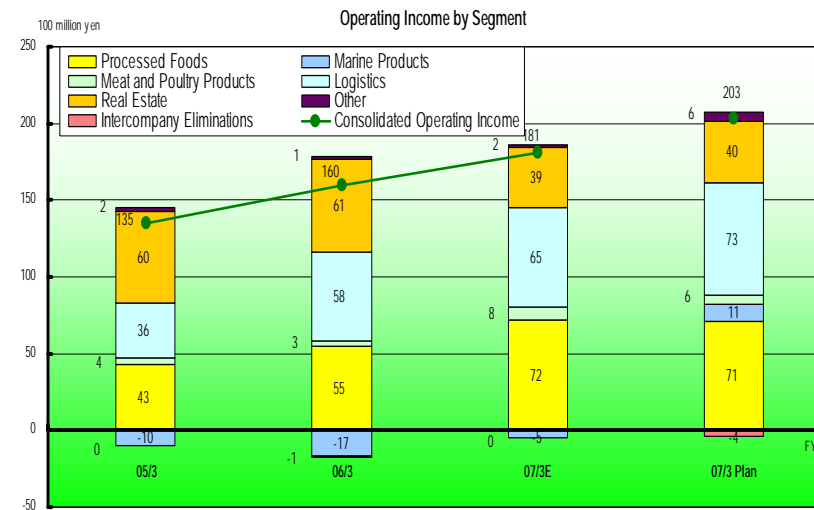
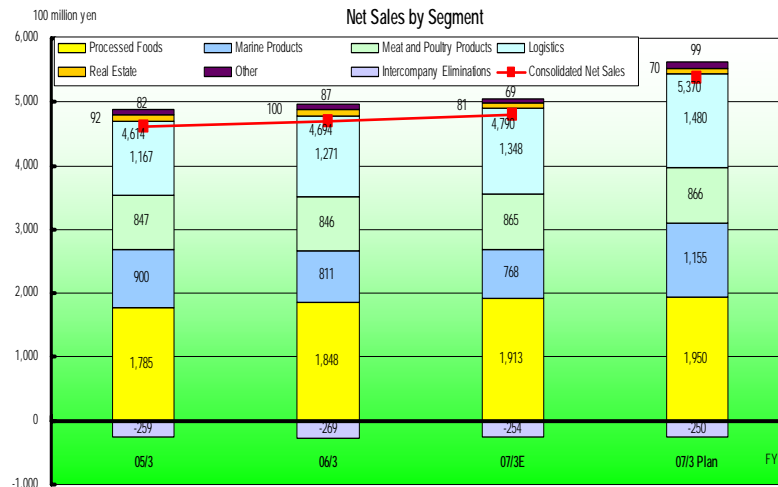
# Processed Foods and Logistics: Drivers for Higher Profit as Core Businesses



## Targets

(Consolidated; amounts less than 100 million yen are omitted)	06/3 Actual	07/3 Medium-term Plan	07/3E (Targets)	Comparison (%)
<b>Net Sales</b>	4,694	5,370	4,790	102
<b>Operating Income</b>	160	203	181	113
<b>Recurring Income</b>	156	195	175	112
<b>Net Income</b>	62	107	93	148
<b>Interest-Bearing Debt</b>	862	970	800	93

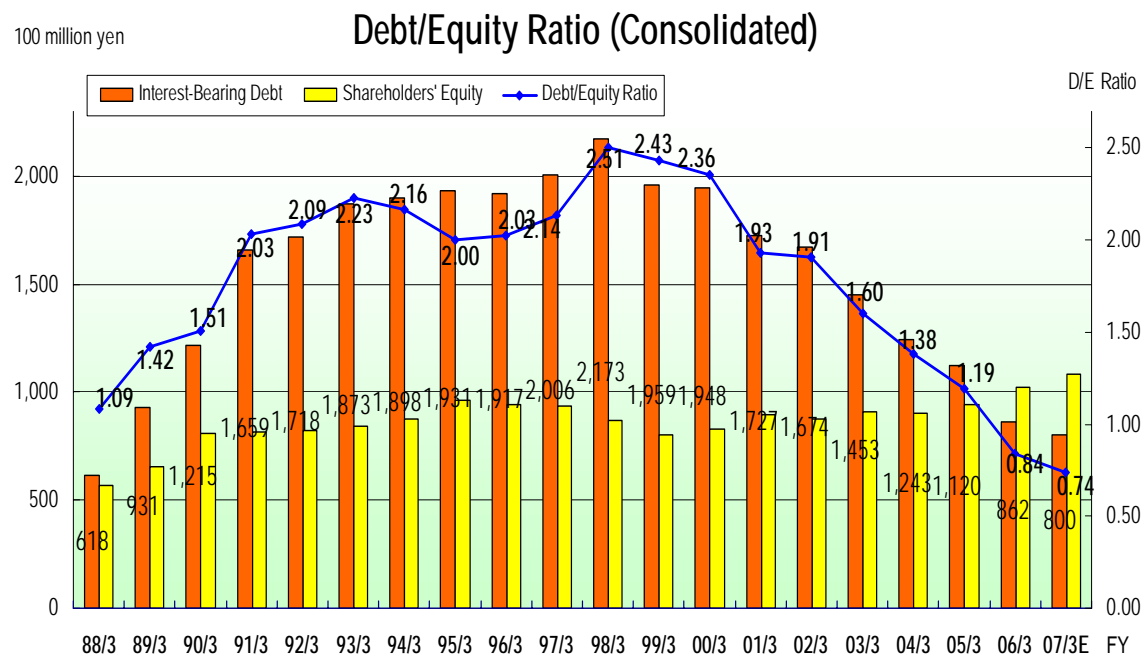
1. Processed Foods and Logistics will continue to perform as the main growth drivers. Marine Products, which is in the process of implementing a Revitalization Plan, will focus on trimming an operating loss while coping with lower sales resulting from fewer product lines. Overall, net sales are forecast to grow and operating income to jump significantly.
2. Extraordinary losses, including impairment losses and business restructuring losses, are forecast to be lower. Supported by higher operating income, recurring income and net income are poised to rise to their highest-ever levels. Net income per share is forecast to reach ¥30.00.



# Greater Financial Flexibility for Growth



1. One of the management priorities since FY98/3 has been to reduce debt to improve the Group's financial health. Free cash flow was used primarily to repay interest-bearing debt by reducing assets and maintaining a stringent investment policy.
2. Balance of interest-bearing debt was successfully reduced to ¥86.2 billion as at the end of FY06/3, which met our target of a debt/equity ratio of less than 1.0.
3. Nichirei is now in a much better financial position to aggressively pursue investments in major growth business areas in Processed Foods and Logistics.



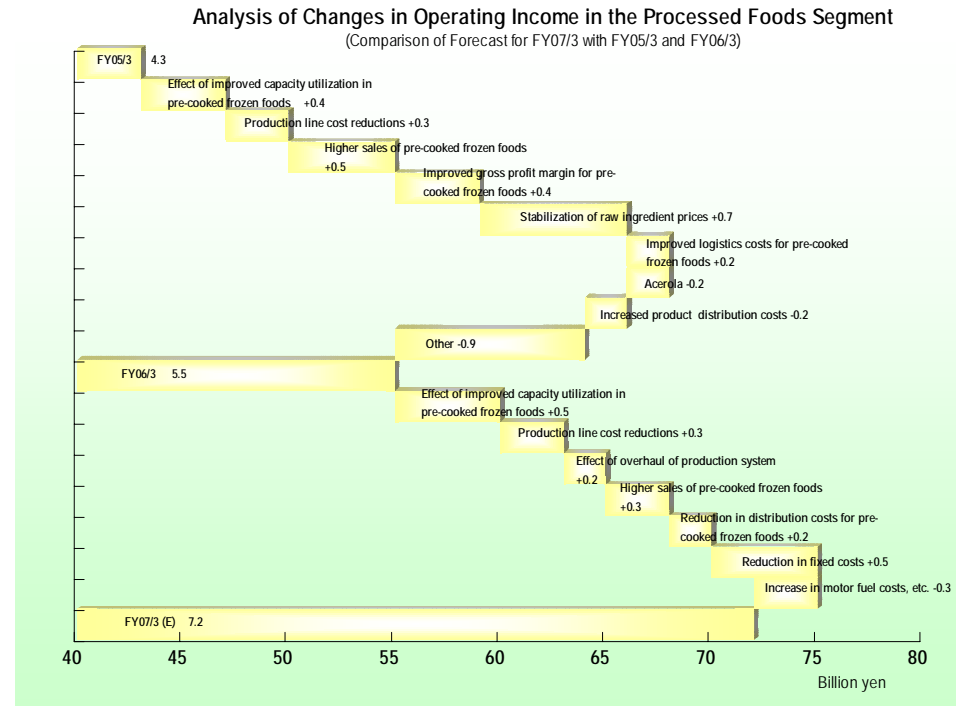
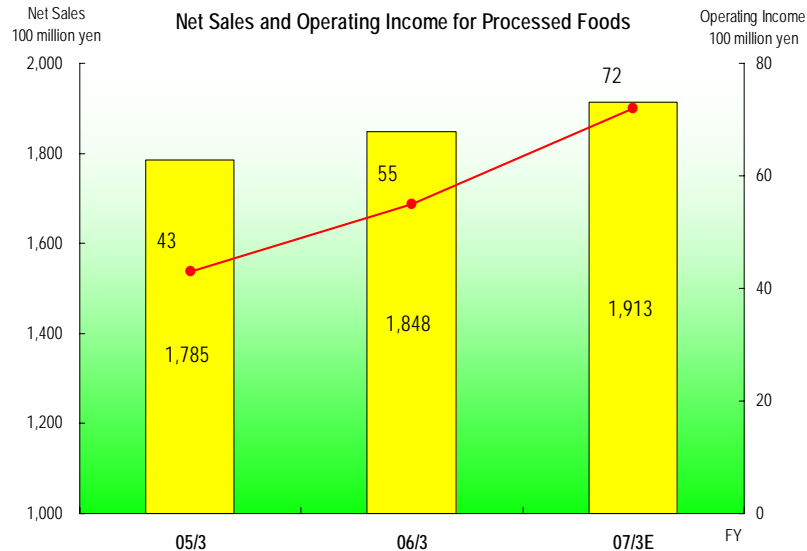
# **Business Strategy: Processed Foods**

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# Higher Sales and Profits: Commercial-Use Frozen Foods and Production Cost Reduction as Growth Drivers



1. Pre-cooked frozen foods for commercial use: Sales are forecast to grow at a robust rate of 5% by further deploying a range of high-quality products as one of the strengths under the New Category Strategy.
2. Pre-cooked frozen foods for household use: Restoring profitability should be the No. 1 priority through such measures as more effective sales promotions and revision of pricing while curtailing sales growth.
3. Continuing efforts to reduce costs at production plants in Japan, particularly through improved capacity utilization, are forecast to help drive operating income higher by an estimated ¥1.0 billion.
4. Market prices of main raw ingredients, mainly chicken, are forecast to remain on a par with last year's levels, which will yield little upside on operating income.

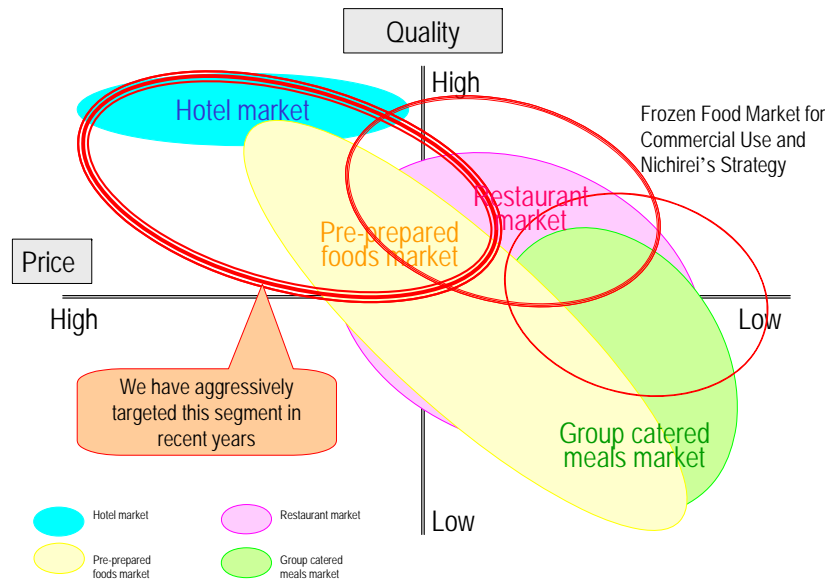


# Commercial-Use Products: Continuing Growth by Leveraging Competitive Strength under the New Category Strategy



1. Competitive strength in advanced technology in pre-cooked processing and quality assurance through serving the hotel market for many years has helped achieve successful penetration into the delicatessen market, which has expanded in recent years.
2. Under the New Category Strategy, the restaurant and catering markets are defined as new prime target markets. Market penetration is under way utilizing our strengths in high-quality product lines.
3. Expansion of customer segments for chicken and cutlet categories is forecast to deliver robust growth of 5%.

## Strategy for Frozen Food Market for Commercial Use



Note: The quality and price axes represent the relative positions of these variables within the commercial-use market.

## Performance of the New Category Strategy (Targeted market segments and product categories)

Billion yen

Category		Business category		
Name	Market size	Pre-prepared	Restaurant	Catered meals
Chicken	86	■	■	
Hamburg	24	■		■
Rice products	30		■	
Spring rolls	8	■		
Pork cutlets within the cutlets	15	■		
Noodle products	51			
Deep-fried marine products	65	■		
Croquette	43	■	■	■
Fried egg products	47	■		
Japanese dishes	8			■
...	...			

Note: Figures for market size are from the "Commercial Food Marketing Handbook 2006" (Fuji-Keizai)

Shaded cells ... New categories in which we commenced development prior to the plan period

... New categories targeted in FY05/3

... New categories targeted in FY06/3

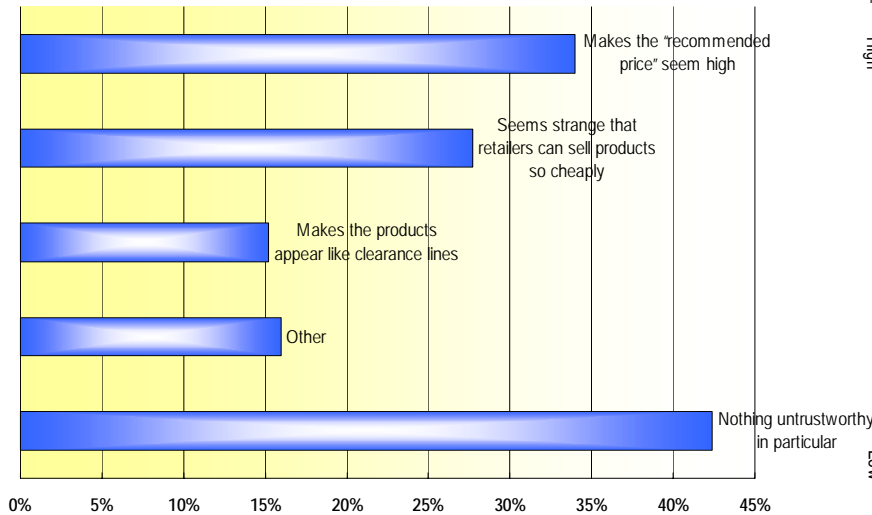
... New categories to be targeted in FY07/3

# Household-Use Products: New Measures to Restore Profitability



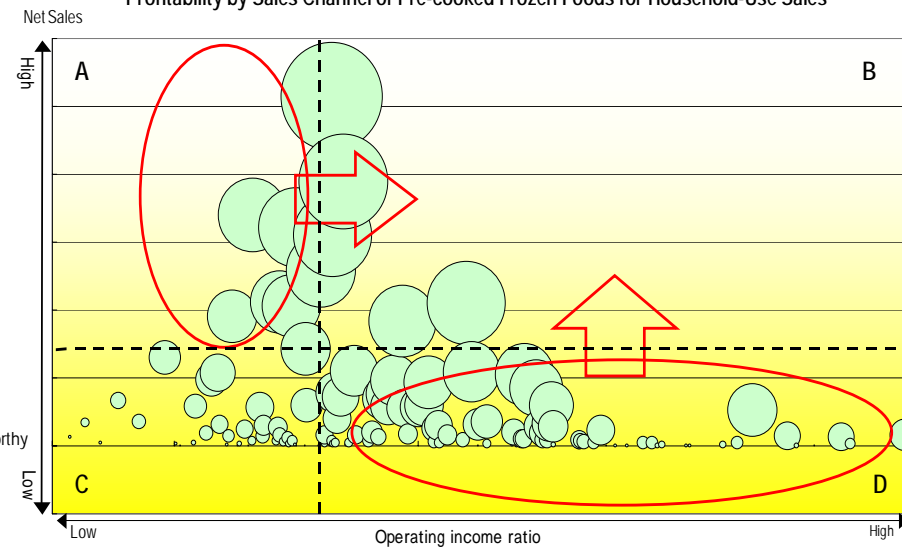
1. In response to frequent deep-discount campaigns conducted by retail stores, the “recommended retail price” system was abolished as a first step to restore product profitability. The reasons are as follows.
  - (i) Deep-discount selling of frozen foods has led to widespread distrust among consumers.
  - (ii) The value of products is not adequately reflected in the sale prices.
  - (iii) It was deemed urgent for food manufacturers to take active measures to normalize current selling schemes at retail stores.
2. Each sales channel is mapped onto four quadrants according to sales amount and operating income margin. New measures to shift sales channels in Quadrants A (low operating income margins) and D (low sales) to Quadrant B (high sales, high operating income margins) are taken through an overhaul of sales channels, the development of products with competitive advantages other than price and implementing region-specific products. Those in the Quadrant C are under strict review.
3. Reductions in product distribution costs are forecast to contribute ¥200 million to operating income and are being implemented on a medium-term basis.

Consumer Perceptions of Discount Selling of Frozen Foods



Note: The data above are based on an Internet survey conducted by the Company in May 2006. Number of respondents was 191. Some respondents made multiple responses, meaning the total number of responses does not equal the total number of respondents.

Profitability by Sales Channel of Pre-cooked Frozen Foods for Household-Use Sales



The data above are as of September 2005.

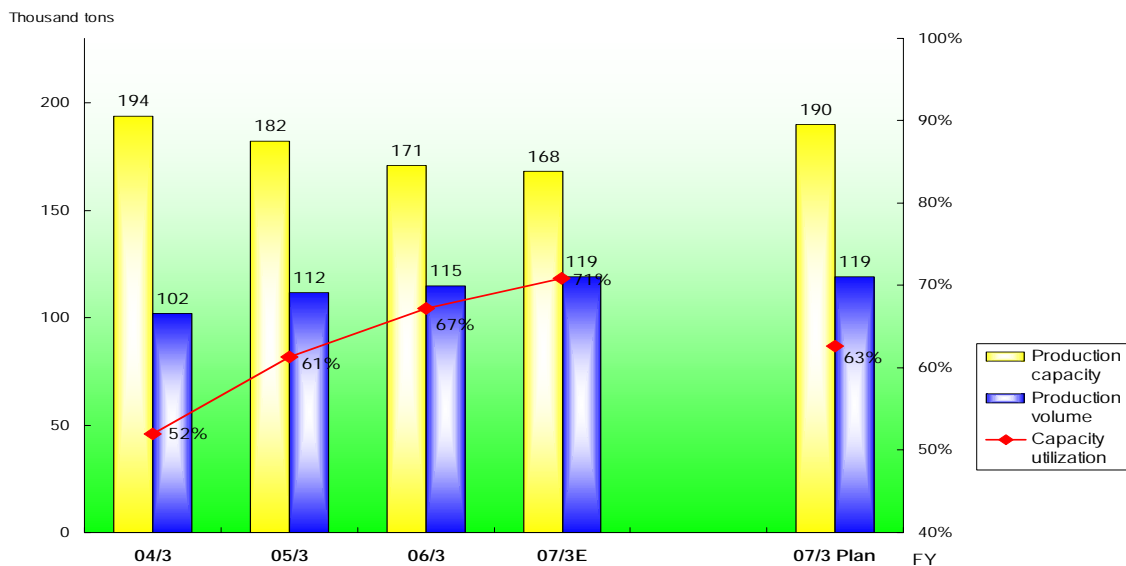


# Production: Ongoing Cost Reduction Effort Supports Higher Operating Income



1. Capacity utilization rose 6 percentage points in FY06/3 compared to FY05/3, which contributed a cost reduction of ¥400 million and ¥700 million combined with cost reduction in the production line.
2. Ongoing effort for cost reduction is forecast to contribute a total of ¥1.0 billion to operating income.
  - (i) Capacity utilization is forecast to rise 4 percentage points, providing a ¥500 million positive effect.
  - (ii) Cost reductions in the production line are forecast to contribute ¥300 million.
  - (iii) Reorganization of Shiroishi and Hakata production plants, carried out in FY06/3, is forecast to contribute ¥200 million.

Capacity Utilization of Nichirei Group Production Plants

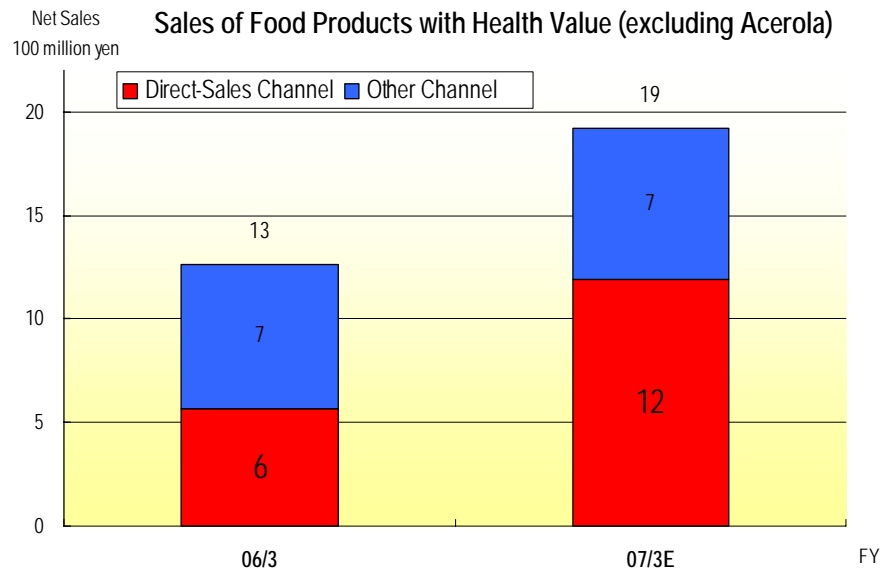


Note: Production capacity is calculated based on 15 hours per production day and 290 production days per year. Under present circumstances, plant facilities and operation times are subject to various limitations, meaning we are working toward improvement based on a practicable maximum utilization ratio of 85%.

# Direct Sales: Strong Push for Food Products with Health Value as a Growth Driver



1. Innovation of food products with health value is defined as a new growth driver. Our new direct-sales subsidiary, Nichirei Foods Direct, Inc., was established in April to develop a direct-sales channel specializing mainly in food products with health value achieved at a higher sales margin. Nichirei Foods Direct is aggressively building up one-to-one marketing providing customers with dietary information useful to sustain good health.
2. Using the concept of “keeping healthy with everyday delicious meals,” the *Kikubari-Gozen* line is adding new set meal lines by utilizing nutritional assurance technology acquired through development of meals suitable for diabetics and other special-needs groups. In April 2006, a new meal series called “*Kikubari-Gozen Chef’s BALANCE*” was introduced targeting the affluent senior generation.
3. Expansion of food products with health value through direct-sales channel aims to greatly boost the profit margin in the overall Processed Foods business.



The Beef Stew Set in “*Kikubari-Gozen Chef’s BALANCE*” meal series

This series was developed under the supervision of a registered dietician and three top chefs.

One set containing seven meals retails for ¥8,820

Each menu has no more than 320 kcal and 2.8 g of salt.

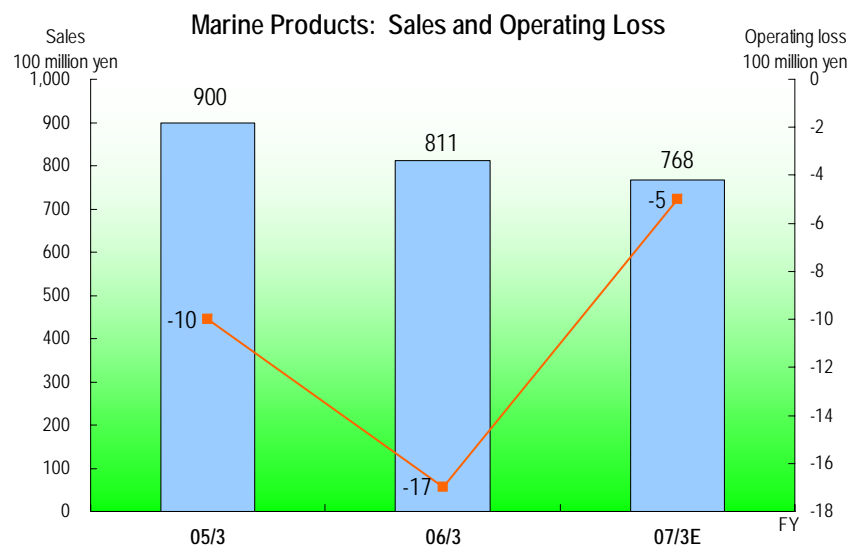
# **Business Strategy: Marine Products**

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# Revitalization Plan: Slash in Operating Loss by ¥1.2 Billion on Lower Sales



1. Fixed costs were cut by ¥700 million through workforce reduction and consolidation/elimination of operations during FY06/3.
2. Steadily implementation of the Revitalization Plan in FY07/3 to improve profitability by focusing on fewer product lines.
3. Management resources are dedicated only to growth business areas in the specific product lines in which the Marine Products has competitive advantages.
4. Medium-term goal is to swiftly build up a “Product Meister Model” at every stage of the value chain to realize added value converted from the competitive advantages of specific products. Return to a positive return on capital employed is also targeted through measures including inventory reduction and efficient utilization of payables.



Marine Products Revitalization Plan

	06/3 Actual	07/3		08/3
		Revitalization plan	Current forecast	Revitalization plan
Sales (billion yen)	81.1	77.0	76.8	80.0
Operating profit/loss (billion yen)	-1.7	-0.3	-0.5	0.4
Return on capital employed	-6.6%	-	-	3.0%
Operating income margin	-1.6%	-0.4%	-0.7%	0.5%
Turnover of capital employed (times)	4.2	-	-	6.0

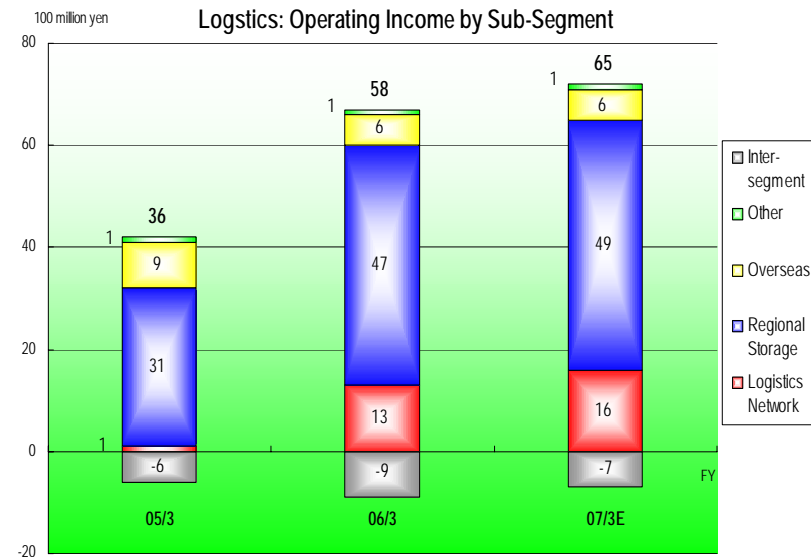
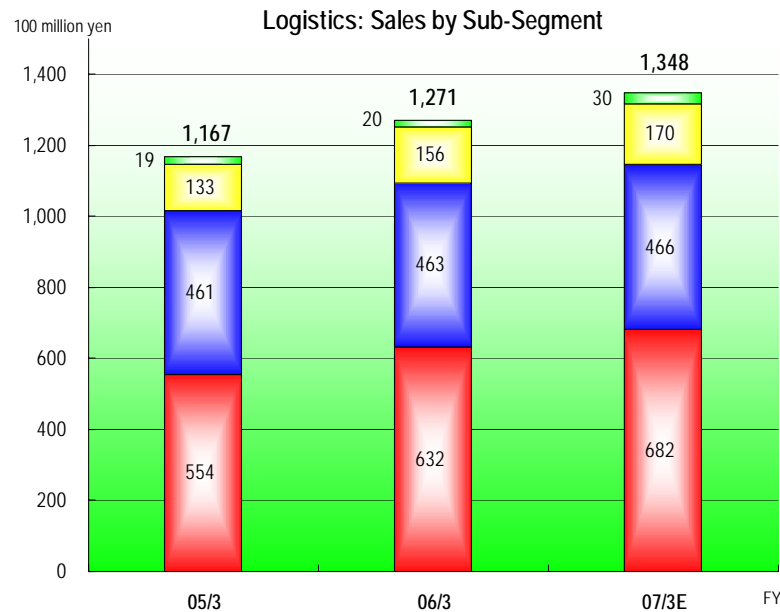
# **Business Strategy: Logistics**

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# Temporary Pause in Sales Growth but Sustained Profit Growth



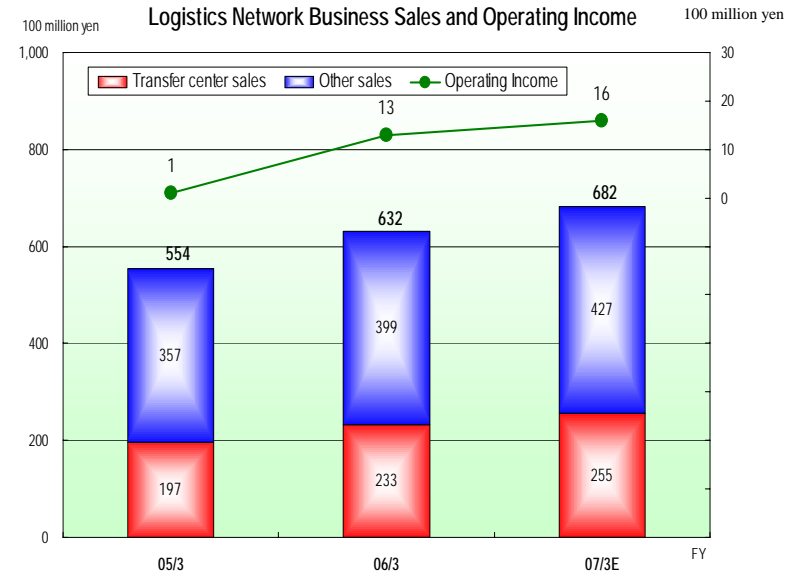
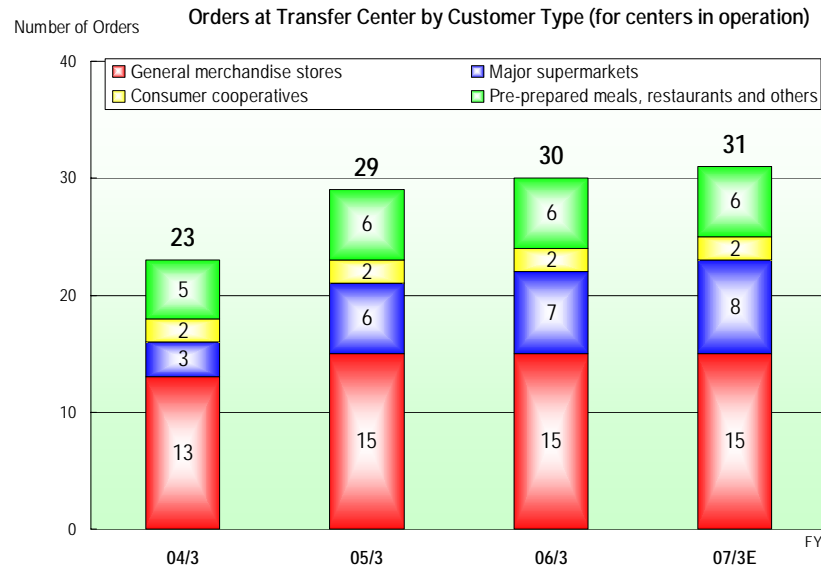
1. Logistics Network business is forecast to achieve 8% sales growth in FY07/3 despite a slowdown in launching new facilities. Growth in operating income is targeted at ¥300 million through the rapid overhaul of both centers and transportation operations with marginal profits.
2. Regional Storage business, which achieved a significant improvement in FY06/3, is forecast to realize marginal sales gains owing to a slowdown of intake volume caused by a capacity crunch and possible closures of some cold storage facilities. Operating income is expected to rise by ¥200 million despite no further effects from manpower cost reductions in the business reorganization.
3. Overseas business is expected to stem a further decline in operating performance thanks to expanding transportation operations and storage volumes of fruit juice in Europe despite an ongoing struggle to secure new storage intake after the withdrawal of some large-scale customers.



# Logistics Network: Growth Driver to Improve Profitability



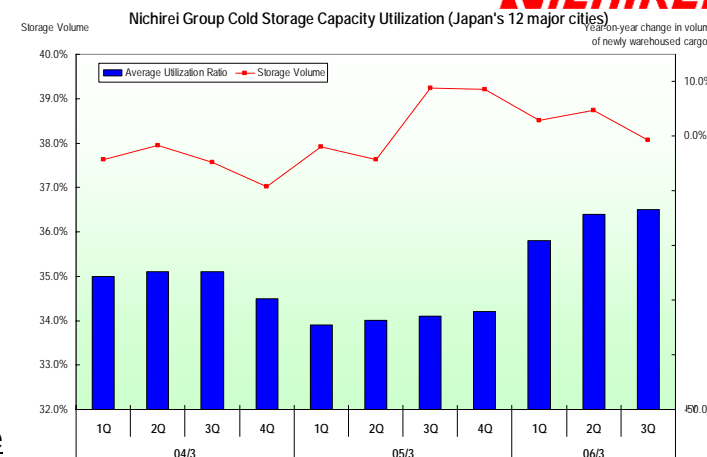
1. Sales growth is expected to face a temporary pause due to no additional launch of new transfer centers. Operating income, however, is forecast to achieve steady growth thanks to ongoing improvement measures for those operation centers with unprofitable performance, which contributed to a significant increase in operating income in FY06/3.
2. Transportation business is forecast to continue to enjoy a sales growth while higher fuel costs are putting a downward pressure on operating income. A new distribution center in Ishikari, Hokkaido is to be built aiming at securing the business of joint distribution for food manufacturers.
3. Transportation business, whose profitability remains lower, still needs to improve its profit margins through more efficient vehicle operation and cargo loading on vehicles through such drastic measures as scouting experienced managers and a fundamental overhaul of information system.



# Regional Storage: Quiet Decline in Sales Growth but Moderate Income Growth



1. Operating income in FY06/3 recovered by ¥2.1 billion from the bottom in FY04/3 thanks to increases in both storage and intake volumes, and also aggressive reductions in manpower costs.
2. Profit growth depends now on the product mix in the storage and rise in unit storage prices of products with little room for further improvements in storage utilization.
3. Operating cost is expected to decline moderately due to the slow pace of cuts in manpower cost, and rising depreciation costs upon increased investment.



## Factors Contributing to Changes in Operating Income

(100 million yen)	06/3			07/3E		Outlook
	Factors	Background/reason	Amount	Background/reason	Amount	
Effects from higher sales	(i) Increase in storage volume	-Increased storage volume owing to vigorous regional sales efforts	9	-Storage capacity crunch -Fall in Companywide storage capacity	±0	-No additional investment in storage capacity due to the nature of mature industry -Storage capacity crunch seems temporary and rise in unit prices is unlikely
	(ii) Increase in intake volume	-Improvement in operating environment -Ongoing highest storage level even in the second half during a traditional lull in demand	3	-Maintaining storage level by acquiring new cargo following the elimination of longer-term cargo	1	
	(iii) Unit prices	-Relative increase in low unit-price products, such as fruit juice and food ingredients	-2	-Rise in average unit price through replacing cargos of lower unit prices	2	
Effects from lower fixed costs	(iv) Reduction in manpower costs	-Surplus middle management staff shifted to operation centers in organizational restructuring. Natural staff attrition covered by minimal hiring of new graduates -Shift of fixed costs to variable costs through the introduction of flex-time work schedules and other measures -Cost reduction measures including overtime reductions	8	-Fall in operational efficiency due to changes in product mix in storage -Increase in labor unit costs due to tight labor market	-1	-Fall in operational efficiency due to changes in product mix in the storage -Ongoing tight labor market reflecting an economic recovery -Demand for higher quality level in logistics services -Further dedication of management resources to environment-friendly measures -Increase in fuel costs
	(v) Depreciation and amortization		2	-Additional cold storage facility in Kyushu region -Increased investment in maintenance in each region	±0	
	(vi) Reduction in fuel costs		1	-Increase in fuel costs	-1	
Other			-5		1	
<b>Change in operating income</b>			<b>16</b>		<b>2</b>	

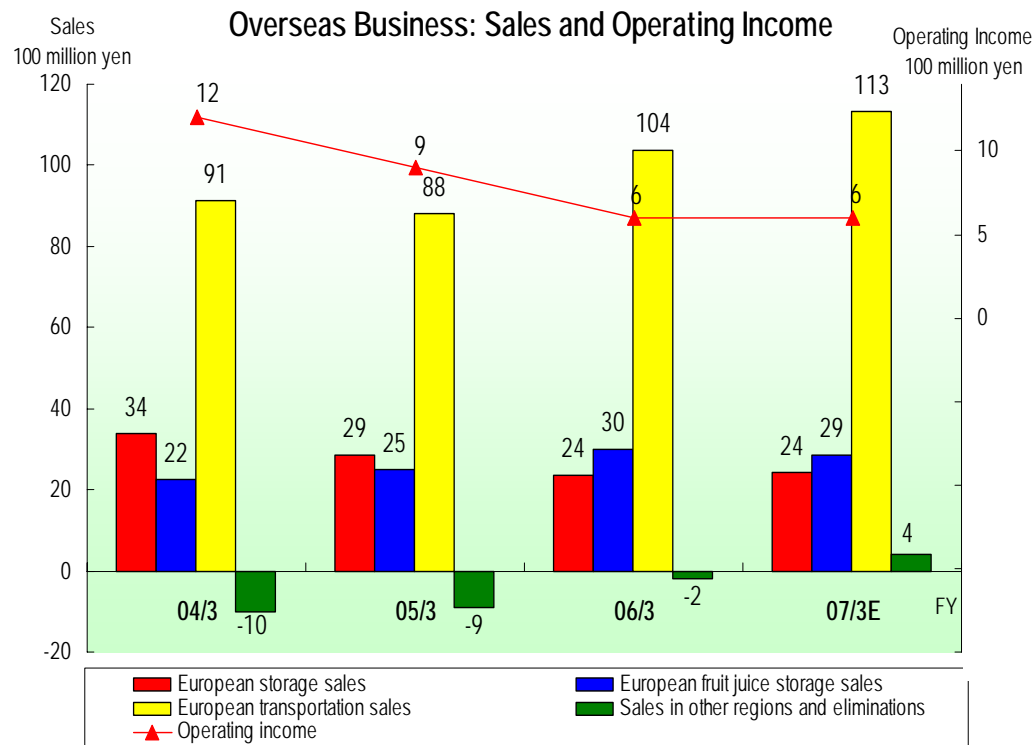


# Overseas Business: Stemming the Struggling European Storage Business



European business, which accounts for a large percentage of sales, is steadily expanding its business in transportation operations and fruit juice storage. Struggling operations in port and inland storage are expected to stem further deterioration in operating results.

- (1) Port: Storage income declined due to the change of cargo owner needs for cross-docking functions. Securing new customers is under way to make up the loss caused by defection of large-scale customers to competitors.
- (2) Inland storage: Closure of one cold storage facility is planned to compensate for a delay in securing new customers and intensified competition from the new storage facilities recently built nearby.



# Reference Materials

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## Segment Data



	05/3	06/3	07/3	
			(E)	Medium-term Plan
<b>(Net Sales)</b>				
Processed Foods	1,785	1,848	1,913	1,950
Marine Products	900	811	768	1,155
Meat and Poultry Products	847	846	865	866
Logistics	1,167	1,271	1,348	1,480
Real Estate	92	100	81	70
Other	82	87	69	99
Intercompany Eliminations	-259	-269	-254	-250
<b>Total</b>	<b>4,614</b>	<b>4,694</b>	<b>4,790</b>	<b>5,370</b>
<b>(Operating Income/Loss)</b>				
Processed Foods	43	55	72	71
Marine Products	-10	-17	-5	11
Meat and Poultry Products	4	3	8	6
Logistics	36	58	65	73
Real Estate	60	61	39	40
Other	2	1	2	6
Intercompany Eliminations	0	-1	0	-4
<b>Total</b>	<b>135</b>	<b>160</b>	<b>181</b>	<b>203</b>

## Forward-Looking Statements



**This publication 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. 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) The business environment and industry conditions, such as trends in personal consumption, that affect the business activities of the Nichirei Group**
- (2) Fluctuations in exchange rates, mainly U.S. dollar and euro rates**
- (3) The feasibility of establishing a unified product guarantee structure, covering all aspects from product development, purchasing of ingredients, production and sales**
- (4) The feasibility of new product and service development**
- (5) The feasibility of growth strategies and low-cost structures**
- (6) The feasibility of reductions in interest-bearing debt**
- (7) The results of contingencies, etc.**

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