

**Steady Progress in Implementing Measures to
Improve Profits in Core Business
~ Business Strategy Progress Report for FY07/3 ~**

(Stock code: 2871)

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Table of Contents



Targets: Net Sales Revised Down, Operating Income on Track	1	[Business Strategy: Logistics]	
[Business Strategy: Processed Foods]			
Profit Target: Revised Up on Strong Performance of Logistics Network and Regional Storage Businesses			9
Net Sales and Profits: Rise Offsetting Lower Revenues in the Struggling Household Use	2	Logistics Network: Improving Profitability for Center Operation and Transport Operation	10
Commercial Use: Net Sales Continues Strong Growth through Introduction of Carefully Targeted Product Lines	3	Logistics Network: Accelerating Growth through Acquisition of Transport Business Know-How	11
Household Use: Revision of Rebate Policy and Sales Promotion Expenditures to Push Up Profitability	4	Regional Storage: Further Cost Cutting Measures in the Falling Utilization Rates	12
Acerola Business: Advances to New Stage of Development	5	[Reference Materials]	
Production: Higher Profit through Continued Improvement in Plant Utilization Rates and cost Reductions	6	Segment Data	13
Direct Sales: Expand Customer Base with Aggressive Advertising	7		
[Business Strategy: Marine Products]			
Revitalization Plan: Reduce Operating Losses beyond Target Levels	8		

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

Targets: Net Sales Revised Down, Operating Income on Track

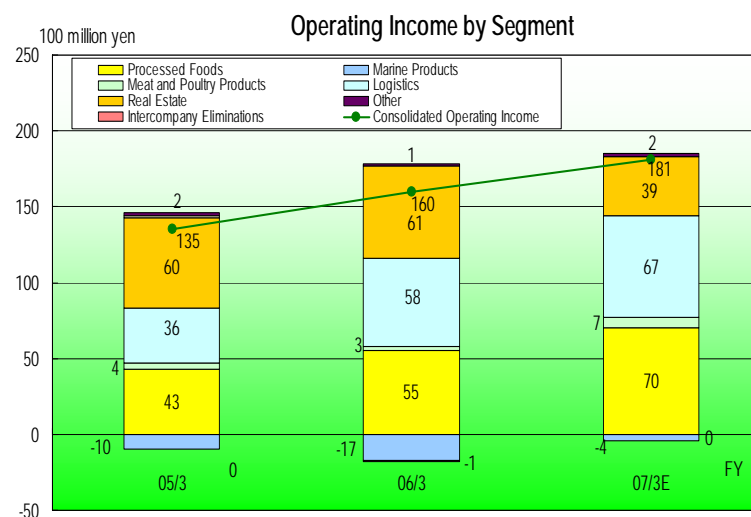
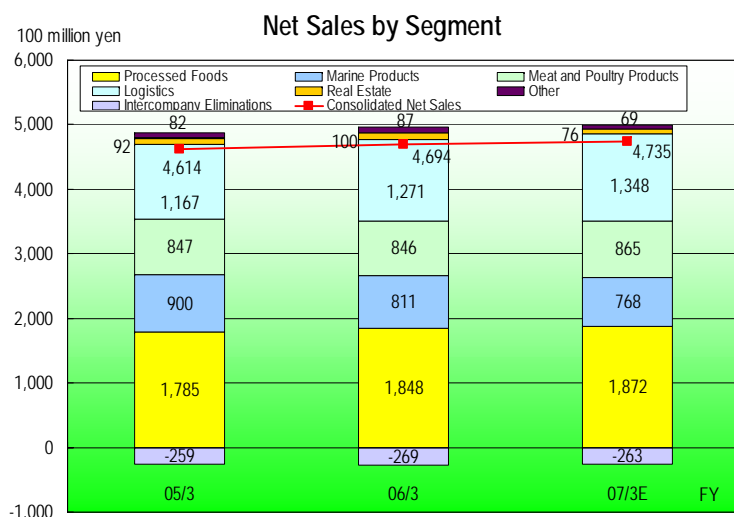


Targets

(Consolidated; amounts less than 100 million yen are omitted)	06/3 Actual	07/3 Previous E	07/3 Targets	Comparison (%)
Net Sales	4,694	4,790	4,735	101
Operating Income	160	181	181	113
Recurring Income	156	175	175	112
Net Income	62	111	111	176
Interest-Bearing Debt	862	less than 800	less than 750	87

Note: "FY 07/3 Previous E" was released on August 1, 2006.

1. Net sales are forecast to exceed FY06/3 results as all business segments are forecast to perform as planned except Processed Foods whose sales target was revised down due to slow sales in household use and Real Estate which lacks the land sale.
2. Operating income is forecast to post a big increase of 13% compared to FY06/3, on par with the previous target as business recovery in Marine Products and strong performance in Logistics are to offset the declines in Processed Foods which failed to meet the target in the first half, and Meat and Poultry Products which suffered a fall in demand for imported chicken.



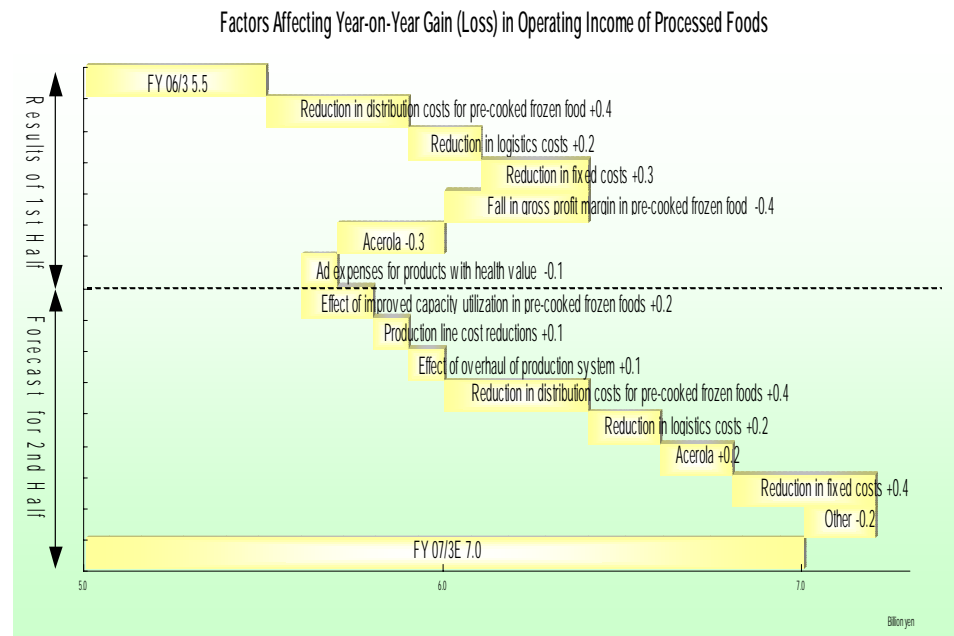
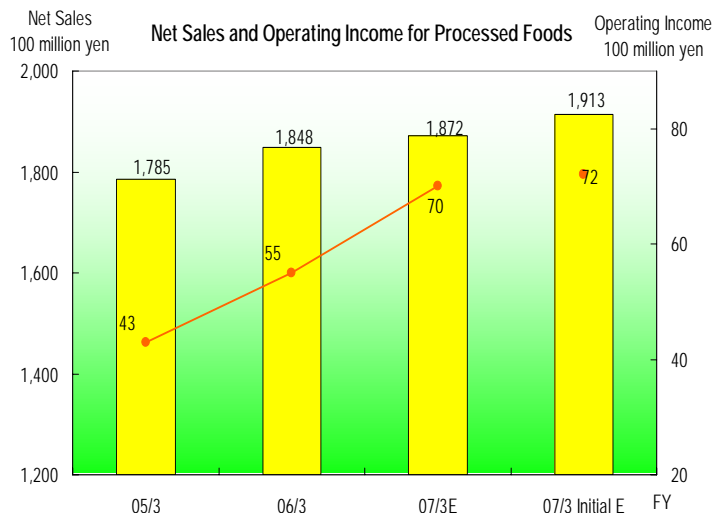
Business Strategy: Processed Foods

Processed Foods

Net Sales and Profits: Rise Offsetting Lower Revenues in the Struggling Household Use



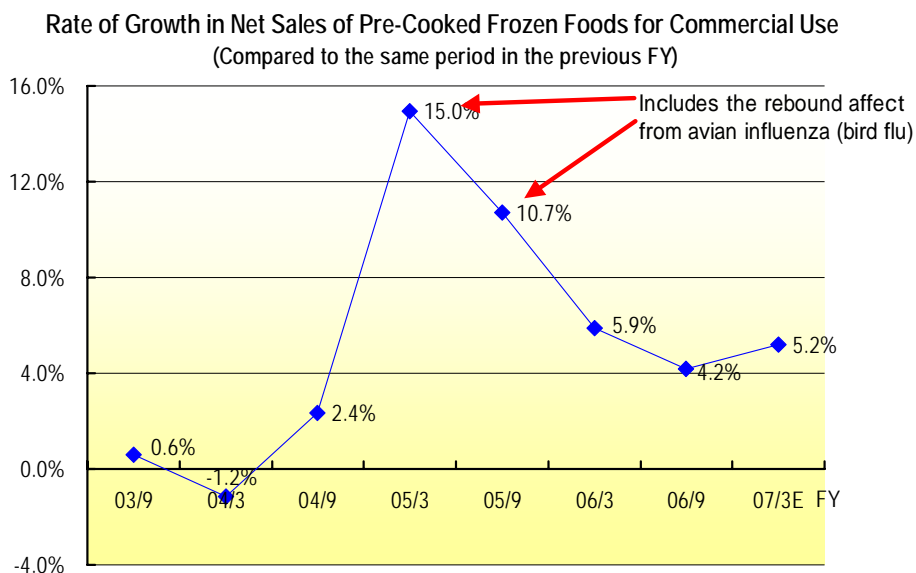
1. Processed Foods is forecast to post an increase in sales due to the robust demand in the commercial-use sector, and a sharp rise in operating income of ¥1.5 billion, up 28% compared to FY06/3, although target for pre-cooked frozen foods for household use was revised down on slack demand in the first half of the year.
2. Pre-cooked frozen foods for commercial use: Sales are forecast to continue to grow by a solid 5% for FY07/3 thanks to the accelerated introduction cycle of new products such as processed chicken, cream croquettes and spring rolls.
3. Pre-cooked frozen foods for household use: Restoring profitability is the priority through such measures as promotion to increase shelf placements during the fall restocking period, and more aggressive pursuit of consignment contracts for private brands while continuing to implement new sales promotion methods and pricing review.
4. Measures to cut costs at the Group's production plants in Japan continue on schedule during the second half, which contributes to further improve profitability.
5. Acerola business: 10% sales increase during the second half is targeted through new introduction of three new products, and the sales promotion for existing products.



Commercial Use: Net Sales Continues Strong Growth through Introduction of Carefully Targeted Product Lines



1. Sales of pre-cooked frozen foods for commercial use for the first half continued to grow by 4%. There was a brief lull in sales growth during the second quarter, probably caused by pricing revisions for some of main chicken products.
2. During the second half, sales promotion for the restaurant and catering industries is enforced with our main chicken products, cream croquettes, and spring rolls, for which a new production line was added in February.
3. Annual sales are forecast to rise by 5% by speeding up introduction cycle of our new product.



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)

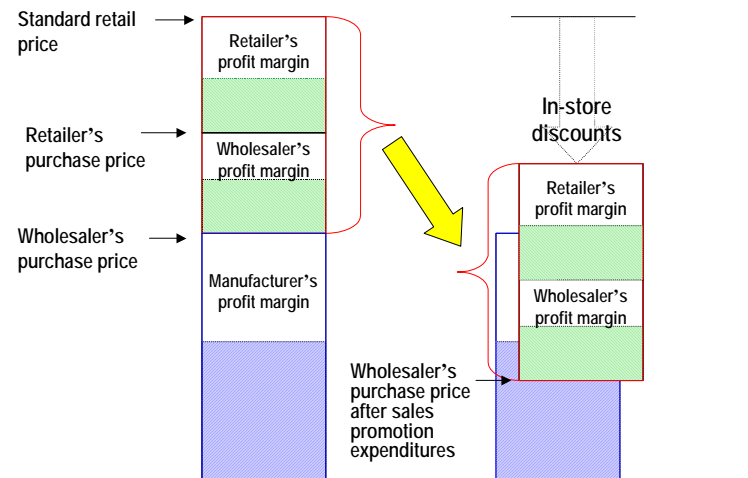
Shaded cells ... New categories in which we commenced development prior to the plan period

- ... New categories targeted in FY 05/3
- ... New categories targeted in FY 06/3
- ... Successful new categories targeted in the 06/9 period.
- ... New categories to be targeted in the second half of FY07/3.

Household Use: Revision of Rebate Policy and Sales Promotion Expenditures to Push Up Profitability

- The aims of the new strategy introduced in April in our frozen foods for household use are as follows:
 - Normalize the current pricing schemes using deep-discount pricing by retailers to enable food makers to keep supplying value-added products without sacrificing quality.
 - Replace the current MSRP (manufacturer's suggested retail price) system with a new pricing system that reflects distribution cost more accurately.
 - Simplify the overly complicated sales rebate system.
 - Make sales promotion budget work properly for its original intention of providing incentives for promoting the Nichirei products.
- Net sales for the first half fell 8% compared to the previous period. However, overall profitability will not be adversely affected because the ratio of sales promotion expenses to net sales has been lowered.
- Sales promotion campaigns at several supermarkets emphasizing the convenience and safety of pre-cooked frozen foods have been successful in raising the unit price per transaction and restoring the profitability of the frozen foods store section. Steps will be taken to promote the further success of these activities.

Affect of Discount Sales of Frozen Food Products on Manufacturer Profitability

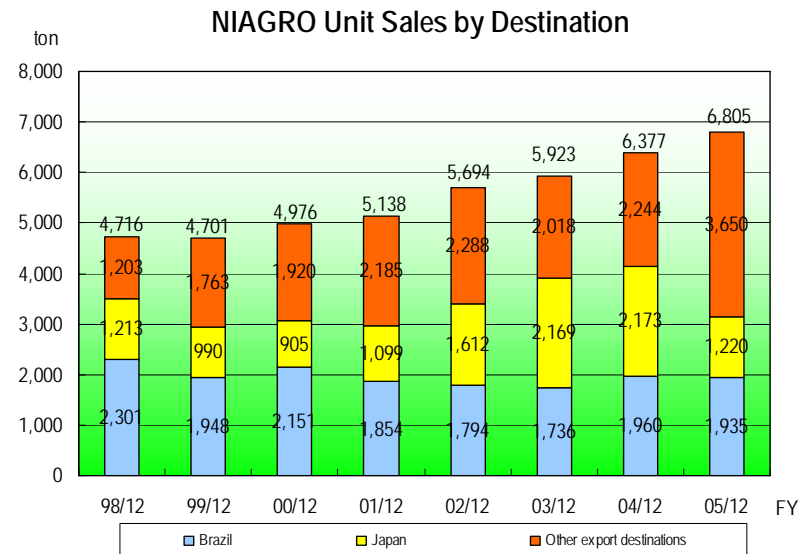
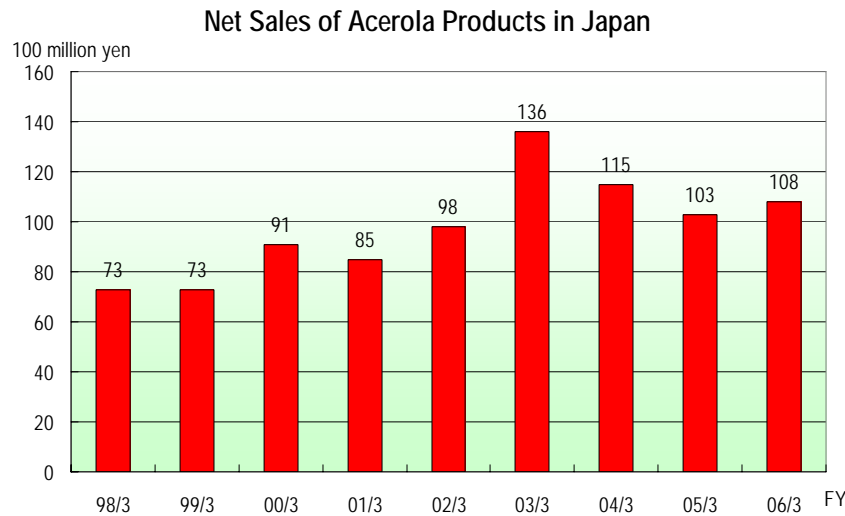


Note: In the present case the manufacturer absorbs the entire amount of the in-store discount as a sales promotion expense. In some cases retailers may cover part of the in-store discount by reducing their own profit margins.

Acerola Business: Advance to New Stage of Development



1. Net sales have remained flat at the ¥10.0 billion level since FY04/3 when net sales of acerola products rapidly reached ¥13.6 billion thanks to PR activities and the popular trend toward consumption of more natural and healthier foods.
 - (i) The introduction of low-priced competing products, and the increase in nutritional drinks containing health supplements such as amino acids or coenzyme Q10 has reduced the relative appeal of acerola as a health drink.
2. New measures to put acerola as products with its high profit margin ratio back onto a growth path again.
 - (i) Introduce three new products this fall that will be distinguished from the competition on the basis of their natural ingredients.
 - (ii) Introduce new products based on the concept of “Healthy lifestyle drinks.”
3. At the same time, ensuring a supply of acerola raw materials is positioned as the keystone of our global strategy for acerola.
 - (i) Construct a new ¥700 million juice concentrate plant at Nichirei of Brazil (NIAGRO), a company which handles the consolidation and processing of acerola.
 - (ii) Establish an in-house production facility of juice concentrate to serve customers’ product requirements more flexibly, and save processing costs and shipping costs to outside facilities.

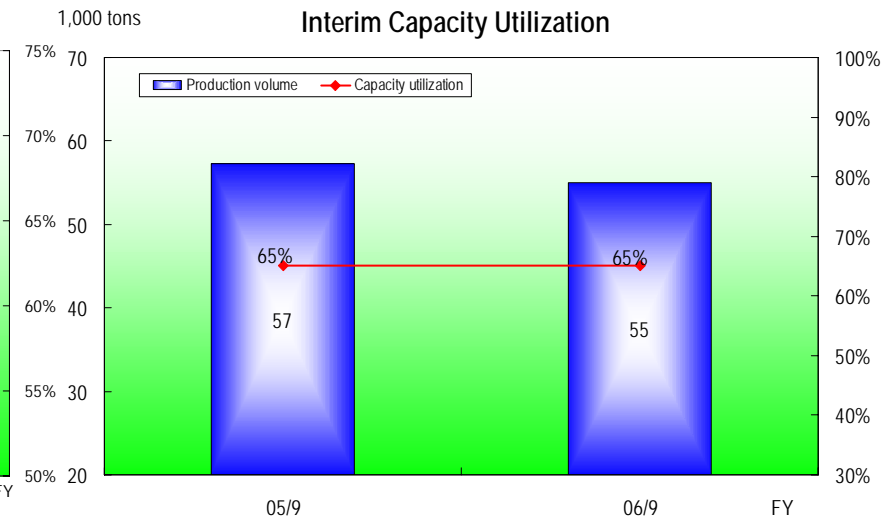
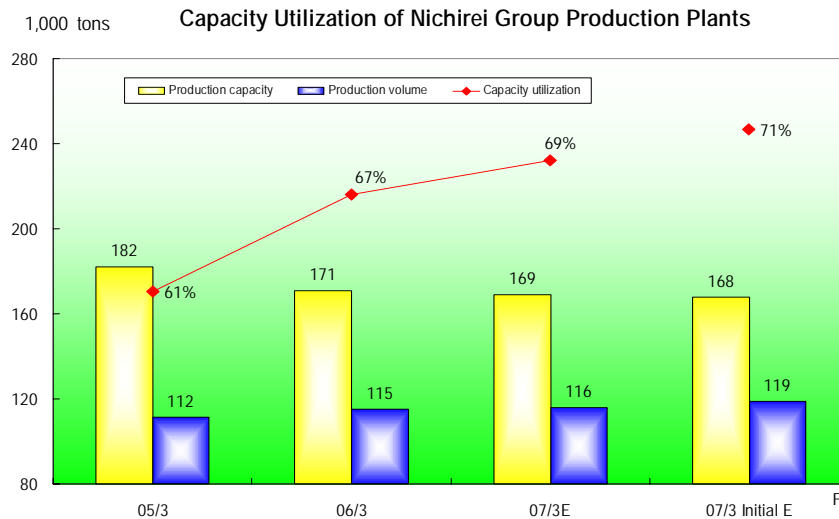


Processed Foods

Production: Higher Profit through Continued Improvement in Plant Utilization Rates and Cost Reductions



1. Production capacity utilization rates for the first half remained at the same levels as achieved in the previous period because of lower than expected sales of pre-cooked frozen foods. Cost cutting efforts did not bear fruit, and in fact were adversely affected by the carbon monoxide poisoning accident at the Shiraiishi plant.
2. Capacity utilization targets for FY07/3 was revised down to 69%, but are still forecast to exceed FY06/3 levels by 2 percentage points. Cost reductions will contribute to a savings of ¥200 million.
3. Production line costs for FY07/3 will be cut by ¥100 million, and plant reorganization efforts will reduce costs by another ¥100 million.

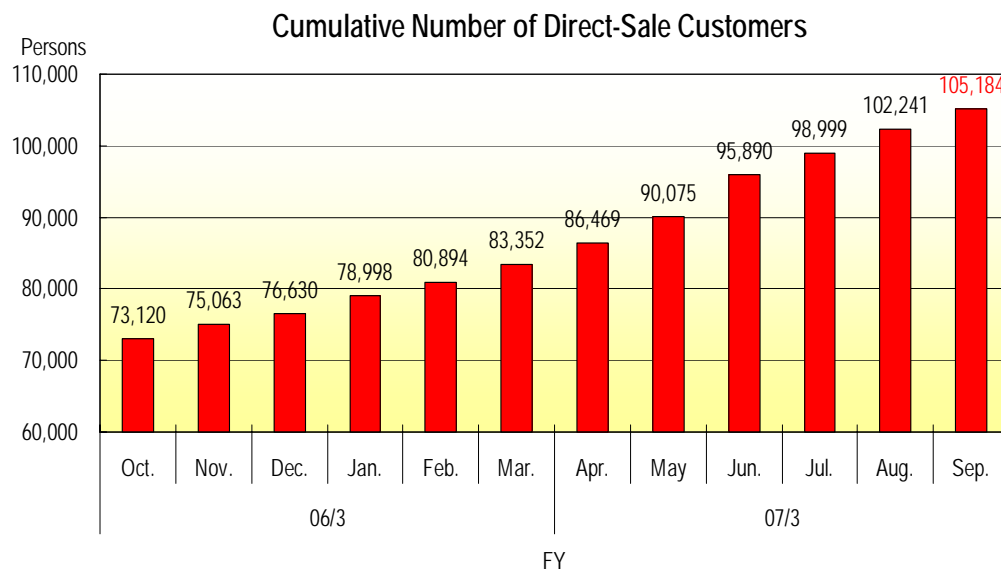


Note: Production capacity is calculated based on 15 hours per production day and 290 production days per year. Under present circumstances, plant facilities and operation times are subject to various limitations, meaning we are working toward improvement based on a practicable maximum utilization ratio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

Direct Sales: Expand Customer Base with Aggressive Advertisement



1. Nichirei Foods Direct, Inc., established in April 2006 for the purpose of developing a new direct-sale distribution channel, conducted an upfront investment through aggressive advertising campaign in the national newspapers to attract new members to the system.
2. The number of customers placing orders has climbed steadily, and the ratio of repeat orders is better than the industry average of 20%.
3. New measures for the second half to attract more new customer members and to increase the rate of repeat orders are as follows.
 - (i) Expand the product lines of our *Kikubari Gozen* series and introduce one new meal each month in our *Kikubari Gozen Chef's Balance* series targeted for those customers aged 50 or older, about 70% of our customer
 - (ii) Increase the frequency of our newspaper advertisement by reducing the size of each individual ad, and actively promote Internet-based advertising.
 - (iii) Sell single meal in addition to the current order system for 7-meal or 4-meal sets only.



The White Fish in Whole-grain Mustard Sauce set in the *Kikubari Gozen Chef's Balance* series.

Each meal retails for ¥1,260.

Features the mellow fragrance of whole-grain mustard.

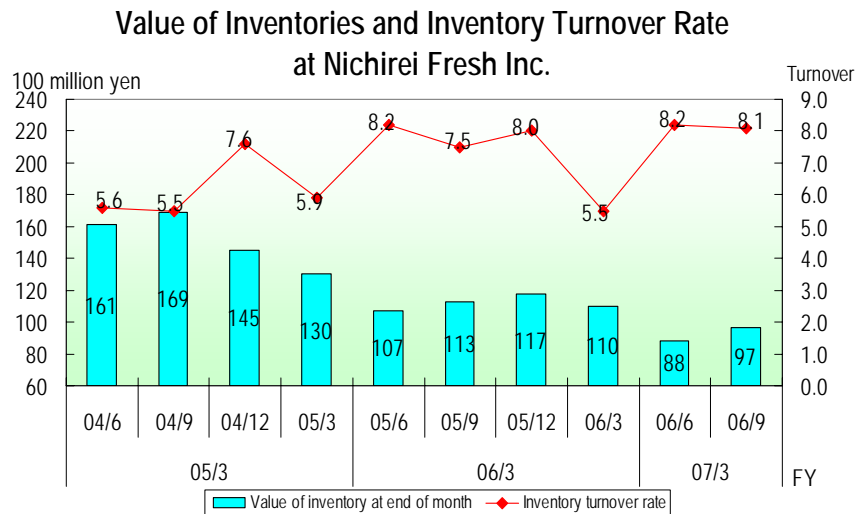
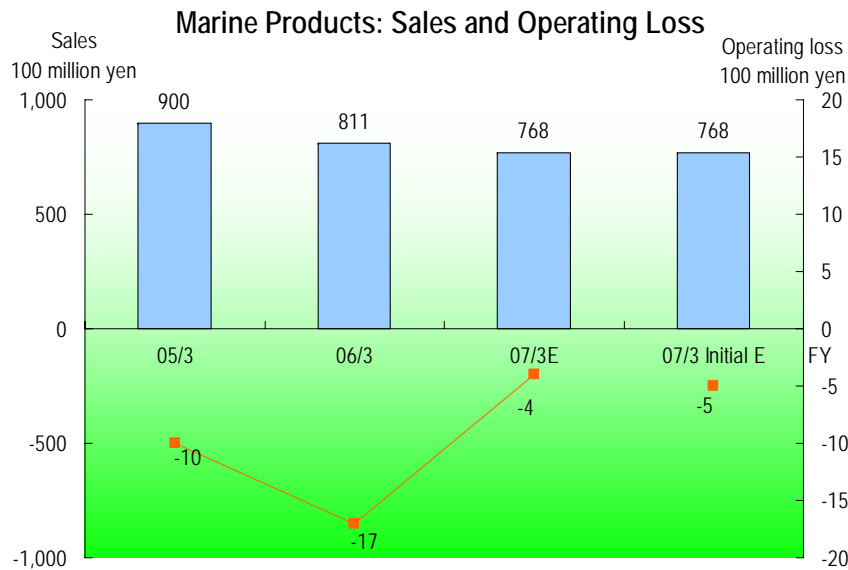
Each meal has no more than 320kcal and 2.8g of salt.

Business Strategy: Marine Products

Revitalization Plan: Reduce Operating Losses beyond Target Levels



1. 25% reduction in the number of employees under the Revitalization Plan in FY06/3 resulted in a fall in net sales of 12% for the first half. Sales decline is forecast to only about 5% for FY07/3 thanks to much higher productivity per worker.
2. Streamlining the product lines helped reduce inventories and improve inventory turnover, which helps cap the risks associated with downward fluctuations in profit. Operating losses are forecast beyond the initial target level by ¥100 million.
3. Medium-term strategy of converting the competitive advantage in certain products into creation of added value at each stage of the value chain through establishing a “Product Meister Model” has begun to achieve good results in certain products such as fish eggs and others.



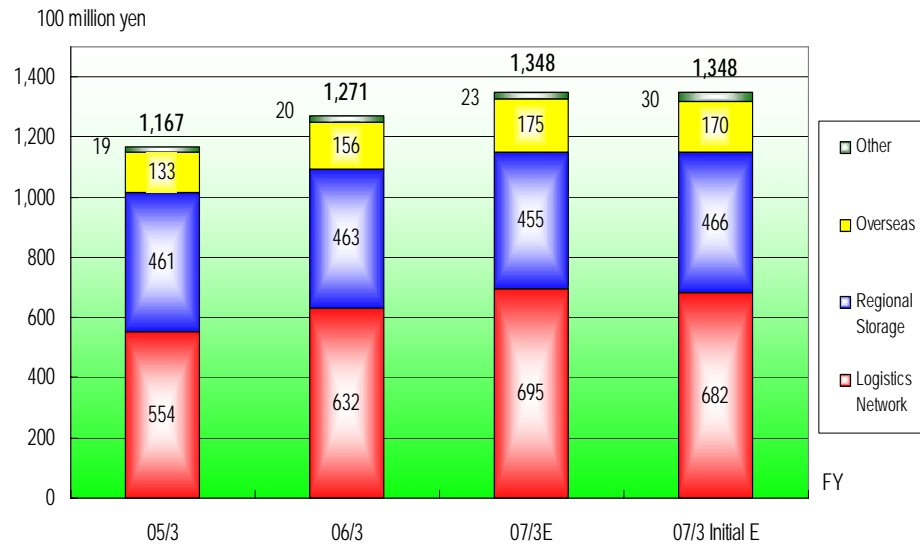
Business Strategy: Logistics

Profit Target: Revised Up on Strong Performance of Logistics Network and Regional Storage Businesses

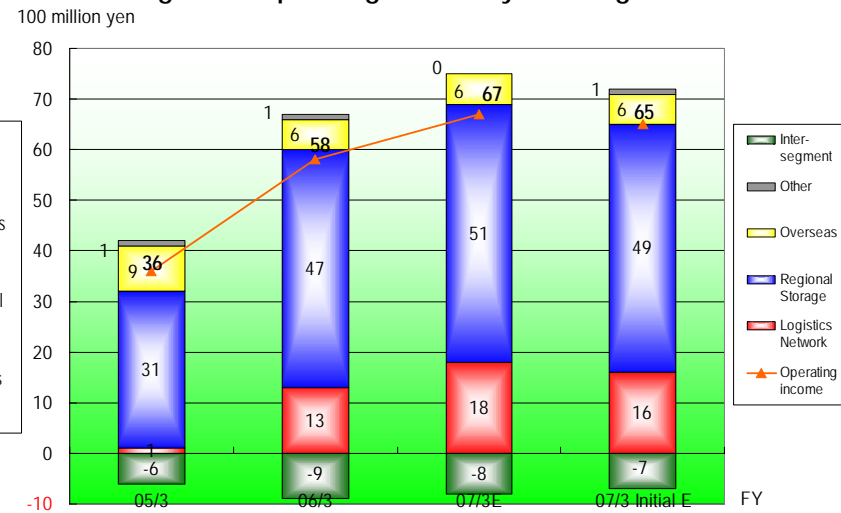


1. Overall net sales are forecast on track as planned, and operating income is forecast to exceed initial targets thanks to the successful implementation of measures to improve profitability in Logistics Network, and to further cut cost in Regional Storage business.
2. Logistics Network is forecast to post an increase in operating income by ¥500 million compared to FY 06/3 thanks to steady progress in the overhaul of less profitable facilities and transportation operations despite the start-up burden in new centers.
3. Regional Storage is forecast to post an increase in operating income by ¥400 million compared to FY 06/3 thanks to ongoing locally-oriented sales activities promoting local freight consolidation, and applying successful efforts to reduce labor costs at certain centers to large-scale facilities in Tokyo metropolitan area, while capacity utilization rates for the industry are falling.

Logistics: Sales by Sub-Segment



Logistics: Operating Income by Sub-Segment



Logistics Network: Improving Profitability for Center Operation and Transport Operation



1. Distribution Centers with local area delivery operations are forecast to post an increase in operating income by ¥500 million compared to FY 06/3 thanks to turnaround in less profitable facilities, and successful efforts to attract new customers.
2. Operating income for TC is forecast to meet initial targets despite incurring start-up costs at new Transfer Centers.

Factors Contributing to Changes in Operating Income for Logistics Network Business

Function		07/3E	
		Background/reason	Amount of change relative to previous year (100 million yen)
TC (Transfer Centers)		<ul style="list-style-type: none"> •Increased expenditures due to start-up costs at new Transfer Centers •Improving existing Centers <ul style="list-style-type: none"> – Reduce operating costs due to stabilized operations – Improve work efficiency by revising work system 	-2
Transport, other	Wide area transport	<ul style="list-style-type: none"> •Improve gross profit ratio in transport operation <ul style="list-style-type: none"> – Pallet transport, Improving vehicle utilization by promoting pallet and on-time scheduling of dispatch and arrival – Improving loading ratio by promoting consolidation of loading, etc. 	+2
	Local area delivery	<ul style="list-style-type: none"> •Improve targeted less profitable facilities, and overhauling unprofitable operations •Continue negotiations to raise transport fees •Expand delivery areas available to existing customers •Attract new customers •Promote joint delivery schemes with other transport companies 	+2
	Distribution Centers (Inventory type)	<ul style="list-style-type: none"> •Promote stable storage volumes and turnover rates for freight composed primarily of frozen food products. •Overhaul unprofitable operations (withdraw or raise fee schedules) •Launch of new centers 	+3
Change in operating income			+5

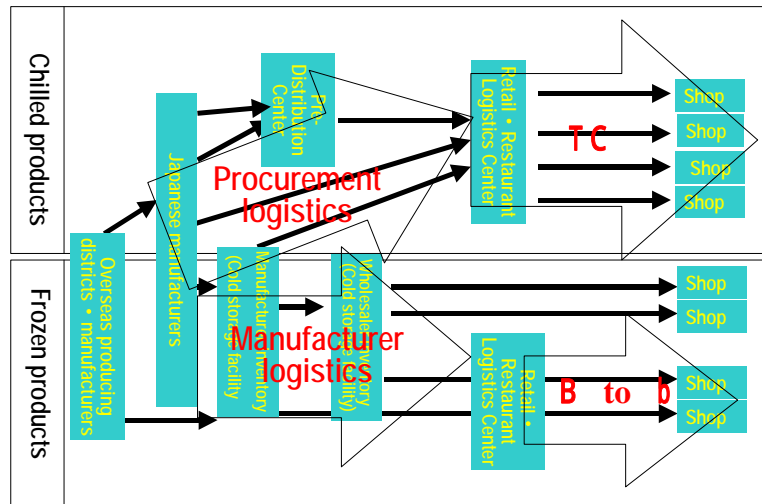
Logistics Network: Accelerate Growth through Acquisition of Transport Business Know-How



1. Logistics Network is steadily developing a basic transport infrastructure. In addition to strengthening tie-ups with cooperating transport companies, a new in-house transportation firm, NK Trans Inc., was established and began operations in October 2006 to acquire more transport business know-how in order to lay a solid foundation for future growth.
2. Target market including transport business for Nichirei is estimated at around ¥400 billion. Taking advantage of past experience and acquisition of know-how of actual transport business from now on, Logistics Network will accelerate the business growth through aggressive marketing activities.

Estimated Target Market Size of Low Temperature Logistics

Future Targets and Estimated Market Size for Logistics Network



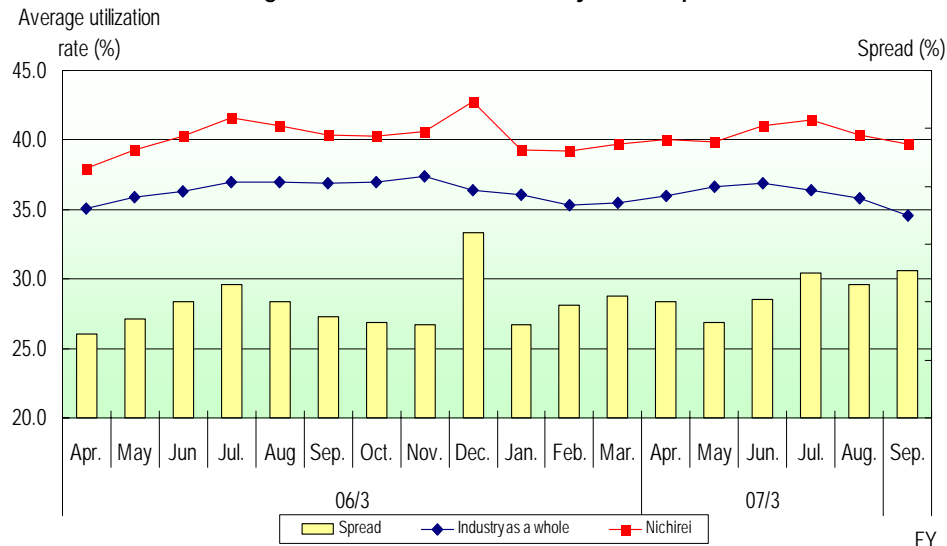
	Estimated market size (100 million yen)	Target customers	Size of targeted portion of market (100 million yen)	Marketing method
Procurement logistics	5,500	<ul style="list-style-type: none"> Existing TC customers Milk beverage producers Chilled processed meat producers 	2,000	<ul style="list-style-type: none"> Expand procurement logistics business using delivery networks for existing customers Pursue large-scale orders for trunk line shipment of raw materials for chilled products
TC	3,300	<ul style="list-style-type: none"> Regional supermarkets Chain stores 	440	<ul style="list-style-type: none"> Take advantage of our experience with GMS to market logistics solutions Use existing TCs for more general purposes
Manufacturer logistics	3,800	<ul style="list-style-type: none"> Frozen food product companies Local agricultural and livestock producers 	620	<ul style="list-style-type: none"> Expand trunk line transportation through joint delivery arrangements Consolidate loading of small lot freight shipments
B to b	8,700	<ul style="list-style-type: none"> Confectioners Department stores Medium-sized restaurant chains 	920	<ul style="list-style-type: none"> Utilize know-how gained through experience with joint delivery of confections in the Tokai district Increase number of merchants utilizing joint delivery service for department store Consolidate loading of restaurant chain supplies with already existing delivery networks for confection and department store cooperative delivery networks

Regional Storage: Further Cost Cutting Measure in the Falling Utilization Rates



1. Overall storage utilization rates have been falling for Nichirei and the industry as a whole since June primarily due to slack demand from the livestock products sector, but ongoing marketing of local freight consolidation has helped keep our storage utilization rates above the industry average.
2. Operating income for FY07/3 is forecast to exceed initial targets as manpower cost reduction measures initially implemented in Kansai and Kyushu is applying to large-scale facilities in the Tokyo metropolitan area.
3. Investment for new construction and expansion of the large scale cold storage facilities has resumed for the first time in 9 years. Most of them are scrap & build projects involving existing facilities, but in some areas the investments will be made reflecting an increase in regional demand.

Overall Storage Utilization Rates in 12 Major Metropolitan Markets



(Source: Compiled from data of the Japan Association of Refrigerated Warehouses)

Projected New Investment in Cold Storage Facilities

Project name	Amount of investment (Million yen)	Capacity (1,000 tons)	Scheduled start of operations
Kyokurei Yamashita DC (reconstruction)	35	23	March 2008 (Phase I) June 2009 (Phase II)
Nichirei Logistics Kyushu: Expansion of Miyakonojo DC facility	10	7	October 2006
Logistics Network Ishikari DC (concomitant with the closing of Nichirei Logistics Hokkaido's Sapporo DC)	21	11	November 2006

Reference Materials

Segment Data



Results of Net Sales and Operating Income by Segment

Unit: 100 million yen (amounts less than 100 million yen are omitted,
some fractional amounts have been adjusted)

	05/3	06/3	07/3E
(Net Sales)			
Processed Foods	1,785	1,848	1,872
Marine Products	900	811	768
Meat and Poultry Products	847	846	865
Logistics	1,167	1,271	1,348
Real Estate	92	100	76
Other	82	87	69
Intercompany Eliminations	-259	-269	-263
Total	4,614	4,694	4,735
(Operating Income/Loss)			
Processed Foods	43	55	70
Marine Products	-10	-17	-4
Meat and Poultry Products	4	3	7
Logistics	36	58	67
Real Estate	60	61	39
Other	2	1	2
Intercompany Eliminations	0	-1	0
Total	135	160	181

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) Food-related safety issues
- (2) Price fluctuations of food products and raw ingredients
- (3) Risks of food product recall
- (4) Risks associated with holding of fixed assets
- (5) Risks associated with market price fluctuations of investment securities held
- (6) Foreign exchange rate risks

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