MARUDAI

Annual Report 2014

For the Year Ended 31st March 2014

PROFILE

Since its establishment in 1958, MARUDAI FOOD CO., LTD. has been dedicated to offering delicious, high-quality meat products. In order to understand the latest consumer trends and to meet the needs of modern lifestyles, we have continuously strengthened our research, sales and production operations. Intending to become Japan's leading food company, we successfully listed our stock on the First Section of both the Tokyo and Osaka Stock Exchanges in 1972.

Starting as a ham and sausage producer, Marudai Food has steadily expanded its range of products to include heat-processed, vacuum-packed food, cheese and fresh meats. Ham and sausage, however, remain an integral part of our product line and continue to account for almost half of our sales.

While pursuing a leading position in the ham and sausage market, Marudai Food was eager to explore new avenues by developing precooked and processed foods, which went on sale in 1973. This long shelf-life food was developed to meet the specific need for fast meal preparation. Containing absolutely no preservatives and requiring only several minutes to prepare, Marudai precooked and processed foods have established a strong foothold in the market. Building on this success, we will make even greater efforts to create new products that satisfy the increasingly discriminating tastes of consumers.

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FINANCIAL HIGHLIGHTS

For the Years Ended 31st March 2014 and 2013
(Consolidated basis)

	Millions of yen, except per share amounts		Thousands of U.S. dollars, except per share amounts (Note)
	2014	2013	2014
Net sales	¥213,679	¥207,009	$2,076,973
Net income	1,726	2,030	16,777
Per share:			
Net income (yen and dollars)	13.29	15.63	0.13
Net income, diluted (yen and dollars)	–	–	–
Dividends (yen and dollars)	7.00	8.00	0.07
Total assets	¥120,694	¥122,848	$1,173,153

Note: U.S. dollar amounts are translated from yen for convenience only at the rate of ¥102.88 to U.S.$1.00.

TO OUR SHAREHOLDERS

With the issurance of our company's 66th annual report, we hope that our shareholders are enjoying health and prosperity. We would also like to take this opportunity to express our deep appreciation for your continued support.

During the fiscal year ended 31st March 2014, the Japanese economy was on a recovery path as corporate earnings improved centering on export related companies, reflecting factors including the positive impact of the Abe administration's economic policies. With regard to personal consumption, however, concerns about the reduction in disposable income attributable to the consumption tax increase persisted and there was little ground for optimism concerning consumption of daily necessities such as foods and household goods.

The Marudai Food Group's Processed Food Products business continues to operate in a challenging environment characterized by sharp increases in raw materials prices in line with the weakening of the yen and intensifying sales competition. The environment for the Meat Products business also remained challenging. While prices of beef and pork remained firm, reflecting decreased supply, purchase prices of imported raw materials further rose partly because of purchases by emerging countries.

Under such circumstances, we strove to offer food products that satisfy the highest standards of safety and reliability by adhering to the Marudai Food Group's policies of putting the customer first, thorough compliance and uncompromising commitment to safety and quality. In parallel, we implemented a diversification

strategy and initiatives to reinforce Group management and strengthen product development capabilities.

As a result, consolidated net sales for the fiscal year ended 31st March 2014 increased by 3.2% year on year to 213,679 million yen. Nevertheless, operating income decreased by 13.7% to 2,862 million yen, and net income decreased by 15.0% to 1,726 million yen.

Once again we would like to thank you, our shareholders, for your support and trust that we can rely on your continued confidence.

June 2014

Tokuo Kudara
President

PRODUCTS

The following table shows an analysis of the consolidated sales of MARUDAI FOOD CO., LTD. and its consolidated subsidiaries (together, the "Companies") by product categories for the years ended 31st March 2014 and 2013:

	Millions of yen (percent of total net sales)		Thousands of U.S. dollars (Note)
	2014	2013	2014
Processed Food Products	¥150,193	¥148,904	$1,459,885
	(70.3%)	(71.9%)	
Meat Products	63,120	57,718	613,530
	(29.5%)	(27.9%)	
Other	366	387	3,558
	(0.2%)	(0.2%)	
Total	¥213,679	¥207,009	$2,076,973

Note: U.S. dollar amounts are translated from yen for convenience only at the rate of ¥102.88 to U.S.$1.00.

Processed Food Products

The Ham & Sausage Products operations made vigorous efforts to expand sales of our mainstay products, such as the mainstay brand "*Kunseiya-Ripened Pork Sausage*," winner of the Monde Selection Grand Gold Quality Award in the food products category for the fifth time in 2013. We also conducted sales promotion campaigns, including a campaign to support the Japanese team for the Sochi 2014 Winter Olympic Games, to revitalize sales. For midsummer and year-end gift products, we enriched the line-up by introducing new products centering on our mainstay series, namely "*Ouha*" and "*Kousai*." As a result, sales of the Ham & Sausage Products operations increased by 2.0% year on year.

In the Precooked & Processed Foods operations, sales of the "*Sundubu*" series of Korean-style soup mixes were robust, thanks to the enriched line-up with the addition of "*Gomatonyu* (sesame & soymilk) *Sundubu*." We strove to expand sales through the introduction of new products, including the "*Bistro Club Beef Curry*" series, offering rich flavour with a unique blend of 51 kinds of spice and "*Utsunomiya Yakigyoza,*" dry-fried dumplings that can be served just by heating them up in a microwave oven. With regard to the "*SWEET CAFE*" mainstay series of desserts, our sales promotion efforts included the adoption of special package designs for limited periods on seasonal themes. However, sales of the Precooked & Processed Foods operations decreased by 0.8% year on year due mainly to weaker sales of products sold at convenience stores.

As a result, sales in the Processed Food Products segment amounted to 150,193 million yen, up 0.9% year on year. Operating income, however, decreased by 19.3% to 2,600 million yen, owing to sharp increases in raw materials and fuel prices and intensified sales competition.

Meat Products

Sales of pork rose as a result of our efforts to expand sales of Japanese pork, but business conditions were challenging as procurement costs rose in response to increases in prices due to decreases in supply. Sales of beef were robust as a result of our efforts to expand sales of Japanese beef and U.S. beef amidst market recovery, as indicated by a moderate increase in selling prices. As a result, sales in the Meat Products segment increased by 9.4% year on year to 63,120 million yen and operating income amounted to 62 million yen.

Other

Sales of the Other business decreased by 5.5% year on year to 366 million yen, but operating income increased by 13.2% to 200 million yen.

CONSOLIDATED BALANCE SHEETS

31st March 2014 and 2013

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 14,898	¥ 11,065	$ 144,809
Receivables:			
Trade notes and accounts (Note 3)	23,146	24,995	224,981
Other	348	826	3,383
Allowance for doubtful accounts	(62)	(61)	(603)
Inventories (Note 6)	13,662	14,445	132,795
Deferred tax assets (Note 10)	1,124	1,147	10,925
Advances and other current assets	450	279	4,375
Total current assets	53,566	52,696	520,665
Investments and other assets:			
Investment securities (Notes 3 and 4)			
Affiliates	40	100	389
Other	10,984	10,733	106,765
Deferred tax assets (Note 10)	79	69	768
Other	5,291	7,570	51,428
Allowance for doubtful accounts	(396)	(408)	(3,849)
Total investments and other assets	15,998	18,064	155,501
Property, plant and equipment, at cost:			
Land (Note 8)	18,748	18,835	182,232
Buildings and structures (Note 8)	47,449	47,133	461,207
Machinery and equipment (Note 8)	53,918	53,141	524,086
Lease assets	6,450	6,668	62,694
Construction in progress	691	318	6,717
	127,256	126,095	1,236,936
Less accumulated depreciation	(77,416)	(75,632)	(752,488)
Net property, plant and equipment	49,840	50,463	484,448
Intangible assets	1,290	1,625	12,539
Total assets	¥120,694	¥122,848	$1,173,153

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Trade notes and accounts payable (Note 3)	¥ 19,547	¥ 19,908	$ 189,998
Short-term borrowings (Notes 3, 7 and 8)	7,276	7,861	70,723
Long-term debt due within one year (Notes 3, 7 and 8)	2,990	2,499	29,063
Short-term lease obligations (Notes 3 and 7)	778	804	7,562
Accrued expenses	2,217	2,207	21,549
Accrued income taxes	1,045	304	10,157
Other current liabilities	6,169	7,019	59,964
Total current liabilities	40,022	40,602	389,016
Long-term liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	4,972	6,520	48,328
Long-term lease obligations (Notes 3 and 7)	2,604	2,555	25,311
Deferred tax liabilities (Note 10)	1,035	1,685	10,060
Employees' severance and retirement benefits (Note 9)	–	853	–
Liabilities for retirement benefits (Note 9)	3,018	–	29,335
Other long-term liabilities	466	521	4,530
Total long-term liabilities	12,095	12,134	117,564
Contingent liabilities (Note 11)			
NET ASSETS (Note 12)			
Shareholders' equity:			
Common stock			
Authorised — 200,000,000 shares			
Issued — 132,527,909 shares in 2014 (132,527,909 shares in 2013)	6,716	6,716	65,280
Capital surplus	21,686	21,686	210,790
Retained earnings	38,719	38,032	376,351
Less treasury stock at cost	(705)	(698)	(6,853)
Total shareholders' equity	66,416	65,736	645,568
Accumulated other comprehensive income:			
Unrealised gains on securities	3,418	2,940	33,223
Deferred gains on hedges	1	0	10
Foreign currency translation adjustments	(106)	(124)	(1,030)
Adjustments for retirement benefits	(2,737)	–	(26,604)
Total accumulated other comprehensive income	576	2,816	5,599
Minority interests	1,585	1,560	15,406
Total net assets	68,577	70,112	666,573
Total liabilities and net assets	¥120,694	¥122,848	$1,173,153

CONSOLIDATED STATEMENTS OF INCOME

Years Ended 31st March 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥213,679	¥207,009	$2,076,973
Cost of sales	163,988	156,541	1,593,973
Gross profit	49,691	50,468	483,000
Selling, general and administrative expenses (Note 13)	46,829	47,153	455,181
Operating income	2,862	3,315	27,819
Other income (expenses):			
Interest and dividend income	308	304	2,994
Interest expense	(274)	(319)	(2,663)
Gain (loss) on sale of securities, net	461	(22)	4,481
Loss on disposal of property, plant and equipment, net	(59)	(271)	(573)
Loss on early retirement benefits	(182)	(207)	(1,769)
Loss on impairment of assets (Note 14)	(248)	(151)	(2,411)
Other, net	172	57	1,671
	178	(609)	1,730
Income before income taxes and minority interests	3,040	2,706	29,549
Income taxes (Note 10):			
Current	1,137	663	11,052
Deferred	128	(36)	1,244
Income before minority interests	1,775	2,079	17,253
Minority interests	(49)	(49)	(476)
Net income	¥ 1,726	¥ 2,030	$ 16,777
	Yen		U.S. dollars (Note 1)
Net income per share (Note 2)	¥13.29	¥15.63	$0.13
Net income, diluted per share (Note 2)	–	–	–
Dividends per share	¥ 7.00	¥ 8.00	$0.07

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended 31st March 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥1,775	¥2,079	$17,253
Other comprehensive income:			
Unrealised gains on securities	478	939	4,646
Deferred gains (losses) on hedges	0	(18)	0
Foreign currency translation adjustments	5	(27)	49
Share of other comprehensive income of associates accounted for using equity method	13	18	126
Total other comprehensive income (Note 17)	496	912	4,821
Comprehensive income	¥2,271	¥2,991	$22,074
Comprehensive income attributable to:			
Owners of the parent	¥2,222	¥2,942	$21,598
Minority interests	¥ 49	¥ 49	$ 476

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended 31st March 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Common stock:			
Balance at beginning and end of the year	¥ 6,716	¥ 6,716	$ 65,280
Capital surplus:			
Balance at beginning and end of the year	¥21,686	¥21,686	$210,790
Retained earnings:			
Balance at beginning of the year	¥38,032	¥37,171	$369,673
Cash dividends paid	(1,039)	(1,169)	(10,099)
Net income	1,726	2,030	16,777
Balance at end of the year	¥38,719	¥38,032	$376,351
Treasury stock, at cost:			
Balance at beginning of the year	¥ (698)	¥ (698)	$ (6,785)
Purchase of treasury stock	(7)	(0)	(68)
Balance at end of the year	¥ (705)	¥ (698)	$ (6,853)
Unrealized gains on securities:			
Balance at beginning of the year	¥ 2,940	¥ 2,001	$ 28,577
Increase for the year	478	939	4,646
Balance at end of the year	¥ 3,418	¥ 2,940	$ 33,223
Deferred gains on hedges:			
Balance at beginning of the year	¥ 0	¥ 18	$ 0
Increase (decrease) for the year	1	(18)	10
Balance at end of the year	¥ 1	¥ 0	$ 10
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (124)	¥ (114)	$ (1,205)
Increase (decrease) for the year	18	(10)	175
Balance at end of the year	¥ (106)	¥ (124)	$ (1,030)
Adjustments for retirement benefit:			
Balance at beginning of the year	–	–	–
Decrease for the year	¥ (2,737)	–	$ (26,604)
Balance at end of the year	¥ (2,737)	–	$ (26,604)
Minority interests:			
Balance at beginning of the year	¥ 1,560	¥ 1,529	$ 15,163
Increase for the year	25	31	243
Balance at end of the year	¥ 1,585	¥ 1,560	$ 15,406

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended 31st March 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,040	¥ 2,706	$ 29,549
Depreciation and amortisation	5,609	5,906	54,520
Loss on impairment of assets	248	151	2,411
Decrease in allowance for doubtful accounts	(11)	(17)	(107)
Increase in severance and retirement benefits	903	120	8,777
Decrease in liabilities for retirement benefits	(668)	–	(6,493)
Interest and dividend income	(308)	(304)	(2,994)
Interest expense	274	319	2,663
Loss (gain) on sale of securities, net	(461)	22	(4,481)
Write-down of investment in securities	11	–	107
Loss on disposal of property, plant and equipment, net	59	271	573
Decrease in receivables	1,860	238	18,079
Decrease (increase) in inventories	809	(536)	7,864
Increase (decrease) in trade notes and accounts payable	(471)	94	(4,578)
Increase (decrease) in consumption tax payable	204	(191)	1,983
Other, net	(117)	(496)	(1,137)
Subtotal	10,981	8,283	106,736
Interest and dividends received	308	323	2,994
Interest paid	(275)	(318)	(2,673)
Income taxes paid	(338)	(537)	(3,286)
Net cash provided by operating activities	10,676	7,751	103,771
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(30)	(38)	(292)
Proceeds from sale of short-term investments and investment securities	884	20	8,593
Purchase of property, plant and equipment	(4,718)	(5,659)	(45,859)
Proceeds from sale of property, plant and equipment	771	300	7,494
Other, net	57	(149)	554
Net cash used in investing activities	(3,036)	(5,526)	(29,510)
Cash flows from financing activities:			
Net decrease in short-term borrowings	(634)	(610)	(6,163)
Proceeds from long-term debt	1,459	3,695	14,182
Repayment of long-term debt	(2,516)	(4,543)	(24,456)
Repayment of lease obligations	(818)	(1,045)	(7,951)
Cash dividends paid	(1,039)	(1,169)	(10,099)
Other, net	(25)	(20)	(243)
Net cash used in financing activities	(3,573)	(3,692)	(34,730)
Effect of exchange rate changes on cash and cash equivalents	4	(1)	39
Net increase (decrease) in cash and cash equivalents	4,071	(1,468)	39,570
Cash and cash equivalents at beginning of year	10,827	12,295	105,239
Cash and cash equivalents at end of year (Note 16)	¥14,898	¥10,827	$144,809

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years Ended 31st March 2014 and 2013

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of MARUDAI FOOD CO., LTD. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2014, which was ¥102.88 to U.S. $1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation - The consolidated financial statements include the accounts of the Company and its 33 subsidiaries. Consolidated subsidiary Miyazaki Kogen Farm Co., Ltd. was excluded from the scope of consolidation as its liquidation was completed during the fiscal year ended 31st March 2014. As a result, the number of consolidated subsidiaries decreased by one. Thirty-two of the Company's subsidiaries have the same fiscal year end as the Company, 31st March. One of the Company's subsidiaries is consolidated using a fiscal year ending 31st December. Significant transactions occurring from 1st January to 31st March are adjusted for in the consolidated financial statements.

All significant intercompany balances, transactions and profits have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. The difference between the cost of an investment and the equity in the assets at the date of acquisition is, with minor exceptions, amortized over five years. Equity method accounting is applied to affiliates which are substantially controlled by the Company. Betagro MF Deli Co., Ltd. is being included in the scope of the Companies to which the equity method is applied.

Cash and cash equivalents - Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered cash and cash equivalents.

Securities - Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on the sale of such securities are computed using the moving average cost method. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated using the moving average cost method.

If the market value of equity securities or available-for-sale securities declines significantly, the difference between the fair market value and the carrying amount is recognised as loss in the period of the decline. If the fair market value of equity securities is not readily available, such securities are written down to net asset value with a corresponding charge in the consolidated statement of income in the event the net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Derivatives and hedge accounting - The Companies account for derivative financial instruments at fair value and recognise changes in the fair value as gain or loss unless the derivative financial instrument is used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss

resulting from changes in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognised. However, foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting ("the alternative method"). Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed ("the special treatment").

Allowance for doubtful accounts - An allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts. For certain doubtful receivables, the uncollectible amounts are individually estimated.

Inventories - The Company and its domestic consolidated subsidiaries state inventories at the lower of average cost or net realizable value.

Property, plant and equipment - Property, plant and equipment are stated at cost. Depreciation is computed primarily using the declining balance method. Buildings acquired after 1st April 1998, however, are depreciated using the straight-line method. The useful life of buildings and structures ranges from 12 to 50 years. The useful life of machinery and equipment ranges from 4 to 10 years.

Software - The Company and its consolidated domestic subsidiaries include software in intangible assets and amortize it using the straight-line method over the estimated useful life of 5 years.

Goodwill - Goodwill is amortized over a period of 5 years using the straight-line method.

Lease assets - Assets under finance leases that do not transfer ownership of the lease assets are amortized using the straight-line method over the lease term with the assumption that the useful life coincides with the lease term and the residual value is zero.

Research and development expenses - Research and development expenses for the improvement of existing products and the development of new products, including basic research and fundamental development costs, are charged to expenses as incurred.

Bonuses - The Company and its consolidated domestic subsidiaries follow the general Japanese practice of paying bonuses to employees in July and December. Accrued bonus liabilities are determined based upon the estimated amounts to be paid in the subsequent period and are included in accrued expenses.

Translation of foreign currencies - Short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. Financial statements of consolidated overseas subsidiaries are also translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates.

Accounting for Retirement Benefits - Projected benefit obligations are attributed to periods on a straight-line basis in determining retirement benefit obligations. Prior service costs are amortized by the straight-line method over a fixed period of 5 years, which is the average remaining service years of the eligible employees beginning in the fiscal year in which the prior service costs are recognised. Actuarial gains and losses are amortized by the straight-line method over a fixed period of 10 years, which is the average remaining service years of the eligible employees beginning in the fiscal year following the year in which the gains and losses are recognised. In determining the amount of retirement benefit obligations and retirement benefit costs, some small sized consolidated subsidiaries have adopted a simplified method where the amount that would be required if all the employees retired voluntarily at the fiscal year end is treated as retirement benefit obligations.

Income taxes - The asset-liability approach is used to recognise deferred tax assets and liabilities for tax loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Amounts per share - The computations of net income per share of common stock shown on the consolidated statements of income are based on the weighted average number of shares outstanding during each financial period. Cash dividends per share shown in the consolidated statements of income are the amounts applicable to the respective years. Diluted net income is not disclosed because the Company had no outstanding securities which might have diluted the per share amounts for the years ended 31st March 2014 and 2013.

Accounting changes

Accounting Standard for Retirement Benefits - Effective 31st March 2014, the Company applied Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, revised on 17th May 2012; hereinafter "Retirement Benefits Standard") and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, revised on 17th May 2012; hereinafter "Retirement Benefits Guidance"), except for the provisions stated in Paragraph 35 of Retirement Benefits Standard and Paragraph 67 of Retirement Benefits Guidance, and recorded retirement benefit obligations, net of pension assets, as "Liabilities for employees' retirement benefits" and included unrecognised actuarial gains and losses and unrecognised prior service costs in "Liabilities for retirement benefits." Pursuant to the transitional treatment prescribed in Paragraph 37 of Retirement Benefits Standard, the Company added the effects from the changes to "Accumulated adjustments for retirement benefits" under accumulated other comprehensive income. As a result, the Company recorded liabilities for retirement benefits of ¥3,018 million ($29,335 thousand). In addition, accumulated other comprehensive income was ¥2,737 million ($26,604 thousand) less at 31st March 2014 and net assets per share ¥21.07 ($0.20) less than the amounts that would have been reported without the changes.

Accounting standards and relevant regulations that have not yet been adopted

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on 17th May 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on 17th May 2012)

(1) Summary

The accounting standard for retirement benefits and guidance on accounting standard for retirement benefits were revised, mainly focusing on (a) how unrecognized actuarial gains and losses and unrecognized prior service costs should be accounted for, (b) how retirement benefit obligations and service costs should be accounted for, (c) how retirement benefit obligations and service costs should be calculated and (d) enhancement of disclosures.

(2) Effective dates

The amendments related to the methods used to determine retirement benefit obligations and service costs will be adopted from 1st April 2014.

(3) Effects of application of the revised standard

The effects of applying the revised accounting standard on the consolidated financial statements for the fiscal year ending 31st March 2015 are expected to be immaterial.

3. Financial instruments

(1) Current status of financial instruments

① Policy concerning financial instruments

In principle, the Marudai Food Group (the"Group") invests its surplus funds only in guaranteed deposits and procures necessary funds through bank loans and the issuance of bonds. The Group uses derivatives to reduce foreign exchange and interest rate fluctuation risks, but does not engage in any speculative transactions.

② Details of financial instruments and their risks and the Group's risk management system

The Group is exposed to credit risk arising from operating receivables such as trade notes and accounts receivable. To limit the risk, the Company conducts due date and outstanding receivable management by customer in accordance with its credit exposure management guidelines and has a grading system to evaluate the credit condition of its major customers every six months. The consolidated subsidiaries manage credit risk similarly, following the Company's credit exposure management guidelines.

The Group is exposed to market price risk arising from the investment securities it holds. These securities constitute shares of companies with which companies in the Group have business relationships. The fair values of such shares are periodically assessed and reported to the Board of Directors.

Operating payables, such as trade notes and accounts payables, are generally payable within one year. Some arise in connection with the import of raw materials and goods that are denominated in foreign currencies. The Company uses foreign currency forward contracts to reduce foreign currency fluctuation risk that arises from operating payables in foreign currencies.

The Group primarily uses loans to procure operating funds and lease receivables from finance leases to raise funds for capital expenditure. When the loans have floating interest rates, the Company is exposed to interest rate fluctuation risk. For most long-term loans with floating interest rates, the Company uses derivatives (interest rate swaps) for each individual loan as a hedge instrument to fix interest payments. Since the requirements for special treatment for interest rate swaps are satisfied, the Company uses the special treatment for the assessment of hedge effectiveness. To minimize counterparty risk, the Company follows its derivative transaction rules and enters such transactions only with highly rated financial institutions.

The Company is exposed to liquidity risk arising from its operating obligations and loan payables. To minimize this risk, the Accounting Department prepares statements of cash flows based on other division's reports and regularly updates the statements. The consolidated subsidiaries also manage liquidity risk in accordance with the methods used by the Company.

③ Supplementary explanation on fair values of financial instruments

The fair values of financial instruments include values based on market prices or reasonably calculated values when market prices are not available. Because a variety of factors, some of which are variable, are taken into account when calculating the values, the adoption of different assumptions may result in different values.

The contract amounts of the derivative transactions stated in "(2) Fair value of financial instruments" do not reflect the market risk involved in the derivative transactions themselves.

(2) Fair value of financial instruments

The following table shows consolidated balance sheet amounts, fair value and any difference between book value and fair value as of 31st March 2014. However, financial instruments whose fair values were deemed difficult to determine are not included in the table (Refer below to (※2)).

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Consolidated balance sheet amounts	Fair value	Difference	Consolidated balance sheet amounts	Fair value	Difference
① Cash and time deposits	¥14,898	¥14,898	¥ –	$144,809	$144,809	$ –
② Trade notes and accounts receivable	23,146	23,146	–	224,981	224,981	–
③ Investment securities						
Available-for-sale securities	10,923	10,923	–	106,172	106,172	–
④ Trade notes and accounts payable	19,547	19,547	–	189,998	189,998	–
⑤ Short-term borrowings	7,276	7,276	–	70,723	70,723	–
⑥ Long-term debt	7,962	7,935	(27)	77,391	77,129	(262)
⑦ Lease obligations	3,382	3,475	93	32,873	33,777	904
⑧ Derivatives (*)	1	1	–	10	10	–

(*) Derivative assets and liabilities are presented on a net basis.

(※1) Determination of fair value for financial instruments and matters concerning securities and derivative transactions

① Cash and time deposits and ② Trade notes and accounts receivable

The fair value of these items are stated at book value. Because these instruments are settled in a short period of time, book value approximates fair value.

③ Investment securities

The fair value of these securities are based on prices on securities exchanges. For information on securities classified by the purpose for which they are held, refer to Note 4, "Securities."

④ Trade notes and accounts payable and ⑤ Short-term borrowings

The fair value of these items are stated at book value. Because these instruments are settled in a short period of time, book value approximates fair value.

⑥ Long-term debt and ⑦ Lease obligations

To calculate the fair value of these items, the combined amount of principal and interest is discounted by the interest rate considered applicable to similar new loans or lease transactions. For the fair value of long-term debt with floating interest rates subject to special treatment for interest rate swaps, the combined amount of principal and interest processed as a single item with the interest swap is discounted by the price provided by the financial institution.

⑧ Derivatives

Refer to Note 5, "Derivative financial instruments and hedging transactions."

(※2) Financial instruments whose fair values are deemed extremely difficult to determine

	Millions of yen	Thousands of U.S. dollars (Note 1)
Category	Consolidated balance sheet amounts	Consolidated balance sheet amounts
Unlisted bonds	¥ 6	$ 58
Unlisted stocks	55	535

Since no market prices were available for the above financial instruments and their fair values were difficult to determine by the estimation of the future cash flows, these items were not included in "③ Investment securities Available-for-sale securities."

(※3) Estimated redemption amounts of monetary assets and available-for-sale securities with maturity dates after the consolidated balance sheet date

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Within one year	Over one year but within five years	Over five years	Within one year	Over one year but within five years	Over five years
Cash and time deposits	¥14,898	–	–	$144,809	–	–
Trade notes and accounts receivable	23,146	–	–	224,981	–	–
Investment securities						
Available-for-sale securities with maturity dates (bonds)	6	–	–	58	–	–
Total	¥38,050	–	–	$369,848	–	–

(※4) For estimated repayment amounts of long-term debt, lease obligations and other interest-bearing debt, refer to Note 7, "Short-term borrowings, long-term debt and lease obligations."

The following table shows consolidated balance sheet amounts, fair value and any difference between book value and fair value as of 31st March 2013. However, financial instruments whose fair values were deemed difficult to determine are not included in the table (Refer below to (※2)).

Millions of yen

	Consolidated balance sheet amounts	Fair value	Difference
① Cash and time deposits	¥11,065	¥11,065	¥ –
② Trade notes and accounts receivable	24,995	24,995	–
③ Investment securities			
Available-for-sale securities	10,669	10,669	–
④ Trade notes and accounts payable	19,908	19,908	–
⑤ Short-term borrowings	7,861	7,861	–
⑥ Long-term debt	9,019	8,967	(52)
⑦ Lease obligations	3,359	3,440	81
⑧ Derivatives (*)	1	1	–

(*) Derivative assets and liabilities are presented on a net basis.

(※1) Determination of fair value for financial instruments and matters concerning securities and derivative transactions

① Cash and time deposits and ② Trade notes and accounts receivable

The fair value of these items are stated at book value. Because these instruments are settled in a short period of time, book value approximates fair value.

③ Investment securities

The fair value of these securities are based on prices on securities exchanges. For information on securities classified by the purpose for which they are held, refer to Note 4, "Securities."

④ Trade notes and accounts payable and ⑤ Short-term borrowings

The fair value of these items are stated at book value. Because these instruments are settled in a short period of time, book value approximates fair value.

⑥ Long-term debt and ⑦ Lease obligations

To calculate the fair value of these items, the combined amount of principal and interest is discounted by the interest rate considered applicable to similar new loans or lease transactions. For the fair value of long-term debt with floating interest rates subject to special treatment for interest rate swaps, the combined amount of principal and interest processed as a single item with the interest swap is discounted by the price provided by the financial institution.

⑧ Derivatives

Refer to Note 5, "Derivative financial instruments and hedging transactions."

(※2) Financial instruments whose fair values were deemed extremely difficult to determine

Millions of yen

Category	Consolidated balance sheet amounts
Unlisted bonds	¥ 6
Unlisted stocks	58

Since no market prices were available for the above financial instruments and their fair values were difficult to determine by an estimation of the future cash flows, these items were not included in "③ Investment securities Available-for-sale securities."

(※3) Estimated redemption amounts of monetary assets and available-for-sale securities with maturity dates after the consolidated balance sheet date

Millions of yen

	Within one year	Over one year but within five years	Over five years
Cash and time deposits	¥11,065	¥–	–
Trade notes and accounts receivable	24,995	–	–
Investment securities			
Available-for-sale securities with maturity dates (bonds)	–	6	–
Total	¥36,060	¥6	–

(※4) For estimated repayment amounts of long-term debt, lease obligations and other interest-bearing debt, refer to Note 7, "Short-term borrowings, long-term debt and lease obligations."

4. Securities

The following tables summarize historical costs and book values (fair values) of available-for-sale securities with available fair market values as of 31st March 2014 and 2013.

Securities with book values exceeding historical cost:	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2014			2013			2014		
Type	Historical cost	Book value	Gain	Historical cost	Book value	Gain	Historical cost	Book value	Gain
Equity securities	¥4,518	¥9,900	¥5,382	¥4,827	¥9,610	¥4,783	$43,915	$96,229	$52,314
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
Total	¥4,518	¥9,900	¥5,382	¥4,827	¥9,610	¥4,783	$43,915	$96,229	$52,314

Securities with book values not exceeding historical cost:	2014			2013			2014		
Type	Historical cost	Book value	Loss	Historical cost	Book value	Loss	Historical cost	Book value	Loss
Equity securities	¥1,264	¥1,023	¥(241)	¥1,356	¥1,059	¥(297)	$12,286	$9,943	$(2,343)
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
Total	¥1,264	¥1,023	¥(241)	¥1,356	¥1,059	¥(297)	$12,286	$9,943	$(2,343)

Available-for-sale securities sold during the year:

Millions of yen						Thousands of U.S. dollars (Note 1)		
2014			2013			2014		
Proceeds	Gains on sales	Losses on sales	Proceeds	Gains on sales	Losses on sales	Proceeds	Gains on sales	Losses on sales
¥884	¥461	–	¥20	¥1	¥(23)	$8,593	$4,481	–

The Group recognized impairment loss on investment securities categorised as other securities with market value in the amount of ¥11 million ($107 thousand) for the year ended 31st March 2014.

When the value of stocks depreciated from 30% to 50%, the Company determined impairment loss by analyzing the operational performance of the issuing entities based on prevailing financial data and market value information such as discrepancies between the book value and the highest or lowest market value during the year.

5. Derivative financial instruments and hedging transactions

Derivative financial instruments and hedging transactions at 31st March 2014 were as follows:

(1) Currency related

Hedge accounting method	Transaction types	Major hedged items	Contract amounts (Millions of yen)	Due over one year (Millions of yen)	Fair Value (Millions of yen)	Contract amounts (Thousands of U.S. dollars (Note 1))	Due over one year (Thousands of U.S. dollars (Note 1))	Fair Value (Thousands of U.S. dollars (Note 1))
Alternative method	Foreign exchange trading On purchased U.S. dollar	Accounts payable	¥468	–	(※) ¥1	$4,549	–	$10
Total			¥468	–	¥1	$4,549	–	$10

※ Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Interest related

Hedge accounting method	Transaction types	Major hedged items	Contract amounts (Millions of yen)	Due over one year (Millions of yen)	Fair Value (Millions of yen)	Contract amounts (Thousands of U.S. dollars (Note 1))	Due over one year (Thousands of U.S. dollars (Note 1))	Fair value (Thousands of U.S. dollars (Note 1))
Special treatment	Interest rate swaps Pay fixed, receive floating	Long-term debt	¥3,808	¥2,958	(※) –	$37,014	$28,752	–
Total			¥3,808	¥2,958	–	$37,014	$28,752	–

※ According to the special treatment for interest rate swaps as applied to integrated and long-term debt, the fair value of the derivative financial instrument is included in the fair value of the long-term debt.

Derivative financial instruments and hedging transactions at 31st March 2013 were as follows:

(1) Currency related

Hedge accounting method	Transaction type	Major hedged items	Contract amounts (Millions of yen)	Due over one year (Millions of yen)	Fair value (Millions of yen)
Alternative method	Foreign exchange trading On purchased U.S. dollar	Accounts payable	¥226	–	(※) ¥1
Total			¥226	–	¥1

※ Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Interest related

Hedge accounting method	Transaction type	Major hedged items	Contract amounts (Millions of yen)	Due over one year (Millions of yen)	Fair value (Millions of yen)
Special treatment	Interest rate swaps Pay fixed, receive floating	Long-term debt	¥4,231	¥3,760	(※) –
Total			¥4,231	¥3,760	–

※ According to the special treatment for interest rate swaps as applied to integrated and long-term debt, the fair value of the derivative financial instrument is included in the fair value of the long-term debt.

6. Inventories

Inventories at 31st March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Finished goods and merchandise	¥ 7,469	¥ 7,045	$ 72,599
Work in progress	773	743	7,513
Raw materials and supplies	5,420	6,657	52,683
	¥13,662	¥14,445	$132,795

7. Short-term borrowings, long-term debt and lease obligations

Short-term borrowing at 31st March 2014 and 2013 consisted of short-term notes, which generally mature within one year, with average interest rates of 0.64% and 0.63%, respectively.

Long-term debt at 31st March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Loans from banks, insurance companies and other financial institution, 0.75% to 1.75% maturing through 2023			
Secured	¥ 1,462	¥ 1,712	$ 14,211
Unsecured	6,500	7,307	63,180
	7,962	9,019	77,391
Less current portion	(2,990)	(2,499)	(29,063)
	¥ 4,972	¥ 6,520	$ 48,328

The aggregate annual maturities of long-term debt as of 31st March 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending 31st March,	2014	2014
2015	¥2,990	$29,063
2016	1,636	15,902
2017	1,151	11,188
2018	1,766	17,166
2019	302	2,935
2020 and thereafter	117	1,137
	¥7,962	$77,391

The aggregate annual maturities of lease obligations as of 31st March 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending 31st March,	2014	2014
2015	¥ 778	$ 7,562
2016	708	6,882
2017	618	6,007
2018	616	5,987
2019	333	3,237
2020 and thereafter	329	3,198
	¥3,382	$32,873

8. Pledged assets

Assets were pledged as collateral for short-term borrowings of ¥300 million ($2,916 thousand), the current portion of long-term debt of ¥369 million ($3,587 thousand) and long-term debt of ¥1,093 million ($10,624 thousand) as of 31st March 2014 and for short-term borrowings of ¥250 million, the current portion of long-term debt of ¥358 million and long-term debt of ¥1,354 million as of 31st March 2013. The assets pledged are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Land	¥ 488	¥ 299	$ 4,743
Building and structures	965	912	9,380
Machinery and equipment	143	181	1,390
	¥1,596	¥1,392	$15,513

9. Retirement benefits

(1) Outline of retirement benefit plans adopted

The Companies have established defined benefit plans (fund type), lump-sum payment plans and defined contribution plans (prepayment of benefits can be selected). In some cases, additional severance benefits may be paid to the employees upon retirement.

(2) Defined Benefit Obligation

① The changes in retirement benefit obligation for the fiscal year ended 31st March 2014 (excluding those for which the simplified method was applied) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Beginning balance of retirement benefit obligation	¥23,988	$233,165
Service costs-benefits earned during the year	825	8,019
Interest cost on projected benefit obligation	192	1,867
Actuarial gains and losses	(47)	(457)
Retirement benefits paid	(1,469)	(14,279)
Ending balance of retirement benefit obligation	¥23,489	$228,315

② The changes in plan assets for the fiscal year ended 31st March 2014 (excluding those for which the simplified method was applied) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Beginning balance of plan assets	¥20,771	$201,896
Expected return on plan assets	623	6,056
Actuarial gains and losses	692	6,726
Contribution from the employer	567	5,511
Retirement benefits paid	(1,267)	(12,315)
Ending balance of plan assets	¥21,386	$207,874

③ The changes in liabilities for retirement benefits of the plans for which the simplified method was applied for the fiscal year ended 31st March 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Beginning balance of liabilities for retirement benefits	¥ 918	$ 8,923
Retirement benefit expenses	106	1,030
Retirement benefits paid	(109)	(1,059)
Ending balance of liabilities for retirement benefits	¥ 915	$ 8,894

④ Reconciliation between the ending balance of projected benefit obligation and plan assets and liability and asset for retirement benefits recorded in the consolidated balance sheet

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Funded retirement benefit obligation	¥23,489	$228,315
Plan assets	(21,386)	(207,874)
	2,103	20,441
Unfunded retirement benefit obligation	915	8,894
Net liability (asset) for retirement benefits recorded in the consolidated balance sheet	3,018	29,335
Liabilities for retirement benefits	3,018	29,335
Net liability (asset) for retirement benefits recorded in the consolidated balance sheet	¥ 3,018	$ 29,335

Note: The plans to which the simplified method is applied are included

⑤ The components of retirement benefit expenses were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Service costs-benefits earned during the year	¥ 823	$ 8,000
Interest cost on projected benefit obligation	192	1,866
Expected return on plan assets	(623)	(6,056)
Amortisation of actuarial differences	607	5,900
Amortisation of prior service costs	7	68
Retirement benefit expenses calculated using the simplified method	97	943
Retirement benefit expenses on defined benefit plans	¥1,103	$10,721

Note: In addition to the above retirement benefit expenses, additional severance benefits of ¥182 million ($1,769 thousand) were paid and recorded under other expenses.

⑥ Accumulated adjustments for retirement benefits
The components of accumulated adjustments for retirement benefits (before tax effect) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Unrecognised prior service costs	¥ 17	$ 165
Unrecognised actuarial gains and losses	3,668	35,653
Total	¥3,685	$35,818

⑦ Plan assets
The components of plan assets were as follows:

	2014
Debt securities	37.9%
Equity securities	26.8
Alternatives	19.6
Short-term assets	8.7
General account	7.0
Total	100.0%

Method of determining long-term expected rate of return
The long-term expected rate of return on plan assets is determined by taking into consideration allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

⑧ Assumptions used for actuarial calculation for the fiscal year ended 31st March 2014 were as follows:
Discount rate: 0.8%
Long-term expected rate of return: 3.0%

(3) Define Contribution Plans
The amount of required contribution to the defined contribution plans of the Companies was ¥48 million ($467 thousand) for the year ended 31st March 2014. The amount of prepayment of severance benefits paid to the employees of the Companies was ¥28 million ($272 thousand) for the year ended 31st March 2014.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥24,905
Unrecognised prior service costs	(23)
Unrecognised actuarial differences	(5,014)
Fair value of pension assets	(20,771)
Prepaid pension cost	1,756
	¥ 853

Included in the consolidated statements of operations for the year ended 31st March 2013 were severance and retirement benefit expenses comprising the following:

	Millions of yen
	2013
Service costs-benefits earned during the year	¥ 920
Interest cost on projected benefit obligation	425
Expected return on plan assets	(580)
Amortisation of prior service costs	7
Amortisation of actuarial differences	351
	¥1,123

The discount rate used by the Companies was 0.8% for the year ended 31st March 2013. The rate of expected return on plan assets used by the Companies was 3.0% for the year ended 31st March 2013.

The losses on early retirement benefits shown separately in the consolidated statements of income were not included above.

10. Income taxes

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate, indicated a statutory income tax rate in Japan of approximately 38.0% for the years ended 31st March 2014 and 2013, respectively.

The following table summarises the significant differences between the statutory income tax rate and the Companies' effective tax rate for financial statement purposes for the years ended 31st March 2014 and 2013.

	2014	2013
Statutory tax rate	38.0%	38.0%
Non-deductible expenses, including entertainment expenses	2.1	2.1
Non-taxable income, including dividends received	(1.7)	(2.1)
Per capita inhabitants tax	3.9	4.3
Changes in valuation allowance	(0.5)	(18.1)
Tax credit for testing and research expenses	(1.5)	(1.5)
Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate	1.7	–
Other	(0.4)	0.5
Effective tax rate	41.6%	23.2%

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Deferred tax assets:	2014	2013	2014
Excess allowance for doubtful accounts	¥ 157	¥ 154	$ 1,526
Accrued bonuses	375	417	3,645
Employees' severance and retirement benefits	–	283	–
Liabilities for retirement benefits	1,235	–	12,004
Loss on impairment of assets	1,355	1,460	13,171
Loss carryforwards	684	867	6,649
Other	2,000	2,023	19,439
Total deferred tax assets	¥5,806	¥5,204	$56,434
Valuation allowance	(3,193)	(3,344)	(31,036)
Net deferred tax assets	2,613	1,860	25,398
Deferred tax liabilities:			
Unrealised gains on securities	(1,725)	(1,548)	(16,767)
Deferred gains on real property	(38)	(38)	(369)
Prepaid pension cost	(545)	(623)	(5,297)
Other	(137)	(120)	(1,332)
Total deferred tax liabilities	(2,445)	(2,329)	(23,765)
Net deferred tax assets	¥ 168	¥ (469)	$ 1,633

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

The "Partial Amendments to Income Tax Act, etc." (Act No. 10 of 2014), "Partial Amendments to Local Tax Act, etc." (Act No. 4 of 2014) and "Local Corporate Tax Act" (Act No. 11 of 2014) promulgated on 31st March 2014 will repeal the Special Recovery Tax from fiscal years beginning on or after 1st April 2014. As a result, the statutory tax rate to be used for computing deferred tax assets and liabilities has been reduced from 38.0% to 35.6% for the temporary differences estimated to be expired in the fiscal years beginning on or after 1st April 2014. As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥16 million ($156 thousand), and accumulated adjustments for retirement benefits and deferred income taxes increased by ¥36 million ($350 thousand) and ¥52 million ($505 thousand), respectively.

11. Contingent liabilities

The Company was contingently liable as a guarantor of loan obligations of a customer in the amount of ¥4 million at 31st March 2013.

12. Net assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("the Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

13. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended 31st March 2014 and 2013 were ¥688 million ($6,687 thousand) and ¥709 million, respectively.

14. Loss on impairment of assets

The Company recorded impairment loss on certain asset groups for the year ended 31st March 2014. The Company classified fixed assets into three categories: business assets, rental assets and idle assets. The Company groups its business assets by cash generating units and rental assets and idle assets by individual asset as these represent the smallest identifiable assets generating cash inflows. The Company records impairment loss for property, plant and equipment when the original carrying amount is below the estimated recoverable amount based on projected future cash flows. The total impairment loss for the year ended 31st March 2014 consisted of ¥131 million ($1,274 thousand) for land and ¥117 million ($1,137 thousand) for buildings and other. The recoverable amounts are measured by value in use for property, plant and equipment, value in use or exchange for rental assets and value in exchange for idle assets. Value in exchange was determined using independent appraisals. Value in use was calculated based on estimated future cash flows and was discounted at the rate of 2.8%.

The Company recorded impairment loss on certain asset groups for the year ended 31st March 2013. The Company classified fixed assets into three categories: business assets, rental assets and idle assets. The Company groups its business assets by cash generating units and rental assets and idle assets by individual asset as these represent the smallest identifiable assets generating cash inflows. The Company records impairment loss for property, plant and equipment when the original carrying amount is below the estimated recoverable amount based on projected future cash flows. The total impairment loss for the year ended 31st March 2013 consisted of ¥114 million for land and ¥37 million for buildings and other. The recoverable amounts are measured by value in use for property, plant and equipment, value in use or exchange for rental assets and value in exchange for idle assets. Value in exchange was determined using independent appraisals. Value in use was calculated based on estimated future cash flows and was discounted at the rate of 3.0%.

15. Segment information

(1) Overview of the reportable segments

① Method for determining reportable segments

The Group's reportable segments are determined based on the availability of separate financial information for such segments that is examined periodically by the Board of Directors to make decisions regarding the allocation of management resources and to assess business performance. The Group has divided its business operations into two reportable segments and an "Other" segment. Its reportable segments are "the Processed Food Products" segment and "the Meat Products" segment.

② Description of the businesses that constitute each reportable segment

In the Processed Food Products segment, the Company purchases, manufactures and sells ham, sausage and cooked and processed foods. In the Meat Products segment, the Company purchases, manufactures and sells meat products.

(2) Methods of measurement for sales, profit (loss), assets, liabilities and other items for each reportable segment

Accounting policies adopted by the reportable segments are identical to those described in Note 2, "Significant Accounting Policies."

(3) Segment information for the years ended 31st March 2014 and 2013

Segment information as of and for the fiscal year ended 31st March 2014 was as follows:

	2014						
	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	¥150,193	¥63,120	¥213,313	¥ 366	¥213,679	¥ –	¥213,679
Intersegment sales and transfers	–	–	–	1,058	1,058	(1,058)	–
Net sales	150,193	63,120	213,313	1,424	214,737	(1,058)	213,679
Segment income	2,600	62	2,662	200	2,862	–	2,862
Segment assets	71,938	15,839	87,777	418	88,195	32,499	120,694
Other items:							
Depreciation and amortization	5,247	343	5,590	19	5,609	–	5,609
Increase in property, plant and equipment and intangible fixed assets	4,877	156	5,033	17	5,050	8	5,058

	2014						
	Thousands of U.S. dollars (Note 1)						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	$1,459,885	$613,530	$2,073,415	$ 3,558	$2,076,973	$ –	$2,076,973
Intersegment sales and transfers	–	–	–	10,284	10,284	(10,284)	–
Net sales	1,459,885	613,530	2,073,415	13,842	2,087,257	(10,284)	2,076,973
Segment income	25,272	603	25,875	1,944	27,819	–	27,819
Segment assets	699,242	153,956	853,198	4,063	857,261	315,892	1,173,153
Other items:							
Depreciation and amortization	51,001	3,334	54,335	185	54,520	–	54,520
Increase in property, plant and equipment and intangible fixed assets	47,405	1,516	48,921	165	49,086	78	49,164

(*1) The "Other" segment is business other than that of the reporting segments and includes the insurance agency business.

(*2) Adjustments for total assets of ¥32,499 million ($315,892 thousand) indicate assets not attributed to any other segments and comprise mainly cash and deposits, investments in securities and rental properties.

(*3) Total segment income of the reporting segments and "Other" is equal to the operating income in the consolidated statements of operations.

Segment information as of and for the fiscal year ended 31st March 2013 was as follows:

	2013						
	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	¥148,904	¥57,718	¥206,622	¥ 387	¥207,009	¥ –	¥207,009
Intersegment sales and transfers	–	–	–	1,156	1,156	(1,156)	–
Net sales	148,904	57,718	206,622	1,543	208,165	(1,156)	207,009
Segment income	3,222	(84)	3,138	177	3,315	–	3,315
Segment assets	78,250	15,003	93,253	425	93,678	29,170	122,848
Other items:							
Depreciation and amortization	5,497	386	5,883	23	5,906	–	5,906
Increase in property, plant and equipment and intangible fixed assets	5,525	251	5,776	12	5,788	32	5,820

(*1) The "Other" segment is business other than that of the reporting segments and includes the insurance agency business.
(*2) Adjustments for total assets of ¥29,170 million indicate assets not attributed to any other segments and comprise mainly cash and deposits, investments in securities and rental properties.
(*3) Total segment income of the reporting segments and "Other" is equal to the operating income in the consolidated statements of operations.

(4) Information about loss on impairment of assets by reportable segment

Information about loss on impairment of assets by reportable segments as of and for the fiscal year ended 31st March 2014 was as follows:

	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	¥62	–	¥62	–	¥62	¥186	¥248

	Thousands of U.S. dollars (Note 1)						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	$603	–	$603	–	$603	$1,808	$2,411

Information about loss on impairment of assets by reportable segment as of and for the fiscal year ended 31st March 2013 was as follows:

	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	–	–	–	–	–	¥151	¥151

(5) Information about amortisation and balance of goodwill by reportable segment

Information about amortisation and balance of goodwill by reportable segment as of and for the fiscal year ended 31st March 2014 was as follows:

	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	¥183	–	¥183	–	¥183	–	¥183
Balance of goodwill	470	–	470	–	470	–	470

	Thousands of U.S. dollars (Note 1)						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	$1,779	–	$1,779	–	$1,779	–	$1,779
Balance of goodwill	4,568	–	4,568	–	4,568	–	4,568

Information about amortisation and balance of goodwill by reportable segment as of and for the fiscal year ended 31st March 2013 was as follows:

	Millions of yen						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	¥183	–	¥183	–	¥183	–	¥183
Balance of goodwill	653	–	653	–	653	–	653

16. Cash flow information

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of 31st March 2014 and 2013 was as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash and time deposits in the consolidated balance sheets	¥14,898	¥ 11,065	$144,809
Time deposits maturing after three months	–	(238)	–
Cash and cash equivalents in the consolidated statements of cash flows	¥14,898	¥10,827	$144,809

17. Comprehensive income

Amounts reclassified to net income in the current period that were recognised in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Unrealised gains on securities			
Increase during the year	¥1,105	¥1,414	$10,740
Reclassification adjustments	(450)	(1)	(4,374)
Amount before tax effect	655	1,413	6,366
Tax effect	(177)	(474)	(1,720)
Subtotal	478	939	4,646
Deferred gains (losses) on hedges			
Increase (decrease) during the year	0	(27)	0
Amount before tax effect	0	(27)	0
Tax effect	(0)	9	(0)
Subtotal	0	(18)	0
Foreign currency translation adjustments			
Increase (decrease) during the year	5	(27)	49
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	13	18	126
Total other comprehensive income	¥ 496	¥ 912	$ 4,821

Independent Auditor's Report

To the Board of Directors of MARUDAI FOOD CO., LTD.:

We have audited the accompanying consolidated financial statements of MARUDAI FOOD CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at 31st March 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MARUDAI FOOD CO., LTD. and its consolidated subsidiaries as at 31st March 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2014 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.

KPMG AZSA LLC

31st July 2014
Osaka, Japan

DIRECTORS AND STATUTORY AUDITORS

President and Representative Director:	Tokuo Kudara
Senior Executive and Managing Director:	Keiichi Katoh
Managing Directors:	Yoshio Kuramori
	Yasushi Sawada
Directors:	Nobuyoshi Katoh
	Shigeyoshi Chiba
	Wataru Fukiage
	Jiro Tsuge
Statutory Auditors:	Yoshikazu Sawanaka
	Yasumi Shukuri
	Motoaki Nishimura

(As of 27th June 2014)

OUTLINE OF THE COMPANY

Established:	10th June 1958
Stated Capital:	¥6,716 million
Number of Employees:	2,185
Head Office:	21-3 Midori-cho, Takatsuki-shi, Osaka, Japan
Branch Office:	4-7-5 Tsukiji, Chuou-ku, Tokyo, Japan
Sales Offices:	The sales headquarters at the Company's head office in Osaka controls 10 distribution centers and 6 regional sales departments which service 50 local outlets.
Plants:	Hokkaido, Iwate, Niigata, Kanto, Ibaraki, Yokosuka, Shounan, Shizuoka, Matsusaka, Takatsuki, Hyogo, Okayama, Hiroshima, Karatsu
Overseas Office;	Chicago, U.S.A.

Major subsidiaries:

Hokkaido Marudai Food Co., Ltd.
Tohoku Marudai Food Co., Ltd.
Shin-etsu Marudai Food Co., Ltd.
Kanto Marudai Food Co., Ltd.
Chubu Marudai Food Co., Ltd.
Kansai Marudai Food Co., Ltd.
Chu-Shikoku Marudai Food Co., Ltd.
Kyushu Marudai Food Co., Ltd.
Toda Foods Co., Ltd.
Marushin Foods Co., Ltd.
Azumino Food Co., Ltd.
Pioneer Foods Co., Ltd.
Umeya Co., Ltd.
Hornmeier Co., Ltd.
Marudaifood Co., Ltd.
Marudai Meat Co., Ltd.
Meat Supply Co., Ltd.
Marbest Trading Co., Ltd.
Marudai Service Co., Ltd.
Marudai Food (Qingdao) Co., Ltd.
13 Other subsidiaries

(As of 31st March 2014)

Associated company:

Betagro MF Deli Co., Ltd.

MARUDAI FOOD CO., LTD.

Head Office: 21-3 Midori-cho, Takatsuki-shi, Osaka, Japan
Telephone: 81-726-61-2518 Fax: 81-726-61-5006