MARUDAI

Annual Report 2016

For the Year Ended 31st March 2016

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.

CONTENTS

FINANCIAL HIGHLIGHTS

For the Years Ended 31st March 2016 and 2015
(Consolidated basis)

	Millions of yen, except per share amounts		Thousands of U.S. dollars, except per share amounts (Note)
	2016	2015	2016
Net sales	¥229,544	¥222,317	$2,038,217
Profit attributable to owners of parent	2,617	1,806	23,237
Per share:			
Profit attributable to owners of parent (yen and dollars)	19.85	13.89	0.18
Profit attributable to owners of parent, diluted (yen and dollars)	–	–	–
Dividends (yen and dollars)	7.00	7.00	0.06
Total assets	¥124,522	¥123,909	$1,105,683

Note: U.S. dollar amounts are translated from yen for convenience only at the rate of ¥112.62 to U.S.$1.00.

TO OUR SHAREHOLDERS

With the issuance of our company's 68th 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 2016, the Japanese economy remained on a moderate recovery path against the backdrop of improvement in both the labour market and personal incomes, despite concerns about the impact of the slowing of the world economy. On the other hand, consumer confidence was lacklustre partly because of an increase in prices of certain daily necessities and little growth of real wages. Thus, there were little grounds for optimism concerning prospects for the Japanese economy.

The Marudai Food Group's Processed Food Products business continues to operate in a challenging environment characterized by intensifying price competition while customers become increasingly budget-minded. Also, the announcement by the International Agency for Research on Cancer (IARC), which is a research institute of the World Health Organization (WHO), about processed meat and the ensuing media coverage had a negative impact. The environment for the Meat Products business also remained challenging. While prices of pork were relatively stable, because shipments indicated a recovery trend, prices of beef remained high owing to a continuing decrease of shipments.

Under such circumstances, the Marudai Food Group adhered to its basic policies—strengthening the core business, implementing a diversification strategy, and promoting low-cost operations—with the aim of gaining recognition as an enterprise with a social mission, namely, a comprehensive food products company offering merchandise satisfying the highest standards of safety and reliability.

As a result, consolidated net sales for the fiscal year ended 31st March 2016 increased by 3.3% year on year to 229,544 million yen. Operating income increased by 52.7% to 4,169 million yen, and profit attributable to owners of the parent increased by 44.9% to 2,617 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 2016.

T. Kudara

Tokuo Kudara
President and Representative Director

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 2016 and 2015:

	Millions of yen (percent of total net sales)		Thousands of U.S. dollars (Note)
	2016	2015	2016
Processed Food Products	¥161,953	¥156,952	$ 1,438,048
	(70.5%)	(70.6%)	
Meat Products	67,225	65,002	596,919
	(29.3%)	(29.2%)	
Other	366	363	3,250
	(0.2%)	(0.2%)	
Total	¥229,544	¥222,317	$2,038,217

Note: U.S. dollar amounts are translated from yen for convenience only at the rate of ¥112.62 to U.S.$1.00.

Processed Food Products

The Ham & Sausage Products operations made vigorous efforts to expand sales of mainstay products such as the "*Kunseiya-Ripened Pork Sausage*," which marked the 20th anniversary of its launch with sales promotions, including the "*Nihon no Shokutaku Ouen! (Cheer for Japan's Dining) Campaign*." The smoked top-grade "*Ibushi Tokkyu Bacon*" and "*Aburi Bara Yakibuta*," Chinese-style barbecued pork, emphasizing the combination of excellent taste and convenience, remained popular. For the midsummer and year-end gift seasons, we worked to expand sales of the "*Ouha*" and "*Kousai*" series of gift packages, consisting of products that won the 2015 Monde Selection Grand Gold Quality Award in the food products category. Nevertheless, the announcement by the International Agency for Research on Cancer (IARC) and the ensuing media coverage had a negative impact. Amid intensifying sales competition, sales of the Ham & Sausage Products operations decreased by 2.3% year on year.

In the Precooked & Processed Foods operations, although sales of the "*Sundubu*" series of Korean-style soup mixes were sluggish partly because of a mild winter, we strove to boost sales of soup products as a whole with the launch of the "*Soup BIZ*" series of hot and cold soup dishes. In addition, sales of the "*Karaage Chicken with Algae Salt from Awaji Island*," featuring specialty salt with the flavour of seaweed, were robust. In addition, we vigorously marketed the "*Chef no Takumi*" series of high-quality curries and hashed beef dishes to expand sales. With regard to desserts and beverages, brisk sales of the popular "*SWEET CAFE*" series of desserts and the "*TAPIOCA TIME*" series of beverages with black tapioca continued. As a result, sales of the Precooked & Processed Foods operations increased by 10.8% year on year.

Overall, sales in the Processed Food Products segment amounted to 161,953 million yen, up 3.2% year on year. Operating income increased by 90.4% to 3,590 million yen owing to our efforts to reduce costs through rationalization as well as declines in the prices of raw materials and energy.

Meat Products

With regard to pork, while prices remained relatively stable, sales were maintained as a result of efforts to expand sales volumes of both Japanese pork and imported pork. High prices persisted for beef because of lower production volumes both in Japan and overseas, but sales were robust owing to our efforts to expand sales of Japanese beef. As a result, sales in the Meat Products segment increased by 3.4% year on year to 67,225 million yen. Operating income decreased by 35.9% to 427 million yen, affected by a sharp drop in the prices of certain imported frozen beef products.

Other

Sales in the Other business increased by 1.0% year on year to 366 million yen, and operating income decreased by 15.1% to 152 million yen.

CONSOLIDATED BALANCE SHEETS

31st March 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 17,001	¥ 13,923	$ 150,959
Receivables:			
Trade notes and accounts (Note 3)	24,639	23,952	218,780
Other	518	334	4,600
Allowance for doubtful accounts	(39)	(56)	(346)
Inventories (Note 6)	14,219	17,034	126,256
Deferred tax assets (Note 10)	945	1,026	8,391
Advances and other current assets	1,419	425	12,600
Total current assets	58,702	56,638	521,240
Investments and other assets:			
Investment securities (Notes 3 and 4)			
Other	11,894	12,683	105,612
Deferred tax assets (Note 10)	132	109	1,172
Other	5,246	5,440	46,581
Allowance for doubtful accounts	(246)	(308)	(2,184)
Total investments and other assets	17,026	17,924	151,181
Property, plant and equipment, at cost:			
Land (Note 8)	17,927	18,245	159,181
Buildings and structures (Note 8)	47,972	48,081	425,963
Machinery and equipment (Note 8)	55,420	55,859	492,097
Lease assets	6,892	6,097	61,197
Construction in progress	825	63	7,326
	129,036	128,345	1,145,764
Less accumulated depreciation	(80,980)	(80,032)	(719,055)
Net property, plant and equipment	48,056	48,313	426,709
Intangible assets	738	1,034	6,553
Total assets	¥124,522	¥123,909	$1,105,683

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Trade notes and accounts payable (Note 3)	¥ 21,859	¥ 21,072	$ 194,095
Short-term borrowings (Notes 3, 7 and 8)	5,399	7,301	47,940
Long-term debt due within one year (Notes 3, 7 and 8)	2,745	2,095	24,374
Short-term lease obligations (Notes 3 and 7)	819	746	7,272
Accrued expenses	2,204	2,252	19,570
Accrued income taxes	751	767	6,668
Other current liabilities	8,685	6,758	77,119
Total current liabilities	42,462	40,991	377,038
Long-term liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	2,848	5,224	25,289
Long-term lease obligations (Notes 3 and 7)	2,785	2,089	24,729
Deferred tax liabilities (Note 10)	1,008	1,610	8,950
Liabilities for retirement benefits (Note 9)	2,515	1,728	22,332
Other long-term liabilities	581	559	5,159
Total long-term liabilities	9,737	11,210	86,459
Contingent liabilities (Note 11)			
NET ASSETS (Note 12)			
Shareholders' equity:			
Common stock			
Authorised — 200,000,000 shares			
Issued — 132,527,909 shares in 2016 (132,527,909 shares in 2015)	6,716	6,716	59,634
Capital surplus	22,086	22,073	196,111
Retained earnings	41,306	39,616	366,773
Treasury stock, at cost	(512)	(10)	(4,546)
Total shareholders' equity	69,596	68,395	617,972
Accumulated other comprehensive income:			
Unrealised gains on securities	4,423	4,776	39,274
Deferred gains (losses) on hedges	(21)	8	(186)
Foreign currency translation adjustments	(4)	(153)	(36)
Adjustments for retirement benefits	(2,067)	(1,720)	(18,354)
Total accumulated other comprehensive income	2,331	2,911	20,698
Non-controlling interests	396	402	3,516
Total net assets	72,323	71,708	642,186
Total liabilities and net assets	¥124,522	¥123,909	$1,105,683

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended 31st March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥229,544	¥222,317	$2,038,217
Cost of sales	177,074	172,256	1,572,314
Gross profit	52,470	50,061	465,903
Selling, general and administrative expenses (Note 13)	48,301	47,330	428,885
Operating income	4,169	2,731	37,018
Other income (expenses):			
Interest and dividend income	323	308	2,868
Interest expense	(214)	(243)	(1,900)
Gain on sale of securities, net	99	36	879
Gain (loss) on disposal of property, plant and equipment, net	(103)	345	(915)
Loss on impairment of assets (Note 14)	(286)	(133)	(2,540)
Other, net	(194)	332	(1,721)
	(375)	645	(3,329)
Income before income taxes	3,794	3,376	33,689
Income taxes (Note 10):			
Current	1,290	1,252	11,455
Deferred	(175)	55	(1,554)
	1,115	1,307	9,901
Profit	2,679	2,069	23,788
Profit attributable to non-controlling interests	(62)	(263)	(551)
Profit attributable to owners of parent	¥ 2,617	¥ 1,806	$ 23,237
	Yen		U.S. dollars (Note 1)
Profit attributable to owners of parent per share (Note 2)	¥19.85	¥13.89	$0.18
Profit attributable to owners of parent, diluted per share (Note 2)	–	–	–
Dividends per share	¥ 7.00	¥ 7.00	$0.06

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended 31st March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit	¥2,679	¥2,069	$23,788
Other comprehensive income:			
Unrealised gains on securities	(353)	1,357	(3,135)
Deferred gains (losses) on hedges	(30)	8	(266)
Foreign currency translation adjustments	142	(52)	1,261
Adjustments for retirement benefits	(347)	1,022	(3,081)
Share of other comprehensive income of associates accounted for using equity method	7	5	62
Total other comprehensive income (Note 17)	(581)	2,340	(5,159)
Comprehensive income	¥2,098	¥4,409	$18,629
Comprehensive income attributable to:			
Owners of the parent	¥2,036	¥4,142	$18,078
Non-controlling interests	¥ 62	¥ 267	$ 551

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended 31st March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Common stock:			
Balance at beginning and end of the year	¥ 6,716	¥ 6,716	$ 59,634
Capital surplus:			
Balance at beginning of the year	¥ 22,073	¥ 21,686	$ 195,995
Purchase of shares of consolidated subsidiaries	13	–	116
Disposal of treasury stock	–	387	–
Balance at end of the year	¥ 22,086	¥ 22,073	$ 196,111
Retained earnings:			
Balance at beginning of the year	¥ 39,616	¥ 38,719	$ 351,767
Cash dividends paid	(927)	(909)	(8,231)
Profit attributable to owners of parent	2,617	1,806	23,237
Balance at end of the year	¥ 41,306	¥ 39,616	$ 366,773
Treasury stock, at cost:			
Balance at beginning of the year	¥ (10)	¥ (705)	$ (89)
Purchase of treasury stock	(502)	(16)	(4,457)
Disposal of treasury stock	–	711	–
Balance at end of the year	¥ (512)	¥ (10)	$ (4,546)
Unrealised gains on securities:			
Balance at beginning of the year	¥ 4,776	¥ 3,418	$ 42,408
Increase (decrease) for the year	(353)	1,358	(3,134)
Balance at end of the year	¥ 4,423	¥ 4,776	$ 39,274
Deferred gains (losses) on hedges:			
Balance at beginning of the year	¥ 8	¥ 1	$ 71
Increase (decrease) for the year	(29)	7	(257)
Balance at end of the year	¥ (21)	¥ 8	$ (186)
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (153)	¥ (106)	$ (1,359)
Increase (decrease) for the year	149	(47)	1,323
Balance at end of the year	¥ (4)	¥ (153)	$ (36)
Adjustments for retirement benefits:			
Balance at beginning of the year	¥ (1,720)	¥ (2,737)	$ (15,273)
Increase (decrease) for the year	(347)	1,017	(3,081)
Balance at end of the year	¥ (2,067)	¥ (1,720)	$ (18,354)
Non-controlling interests:			
Balance at beginning of the year	¥ 402	¥ 1,585	$ 3,570
Decrease for the year	(6)	(1,183)	(54)
Balance at end of the year	¥ 396	¥ 402	$ 3,516

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended 31st March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,794	¥ 3,376	$ 33,689
Depreciation and amortisation	5,206	5,435	46,226
Loss on impairment of assets	286	133	2,540
Decrease in allowance for doubtful accounts	(80)	(94)	(710)
Decrease (increase) in liabilities for retirement benefits	315	(20)	2,797
Interest and dividend income	(323)	(308)	(2,868)
Interest expense	214	243	1,900
Gain on sale of securities, net	(99)	(36)	(879)
Write-down of investment in securities	–	4	–
Loss (gain) on disposal of property, plant and equipment, net	103	(345)	915
Increase in receivables	(666)	(759)	(5,914)
Decrease (increase) in inventories	2,733	(3,366)	24,267
Decrease in trade notes and accounts payable	834	1,629	7,405
Increase in consumption tax payable	167	609	1,483
Other, net	261	460	2,317
Subtotal	12,745	6,961	113,168
Interest and dividends received	317	297	2,815
Interest paid	(214)	(242)	(1,900)
Income taxes paid	(1,235)	(1,406)	(10,966)
Net cash provided by operating activities	11,613	5,610	103,117
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(30)	(29)	(266)
Proceeds from sale of short-term investments and investment securities	341	56	3,028
Purchase of property, plant and equipment	(3,476)	(4,361)	(30,865)
Proceeds from sale of property, plant and equipment	326	636	2,895
Other, net	(105)	(155)	(933)
Net cash used in investing activities	(2,944)	(3,853)	(26,141)
Cash flows from financing activities:			
Net decrease in short-term borrowings	(1,600)	(36)	(14,207)
Proceeds from long-term debt	370	2,482	3,285
Repayment of long-term debt	(2,095)	(3,125)	(18,602)
Repayment of lease obligations	(780)	(775)	(6,926)
Cash dividends paid	(929)	(910)	(8,249)
Proceeds from disposal of treasury stock	–	1,098	–
Repayments to non-controlling shareholders	–	(1,440)	–
Purchase of treasury shares	(501)	(2)	(4,449)
Other, net	(58)	(26)	(515)
Net cash used in financing activities	(5,593)	(2,734)	(49,663)
Effect of exchange rate changes on cash and cash equivalents	2	2	18
Net increase (decrease) in cash and cash equivalents	3,078	(975)	27,331
Cash and cash equivalents at beginning of year	13,923	14,898	123,628
Cash and cash equivalents at end of year (Note 16)	¥17,001	¥13,923	$150,959

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For years Ended 31st March 2016 and 2015

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 2016, which was ¥112.62 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 29 subsidiaries. ALL of the Company's subsidiaries have the same fiscal year end as the Company, 31st March.

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 non-controlling 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 amortized over five years. Equity method accounting is applied to affiliates which are substantially controlled by the Company. Betagro MF Deli Co., Ltd. and Marudai Food (Qingdao) Co., Ltd. are 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 recognized 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 recognize 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 recognized. 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 benefit formula 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 within the average remaining service years of the eligible employees, beginning in the fiscal year in which the prior service costs are recognized. Actuarial gains and losses are amortized by the straight-line method over a fixed period of 10 years, which is within the average remaining service years of the eligible employees, beginning in the fiscal year following the year in which the gains and losses are recognized. In determining the amount of retirement benefit obligations and retirement benefit costs, some small sized consolidated subsidiaries have adopted a simplified method in which the amount that would be required if all the employees retired voluntarily at the fiscal year end is treated as retirement benefit obligation.

Income taxes - The asset-liability approach is used to recognize 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 2016 and 2015.

Accounting changes

The Company and its consolidated domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, 13th September 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, 13th September 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, 13th September 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. Accordingly, differences arising from changes in the Company’s ownership interests in subsidiaries over which the Company retains control are recognized as capital surplus, and acquisition-related costs are recognized as expenses in the fiscal year of incurrence. Regarding business combinations to be performed on or after the beginning of the current fiscal year, changes have been made whereby adjustments to the provisional amount arising from the finalization of the tentative accounting treatment relating to the allocation of acquisition cost are recognized in the consolidated financial statements for the year in which the business combination occurred. In addition, the Company and its consolidated domestic subsidiaries have changed the presentation of net income and other related items, and the presentation of “minority interests” to “non-controlling interests.” To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

The Company and its consolidated domestic subsidiaries have adopted the Business Combination Accounting Standards, etc. prospectively from the beginning of the current fiscal year, in accordance with the provisional treatments prescribed in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7.

In the consolidated statements of cash flows for the fiscal year ended 31st March 2016, cash flows related to purchase or sale of stocks of subsidiaries not resulting in change in scope of consolidation is recognized under cash flows from financing activities, and cash flows related to acquisition-related costs arising from purchase of stocks of subsidiaries resulting in change in scope of consolidation, or expenses arising from purchase or sale of stocks of subsidiaries not resulting in change in scope of consolidation is recognized under cash flows from operating activities. The effect of this change on profit (loss), financial position and amounts per share was immaterial.

Accounting Standard for Retirement Benefits - The Company and its consolidated domestic subsidiaries adopted Article 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, 17th May 2012 (hereinafter, “Statement No. 26”)) and Article 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, 26th March 2015 (hereinafter, “Guidance No. 25”)) from the current fiscal year and have changed the determination of retirement benefit obligations and current service cost. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a straight-line method to a benefit formula basis and have changed the method of determining the discount rate to a method that uses a single-weighted average discount rate reflecting the projected payment periods of retirement benefits and the amount for each projected payment period.

In applying Statement No. 26 and Guidance No. 25, the Company and its consolidated domestic subsidiaries has followed the transitional treatment prescribed in Article 37 of Statement No. 26.

The above changes had no effect on retained earnings as of 1st April 2014 or net income for the fiscal year ended 31st March 2015.

3. Financial instruments

(1) Current status of financial instruments

① Policy concerning financial instruments

The Group makes it a policy to limit fund investments to bank deposits and other investments in which the principal thereof is free from risk and raise funds principally through borrowings from financial institutions such as banks and issuance of corporate 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 policy on investment securities is to hold equities that will contribute to sustainable enhancement of the Company's corporate value from a medium to long-term perspective for the purpose of maintaining and strengthening business relationships in accordance with the Procedures for Holding of Listed Securities. Investment securities are exposed to market price fluctuation risks, and identified fair values are periodically 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 divisions' 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 2016. 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)		
	2016					
	Consolidated balance sheet amounts	Fair value	Difference	Consolidated balance sheet amounts	Fair value	Difference
① Cash and time deposits	¥17,001	¥17,001	¥ –	$150,959	$150,959	$ –
② Trade notes and accounts receivable	24,639	24,639	–	218,780	218,780	–
③ Investment securities						
Available-for-sale securities	11,840	11,840	–	105,132	105,132	–
Total assets	53,480	53,480	–	474,871	474,871	–
① Trade notes and accounts payable	21,859	21,859	–	194,095	194,095	–
② Short-term borrowings	5,399	5,399	–	47,940	47,940	–
③ Long-term debt	5,593	5,577	(16)	49,663	49,521	(142)
④ Lease obligations	3,604	3,669	65	32,001	32,579	578
Total liabilities	36,455	36,504	49	323,699	324,135	436
Derivatives (*)	(31)	(31)	–	(275)	(275)	–

(*) 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

ASSETS

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."

LIABILITIES

① Trade notes and accounts payable and ② 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.

③ Long-term debt and ④ 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.

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)
	2016	
Category	Consolidated balance sheet amounts	Consolidated balance sheet amounts
Unlisted stocks	¥54	$480
Investments in capital of subsidiaries and associates	0	0

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. dollar (Note 1)		
	2016					
	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	¥17,001	–	–	$150,959	–	–
Trade notes and accounts receivable	24,639	–	–	218,780	–	–
Investment securities Available-for-sale securities with maturity dates (bonds)	–	–	–	–	–	–
Total	¥41,640	–	–	$369,739	–	–

(※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 2015. However, financial instruments whose fair values were deemed difficult to determine are not included in the table (refer below to (※2)).

	Millions of yen		
	2015		
	Consolidated balance sheet amounts	Fair value	Difference
① Cash and time deposits	¥13,923	¥13,923	¥ –
② Trade notes and accounts receivable	23,952	23,952	–
③ Investment securities Available-for-sale securities	12,632	12,632	–
Total assets	50,507	50,507	–
① Trade notes and accounts payable	21,072	21,072	–
② Short-term borrowings	7,301	7,301	–
③ Long-term debt	7,319	7,288	(31)
④ Lease obligations	2,835	2,919	84
Total liabilities	38,527	38,580	53
Derivatives (*)	13	13	–

(*) 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

ASSETS

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.”

LIABILITIES

① Trade notes and accounts payable and ② 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.

③ Long-term debt and ④ 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.

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
	2015
Category	Consolidated balance sheet amounts
Unlisted stocks	¥51
Investments in capital of subsidiaries and associates	–

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		
	2015		
	Within one year	Over one year but within five years	Over five years
Cash and time deposits	¥13,923	–	–
Trade notes and accounts receivable	23,952	–	–
Investment securities			
Available-for-sale securities with maturity dates (bonds)	–	–	–
Total	¥37,875	–	–

(※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 2016 and 2015.

Securities with book values exceeding historical cost:	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2016			2015			2016		
Type	Historical cost	Book value	Gain	Historical cost	Book value	Gain	Historical cost	Book value	Gain
Equity securities	¥4,780	¥11,207	¥6,427	¥5,101	¥12,145	¥7,044	$42,444	$99,511	$57,067
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
Total	¥4,780	¥11,207	¥6,427	¥5,101	¥12,145	¥7,044	$42,444	$99,511	$57,067

Securities with book values not exceeding historical cost:	2016			2015			2016		
Type	Historical cost	Book value	Loss	Historical cost	Book value	Loss	Historical cost	Book value	Loss
Equity securities	¥807	¥633	¥(174)	¥696	¥487	¥(209)	$7,166	$5,621	$(1,545)
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
Total	¥807	¥633	¥(174)	¥696	¥487	¥(209)	$7,166	$5,621	$(1,545)

Unlisted stocks (carrying amount of ¥54 million ($480 thousand)) as of 31st March 2016 and unlisted stocks (carrying amount of ¥51 million) as of 31st March 2015 were not included in the above table as no market prices for these securities were available and their fair values were deemed extremely difficult to determine by an estimation of the future cash flows.

Available-for-sale securities sold during the year:	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2016			2015			2016		
Type	Proceeds	Gains on sales	Losses on sales	Proceeds	Gains on sales	Losses on sales	Proceeds	Gains on sales	Losses on sales
Equity securities	¥341	¥99	–	¥50	¥36	–	$3,028	$879	–
Bonds	–	–	–	6	–	–	–	–	–
Total	¥341	¥99	–	¥56	¥36	–	$3,028	$879	–

There was no impairment of investment securities during the fiscal year ended 31st March, 2016.

The Group recognized impairment loss on investment securities categorised as other securities with market value in the amount of ¥4 million for the year ended 31st March 2015.

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 2016 were as follows:

(1) Currency related

			Millions of yen			Thousands of U.S. dollars (Note 1)		
			2016					
Hedge accounting method	Transaction types	Major hedged items	Contract amounts	Due over one year	Fair value	Contract amounts	Due over one year	Fair value
Alternative method	Foreign exchange trading On purchased U.S. dollar	Accounts payable	¥1,213	–	(※) ¥(31)	$10,771	–	$(275)
	Total		¥1,213	–	¥(31)	$10,771	–	$(275)

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

(2) Interest related

			Millions of yen			Thousands of U.S. dollars (Note 1)		
			2016					
Hedge accounting method	Transaction types	Major hedged items	Contract amounts	Due over one year	Fair value	Contract amounts	Due over one year	Fair value
Special treatment	Interest rate swaps Pay fixed, receive floating	Long-term debt	¥2,706	¥2,106	(※) –	$24,028	$18,700	–
	Total		¥2,706	¥2,106	–	$24,028	$18,700	–

※ 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 2015 were as follows:

(1) Currency related

			Millions of yen		
			2015		
Hedge accounting method	Transaction types	Major hedged items	Contract amounts	Due over one year	Fair value
Alternative method	Foreign exchange trading On purchased U.S. dollar	Accounts payable	¥1,027	–	(※) ¥13
	Total		¥1,027	–	¥13

※ 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	Millions of yen 2015 Contract amounts	Due over one year	Fair value
Special treatment	Interest rate swaps Pay fixed, receive floating	Long-term debt	¥3,768	¥3,768	(※) –
Total			¥3,768	¥3,768	–

※ 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 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Finished goods and merchandise	¥ 7,713	¥10,534	$ 68,487
Work in progress	432	568	3,836
Raw materials and supplies	6,074	5,932	53,933
	¥14,219	¥17,034	$126,256

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

Short-term borrowing at 31st March 2016 and 2015 consisted of short-term notes, which generally mature within one year, with average interest rates of 0.47% and 0.65%, respectively.

Long-term debt at 31st March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Loans from banks, insurance companies and other financial institution at 0.75% to 1.55% maturing through 2023			
Secured	¥ 727	¥ 1,093	$ 6,456
Unsecured	4,866	6,226	43,207
	5,593	7,319	49,663
Less current portion	(2,745)	(2,095)	(24,374)
	¥ 2,848	¥ 5,224	$ 25,289

The aggregate annual maturities of long-term debt as of 31st March 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending 31st March,	2016	2016
2017	¥2,745	$24,374
2018	1,595	14,163
2019	782	6,944
2020	382	3,392
2021	28	248
2022 and thereafter	61	542
	¥5,593	$49,663

The aggregate annual maturities of lease obligations as of 31st March 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending 31st March,	2016	2016
2017	¥ 819	$ 7,272
2018	832	7,388
2019	554	4,919
2020	545	4,839
2021	193	1,714
2022 and thereafter	661	5,869
	¥3,604	$32,001

8. Pledged assets

Assets were pledged as collateral for short-term borrowings of ¥200 million ($1,776 thousand), the current portion of long-term debt of ¥227 million ($2,016 thousand) and long-term debt of ¥500 million ($4,440 thousand) as of 31st March 2016 and for short-term borrowings of ¥300 million, the current portion of long-term debt of ¥365 million and long-term debt of ¥728 million as of 31st March 2015. The assets pledged are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Land	¥ 468	¥ 468	$ 4,156
Buildings and structures	848	904	7,530
Machinery and equipment	89	113	790
	¥1,405	¥1,485	$12,476

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). The Company transitioned part of the defined benefit plan (fund type) to a defined contribution plan on April 1, 2016. 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 years ended 31st March 2016 and 2015 (excluding those for which the simplified method was applied) were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Beginning balance of retirement benefit obligation	¥23,282	¥23,489	$206,731
Service cost - benefits earned during the year	737	762	6,544
Interest cost on projected benefit obligation	186	188	1,652
Actuarial gains and losses	151	14	1,340
Retirement benefits paid	(945)	(1,171)	(8,391)
Loss on abolishment of retirement benefit plan	161	–	1,430
Ending balance of retirement benefit obligation	¥23,572	¥23,282	$209,306

② The changes in plan assets for the fiscal years ended 31st March 2016 and 2015 (excluding those for which the simplified method was applied) were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Beginning balance of plan assets	¥22,517	¥21,386	$199,938
Expected return on plan assets	676	641	6,002
Actuarial gains and losses	(836)	991	(7,423)
Contribution from the employer	544	552	4,830
Retirement benefits paid	(817)	(1,053)	(7,254)
Ending balance of plan assets	¥22,084	¥22,517	$196,093

③ The changes in liabilities for retirement benefits of the plans for which the simplified method was applied for the fiscal years ended 31st March 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Beginning balance of liabilities for retirement benefits	¥ 963	¥915	$8,551
Retirement benefit expenses	102	96	906
Retirement benefits paid	(38)	(48)	(338)
Ending balance of liabilities for retirement benefits	¥1,027	¥963	$9,119

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)
	2016	2015	2016
Funded retirement benefit obligation	¥ 23,572	¥ 23,282	$ 209,306
Plan assets	(22,084)	(22,517)	(196,093)
	1,488	765	13,213
Unfunded retirement benefit obligation	1,027	963	9,119
Net liability (asset) for retirement benefits recorded in the consolidated balance sheet	2,515	1,728	22,332
Liabilities for retirement benefits	2,515	1,728	22,332
Net liability (asset) for retirement benefits recorded in the consolidated balance sheet	¥ 2,515	¥ 1,728	$ 22,332

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)
	2016	2015	2016
Service cost - benefits earned during the year	¥ 736	¥ 761	$ 6,535
Interest cost on projected benefit obligation	186	188	1,652
Expected return on plan assets	(676)	(641)	(6,002)
Amortisation of actuarial differences	508	286	4,510
Amortisation of prior service costs	7	7	62
Retirement benefit expenses calculated using the simplified method	102	96	906
Retirement benefit expenses on defined benefit plans	¥ 863	¥ 697	$ 7,663
Loss on abolishment of retirement benefit plan	¥ 161	–	$ 1,430

Note: Loss on abolishment of retirement benefit plan is recorded under other expenses.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Prior service cost	¥ 7	¥ 6	$ 62
Actuarial gains and losses	(480)	1,263	(4,262)
Total	¥(473)	¥1,269	$(4,200)

⑦ 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)
	2016	2015	2016
Unrecognised prior service costs	¥ 3	¥ 10	¥ 27
Unrecognised actuarial gains and losses	2,885	2,406	25,617
Total	¥2,888	¥2,416	¥25,644

⑧ Plan assets

The components of plan assets were as follows:

	2016	2015
Debt securities	41.8%	44.5%
Alternatives	22.2	22.2
Equity securities	17.4	24.1
Short-term assets	11.7	2.5
General account	6.9	6.7
Total	100.0%	100.0%

Note: Regarding alternatives, hedge fund investments are made for the purpose of risk diversification.

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.

⑨ Assumptions used for actuarial calculations for the fiscal years ended 31st March 2016 and 2015 were as follows:

Discount rate: 0.8%

Long-term expected rate of return: 3.0%

Expected rate of salary increase

Defined benefit plans (fund type):1.0%

Lump-sum payment plans:4.8%

Note: The expected rate of salary increase is calculated by taking the average of the salary increase index of each plan.

(3) Define Contribution Plans

The amount of required contribution to the defined contribution plans of the Companies was ¥49 million ($435 thousand) for the year ended 31st March 2016 and 50 million for the year ended 31st March 2015.

10. Income taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporate taxes, inhabitants taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of 33.1% and 35.6% for the years ended 31st March 2016 and 2015, 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 2016 and 2015.

	2016	2015
Statutory tax rate	33.1%	35.6%
Non-deductible expenses, including entertainment expenses	1.3	1.4
Non-taxable income, including dividend received	(0.5)	(1.4)
Per capita inhabitants tax	3.0	3.5
Changes in valuation allowance	(10.6)	(1.6)
Tax credit for testing and research expenses	(1.2)	(1.4)
Amortization of goodwill	1.6	1.9
Tax rate difference between the Company and consolidated subsidiaries	1.5	(0.6)
Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate	0.9	1.4
Other	0.3	(0.1)
Effective tax rate	29.4%	38.7%

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Deferred tax assets:	2016	2015	2016
Loss on impairment of assets	¥ 1,164	¥ 1,220	$ 10,336
Liabilities for retirement benefits	738	546	6,553
Accrued bonuses	313	335	2,779
Accounts payable on distribution expenses	272	252	2,415
Loss carryforwards	221	506	1,962
Long-term trade receivables	215	227	1,909
Allowance for doubtful accounts	93	119	826
Other	709	759	6,296
Total deferred tax assets	¥ 3,725	¥ 3,964	$ 33,076
Valuation allowance	(1,579)	(2,128)	(14,021)
Net deferred tax assets	2,146	1,836	19,055
Deferred tax liabilities:			
Unrealised gains on securities	(1,832)	(2,062)	(16,267)
Reserve for property, plant and equipment	(31)	(34)	(275)
Other	(214)	(215)	(1,900)
Total deferred tax liabilities	(2,077)	(2,311)	(18,442)
Net deferred tax assets	¥ 69	¥ (475)	$ 613

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." and "Partial Amendments to Local Tax Act, etc." were enacted at the Diet on 29th March, 2016. Due to this change, the statutory tax rate to be used for computing deferred tax assets and deferred tax liabilities (limited to those to be settled on and after 1st April 2016) has been changed from 32.3% to 30.9% for those for which the expected recovery or payment period is 1st April 2016 to 31st March 2018, and to 30.6% for those for which the expected recovery or payment period is 1st April 2018 and after.

As a result, deferred tax assets, net of deferred tax liabilities, deferred income taxes and unrealised gains on securities increased by ¥60 million ($533 thousand), ¥32 million ($284 thousand) and ¥101 million ($897 thousand), respectively, and accumulated adjustments for retirement benefits and deferred gains on hedges decreased by ¥7 million ($62 thousand) and ¥1 million ($9 thousand), respectively.

11. Contingent liabilities

The Company was contingently liable as a guarantor of loan obligations of a customer in the amount of ¥283 million ($2,513 thousand) at 31st March 2016.

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.

At the general shareholders' meeting held on 29th June 2016, appropriations of retained earnings for year-end dividends applicable to the year ended 31st March 2016 were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends: ¥7.00 ($0.06) per share	¥920	$8,169

13. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended 31st March 2016 and 2015 were ¥743 million ($6,597 thousand) and ¥677 million, respectively.

14. Loss on impairment of assets

The Company recorded impairment loss on certain asset groups for the year ended 31st March 2016. 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 2016 consisted of ¥260 million ($2,309 thousand) for real estate for investment, ¥18 million ($160 thousand) for leased assets and ¥8 million ($71 thousand) for others. The recoverable amounts were measured based on 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 2.4%.

The Company recorded impairment loss on certain asset groups for the year ended 31st March 2015. 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 2015 consisted of ¥133 million for real estate for investment. The recoverable amounts were measured by value in exchange for idle assets. Value in exchange was determined using independent appraisals.

15. Segment information

(1) Overview of the reportable segments

①Method for determining reportable segments

The Group’s reportable segments are determined based on the availability of separate financial information for such segments that are 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.

②Description 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.” As noted in “Accounting changes” under Note 2, the Company changed its accounting policies whereby differences arising from changes in the Company’s ownership interests in subsidiaries over which the Company retains control are recognized as capital surplus. The effect of this change on segment income for the year ended 31st March 2016 was immaterial.

(3) Segment information for the years ended 31st March 2016 and 2015

Segment information as of and for the fiscal year ended 31st March 2016 was as follows:

Millions of yen

	Reporting segments						
2016	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	¥161,953	¥67,225	¥229,178	¥ 366	¥229,544	¥ –	¥229,544
Intersegment sales and transfers	–	–	–	1,061	1,061	(1,061)	–
Net sales	161,953	67,225	229,178	1,427	230,605	(1,061)	229,544
Segment income	3,590	427	4,017	152	4,169	–	4,169
Segment assets	73,046	15,432	88,478	349	88,827	35,695	124,522
Other items:							
Depreciation and amortization (*4)	4,869	315	5,184	22	5,206	–	5,206
Increase in property, plant and equipment and intangible fixed assets (*4)	5,518	131	5,649	28	5,677	98	5,775

Thousands of U.S. dollars (Note 1)

	Reporting segments						
2016	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	$1,438,048	$596,919	$2,034,967	$ 3,250	$2,038,217	$ –	$2,038,217
Intersegment sales and transfers	–	–	–	9,421	9,421	(9,421)	–
Net sales	1,438,048	596,919	2,034,967	12,671	2,047,638	(9,421)	2,038,217
Segment income	31,877	3,792	35,669	1,349	37,018	–	37,018
Segment assets	648,606	137,027	785,633	3,099	788,732	316,951	1,105,683
Other items:							
Depreciation and amortization (*4)	43,234	2,797	46,031	195	46,226	–	46,226
Increase in property, plant and equipment and intangible fixed assets (*4)	48,997	1,163	50,160	249	50,409	870	51,279

(*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 ¥35,695 million ($316,951 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.

(*4) Depreciation and amortisation and increase in property, plant and equipment and intangible fixed assets include long-term prepaid expenses.

Segment information as of and for the fiscal year ended 31st March 2015 was as follows:

	Millions of yen						
	2015						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other (*1)	Total	Adjustments (*2)	Consolidated (*3)
Sales:							
Sales to third parties	¥156,952	¥65,002	¥221,954	¥ 363	¥222,317	¥ –	¥222,317
Intersegment sales and transfers	–	–	–	1,030	1,030	(1,030)	–
Net sales	156,952	65,002	221,954	1,393	223,347	(1,030)	222,317
Segment income	1,886	666	2,552	179	2,731	–	2,731
Segment assets	71,734	18,306	90,040	390	90,430	33,479	123,909
Other items:							
Depreciation and amortization (*4)	5,092	324	5,416	19	5,435	–	5,435
Increase in property, plant and equipment and intangible fixed assets (*4)	4,268	132	4,400	23	4,423	15	4,438

(*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 ¥33,479 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) Depreciation and amortisation and increase in property, plant and equipment and intangible fixed assets include long-term prepaid expenses.

(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 2016 was as follows:

	Millions of yen						
	2016						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	¥26	–	¥26	–	¥26	¥260	¥286

	Thousands of U.S. dollars (Note 1)						
	2016						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	$231	–	$231	–	$231	$2,309	$2,540

Information about loss on impairment of assets by reportable segment as of and for the fiscal year ended 31st March 2015 was as follows:

	Millions of yen						
	2015						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Loss on impairment of assets	–	–	–	–	–	¥133	¥133

(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 2016 was as follows:

	Millions of yen						
	2016						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	¥183	–	¥183	–	¥183	–	¥183
Balance of goodwill	116	–	116	–	116	–	116

	Thousands of U.S. dollars (Note 1)						
	2016						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	$1,625	–	$1,625	–	$1,625	–	$1,625
Balance of goodwill	1,030	–	1,030	–	1,030	–	1,030

Information about amortisation and balance of goodwill by reportable segment as of and for the fiscal year ended 31st March 2015 was as follows:

	Millions of yen						
	2015						
	Reporting segments						
	Processed Food Products	Meat Products	Total	Other	Total	Adjustments	Consolidated
Amortisation of goodwill	¥182	–	¥182	–	¥182	–	¥182
Balance of goodwill	301	–	301	–	301	–	301

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 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash and time deposits in the consolidated balance sheets	¥17,001	¥13,923	$150,959
Cash and cash equivalents in the consolidated statements of cash flows	¥17,001	¥13,923	$150,959

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)
	2016	2015	2016
Unrealised gains on securities			
Increase (decrease) during the year	¥(484)	¥1,726	$(4,298)
Reclassification adjustments	(99)	(32)	(879)
Amount before tax effect	(583)	1,694	(5,177)
Tax effect	230	(337)	2,042
Subtotal	(353)	1,357	(3,135)
Deferred gains (losses) on hedges			
Increase (decrease) during the year	(43)	12	(382)
Amount before tax effect	(43)	12	(382)
Tax effect	13	(4)	116
Subtotal	(30)	8	(266)
Foreign currency translation adjustments			
Increase (decrease) during the year	19	(52)	169
Reclassification adjustments	123	–	1,092
Subtotal	142	(52)	1,261
Adjustments for retirement benefits			
Increase (decrease) during the year	(987)	976	(8,764)
Reclassification adjustments	514	293	4,564
Amount before tax effect	(473)	1,269	(4,200)
Tax effect	126	(247)	1.119
Subtotal	(347)	1,022	(3,081)
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	7	5	62
Total other comprehensive income	¥(581)	¥2,340	$(5,159)

KPMG

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 2016 and 2015, 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 2016 and 2015, 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 2016 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

29th July 2016
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

DIRECTORS AND STATUTORY AUDITORS

(As of 30th June 2016)

President and Representative Director:	Tokuo Kudara
Senior Executive and Managing Director:	Keiichi Katoh
Managing Directors:	Yoshio Kuramori
	Yasushi Sawada
Directors:	Wataru Fukiage
	Nobuyoshi Katoh
	Shigeyoshi Chiba
Outside Directors:	Susumu Shimadzu
	Hideo Yano
Statutory Auditors:	Yoshikazu Sawanaka
Outside Statutory Auditors:	Takuji Okudaira
	Motoaki Nishimura

OUTLINE OF THE COMPANY

(As of 31st March 2016)

Established:	10th June 1958
Stated Capital:	¥6,716 million
Number of Employees:	2,030
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 3 regional sales departments which service 37 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.
Chubu Marudai Food Co., Ltd.
Chu-Shikoku Marudai Food Co., Ltd.
Kyushu Marudai Food Co., Ltd.
Toda Foods Co., Ltd.
Azumino Food Co., Ltd.
Marushin Foods Co., Ltd.
Pioneer Foods Co., Ltd.
Umeya Co., Ltd.
Yahata Food Co., Ltd.
Hornmeier Co., Ltd.
Marudaifood Co., Ltd.
Marudai Meat Co., Ltd.
Meat Supply Co., Ltd.
Marbest Trading Co., Ltd.
Marudai Service Co., Ltd.
11 Other subsidiaries

Associated Company:

Betagro MF Deli Co., Ltd.
Marudai Food (Qingdao) 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