



Semi-Annual Report 2017

For the Six-Month Period Ended 30th September 2017

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 the Tokyo Stock Exchange 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, dessert and beverage products 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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TO OUR SHAREHOLDERS



First of all, we would like to express our profound gratitude for the continued support of our shareholders.

We hereby would like to announce the business results for the first six-month period of the company's 70th fiscal year.

During the first six-month period ended 30th September 2017, despite continuing improvement in the labour market and personal incomes as well as the start of a moderate recovery of

personal consumption, the Japanese economy lacked vigour mainly because of concerns about the outlook of overseas economies, and prospects for the Japanese economy remain unclear.

The Marudai Food Group's Processed Food Products business continues to operate in a challenging environment owing to intensifying price competition while customers remain budget-minded. Regarding the Meat Products business, whereas prices of Japanese beef started to stabilize, local prices of U.S. beef increased. Prices of Japanese pork and U.S. pork were higher than the previous year's levels.

In these circumstances, the Marudai Food Group adhered to its basic policies—expanding the core business and fostering the next pillar while strengthening product development capabilities and technological capabilities—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 first six-month period increased by 4.3% year on year to 120,785 million yen. Operating income decreased by 32.9% to 1,849 million yen and profit attributable to the owners of the parent decreased by 35.7% to 1,204 million yen.

Once again, we would like to express our gratitude to our shareholders and to ask for your continued support of our business in the future.

December 2017.

A handwritten signature in black ink, appearing to read 'T. Kudara', written over a horizontal line.

Tokuo Kudara
President and Representative Director

PRODUCTS

Processed Food Products

The Ham & Sausage Products operations focused efforts on expanding sales through vigorous sales promotion of mainstay items, such as the “*Kunseiya-Ripened Pork Sausage*,” as well as “*Itsumo Shinsen-Always Fresh Loin Ham*” and “*Itsumo Shinsen-Always Fresh Half Bacon*,” which are in single-serve packages.

For midsummer gift products, we endeavoured to expand sales of the “*Ouha*” and “*Kousai*” series of gift packages, consisting of products that won the Monde Selection Grand Gold Quality Award in the food products category. Despite these measures, sales in the Ham & Sausage Products operations decreased by 0.9% year on year mainly because of intensifying price competition while consumers remain budget-minded.

In the Precooked & Processed Foods operations, sales of the “*Karaage Chicken with Algae Salt from Awaji Island*,” featuring specialty salt with the flavour of seaweed, were brisk. In addition, we vigorously introduced new products, including “*Salad Chicken Trimmings*,” a dish aimed at health-conscious consumers. Furthermore, sales of retort curry products, such as the “*Chef’s Takumi*” series, and of snack products, such as the “*Rappers*” series, continued to increase. Regarding desserts and beverages, sales of “*Three-layered Jelly Parfait*” were favourable. As a result, sales in the Precooked & Processed Foods operations increased by 4.5% year on year.

Overall, sales in the Processed Food Products segment amounted to 83,661 million yen, an increase of 1.7% year on year. Operating income, however, decreased by 57.2% to 766 million yen owing to a lower gross margin reflecting an increase in the cost of energy as well as other costs and a decrease in sales of the mainstay Ham & Sausage Products operations.

Meat Products

With regard to beef, while prices of Japanese beef were lower than the previous year’s level, their sales were flat owing to efforts to expand sales volume. On the other hand, both sales volume and sales of imported beef were brisk mainly owing to vigorous sales expansion of U.S. chilled beef. Regarding pork, while prices exceeded the previous year’s level, sales were brisk. For Japanese pork, we focused our sales efforts on branded pork, and regarding imported pork, sales volume surged centring on U.S. pork. Sales of chicken increased as prices exceeded the previous year’s level.

Overall, sales in the Meat Products segment increased by 10.9% year on year to 37,051 million yen. Operating income increased by 16.0% to 1,011 million yen mainly because of an increase in sales of highly profitable imported meat.

Other

Sales in the Other business decreased by 8.2% year on year to 73 million yen and operating income decreased by 24.3% to 72 million yen.

CONSOLIDATED BALANCE SHEETS

30th September 2017 and 2016

(Unaudited)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Current assets:			
Cash and time deposits	¥ 13,031	¥ 14,424	\$ 115,585
Receivables:			
Trade notes and accounts	30,824	25,896	273,408
Other	418	464	3,708
Allowance for doubtful accounts	(26)	(38)	(231)
Inventories	16,010	16,395	142,008
Deferred tax assets	1,039	1,021	9,216
Advances and other current assets	702	623	6,226
Total current assets	61,998	58,785	549,920
Investments and other assets:			
Investment securities			
Other	13,342	11,725	118,343
Deferred tax assets	157	135	1,393
Other	4,071	4,998	36,109
Allowance for doubtful accounts	(139)	(221)	(1,233)
Total investments and other assets	17,431	16,637	154,612
Property, plant and equipment, at cost:			
Land	19,018	19,056	168,689
Buildings and structures	50,398	49,192	447,029
Machinery and equipment	59,973	56,545	531,959
Lease assets	8,587	8,073	76,166
Construction in progress	1,246	857	11,052
	139,222	133,723	1,234,895
Less accumulated depreciation	(85,039)	(82,476)	(754,293)
Net property, plant and equipment	54,183	51,247	480,602
Intangible assets	1,338	1,116	11,868
Total assets	¥134,950	¥127,785	\$1,197,002

See the accompanying note.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 26,567	¥ 24,282	\$ 235,648
Other	8,659	7,637	76,805
Short-term borrowings	5,222	5,064	46,319
Long-term debt due within one year	1,575	2,641	13,970
Short-term lease obligations	1,089	917	9,659
Accrued expenses	2,407	2,457	21,350
Accrued income taxes	641	997	5,686
Other current liabilities	1,247	674	11,062
Total current liabilities	47,407	44,669	420,499
Long-term liabilities:			
Long-term debt due after one year	2,052	2,043	18,201
Long-term lease obligations	4,380	3,859	38,850
Deferred tax liabilities	2,194	1,041	19,461
Liabilities for retirement benefits	1,083	2,322	9,606
Other long-term liabilities	725	433	6,431
Total long-term liabilities	10,434	9,698	92,549
NET ASSETS			
Shareholders' equity:			
Common stock			
Authorised — 200,000,000 shares			
Issued — 132,527,909 shares in 2017 (132,527,909 shares in 2016) ...	6,716	6,716	59,571
Capital surplus	22,086	22,086	195,902
Retained earnings	43,832	42,266	388,788
Treasury stock, at cost	(783)	(512)	(6,945)
Total shareholders' equity	71,851	70,556	637,316
Accumulated other comprehensive income:			
Unrealised gains on securities	5,737	4,292	50,887
Deferred gains (losses) on hedges	11	(26)	97
Foreign currency translation adjustments	38	46	337
Adjustments for retirement benefits	(974)	(1,871)	(8,639)
Total accumulated other comprehensive income	4,812	2,441	42,682
Non-controlling interests	446	421	3,956
Total net assets	77,109	73,418	683,954
Total liabilities and net assets	¥134,950	¥127,785	\$1,197,002

See the accompanying note.

CONSOLIDATED STATEMENTS OF INCOME

Six months ended 30th September 2017 and 2016

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Net sales	¥120,785	¥115,774	\$1,071,359
Cost of sales	93,762	88,269	831,666
Gross profit	27,023	27,505	239,693
Selling, general and administrative expenses	25,174	24,750	223,292
Operating income	1,849	2,755	16,401
Other income (expenses):			
Interest and dividend income	139	170	1,233
Interest expense	(92)	(104)	(816)
Gain on sale of securities, net	–	3	–
Loss on disposal of property, plant and equipment, net	(29)	(133)	(257)
Loss on impairment of assets	(16)	(24)	(142)
Other, net	161	205	1,427
	163	117	1,445
Income before income taxes	2,012	2,872	17,846
Income taxes:			
Current	720	1,046	6,386
Deferred	76	(75)	674
	796	971	7,060
Profit	1,216	1,901	10,786
Profit attributable to non-controlling interests	(12)	(29)	(107)
Profit attributable to owners of parent	¥ 1,204	¥ 1,872	\$ 10,679
		Yen	U.S. dollars (Note)
Profit attributable to owners of parent per share	¥9.17	¥14.24	\$0.08

See the accompanying note.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six months ended 30th September 2017 and 2016

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Profit	¥1,216	¥1,901	\$10,786
Other comprehensive income:			
Unrealised gains on securities	697	(131)	6,182
Deferred gains (losses) on hedges	10	(5)	89
Foreign currency translation adjustments	–	41	–
Adjustments for retirement benefits	221	195	1,960
Share of other comprehensive income of associates accounted for using equity method ...	(1)	10	(9)
Total other comprehensive income	927	110	8,222
Comprehensive income	¥2,143	¥2,011	\$19,008
Comprehensive income attributable to:			
Owners of the parent	¥2,131	¥1,982	\$18,901
Non-controlling interests	¥ 12	¥ 29	\$ 107

See the accompanying note.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Six months ended 30th September 2017 and 2016

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Common stock:			
Balance at beginning and end of period	¥ 6,716	¥ 6,716	\$ 59,571
Capital surplus:			
Balance at beginning and end of period	¥22,086	¥22,086	\$195,902
Retained earnings:			
Balance at beginning of period	¥43,679	¥41,306	\$387,431
Cash dividends paid	(1,051)	(920)	(9,322)
Profit attributable to owners of parent	1,204	1,872	10,679
Increase resulting from exclusion of equity method affiliates	–	8	–
Balance at end of period	¥43,832	¥42,266	\$388,788
Treasury stock, at cost:			
Balance at beginning of period	¥ (513)	¥ (512)	\$ (4,550)
Purchase of treasury stock	(270)	0	(2,395)
Balance at end of period	¥ (783)	¥ (512)	\$ (6,945)
Unrealised gains on securities:			
Balance at beginning of period	¥ 5,040	¥ 4,423	\$ 44,705
Increase (decrease) for period	697	(131)	6,182
Balance at end of period	¥ 5,737	¥ 4,292	\$ 50,887
Deferred gains (losses) on hedges:			
Balance at beginning of period	¥ 1	¥ (21)	\$ 9
Increase (decrease) for period	10	(5)	88
Balance at end of period	¥ 11	¥ (26)	\$ 97
Foreign currency translation adjustments:			
Balance at beginning of period	¥ 38	¥ (4)	\$ 337
Increase (decrease) for period	(0)	50	(0)
Balance at end of period	¥ 38	¥ 46	\$ 337
Adjustments for retirement benefits:			
Balance at beginning of period	¥ (1,195)	¥ (2,067)	\$ (10,600)
Increase for period	221	196	1,961
Balance at end of period	¥ (974)	¥ (1,871)	\$ (8,639)
Non-controlling interests:			
Balance at beginning of period	¥ 439	¥ 396	\$ 3,894
Increase for period	7	25	62
Balance at end of period	¥ 446	¥ 421	\$ 3,956

See the accompanying note.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended 30th September 2017 and 2016

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 2,012	¥ 2,872	\$ 17,846
Depreciation and amortisation	2,703	2,567	23,976
Loss on impairment of assets	16	24	142
Decrease in allowance for doubtful accounts	(3)	(26)	(27)
Increase in liabilities for retirement benefits	94	80	834
Interest and dividend income	(139)	(170)	(1,233)
Interest expense	92	104	816
Gain on sale of securities, net	–	(3)	–
Loss on valuation of investment securities	1	–	9
Loss on disposal of property, plant and equipment, net	29	133	257
Increase in receivables	(4,902)	(1,243)	(43,481)
Increase in inventories	(1,165)	(2,176)	(10,334)
Increase in trade notes and accounts payable	3,194	2,422	28,331
Increase (decrease) in consumption tax payable	144	(952)	1,277
Other, net	1,269	705	11,257
Subtotal	3,345	4,337	29,670
Interest and dividends received	146	178	1,295
Interest paid	(92)	(103)	(816)
Income taxes paid	(651)	(617)	(5,774)
Special retirement expenses	(843)	–	(7,477)
Net cash provided by operating activities	1,905	3,795	16,898
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(16)	(16)	(142)
Proceeds from sale of short-term investments and investment securities	1	9	9
Purchase of property, plant and equipment	(3,624)	(3,814)	(32,145)
Proceeds from sale of property, plant and equipment	604	187	5,357
Other, net	(63)	(115)	(558)
Net cash used in investing activities	(3,098)	(3,749)	(27,479)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	685	(335)	6,076
Repayment of long-term debt	(1,004)	(910)	(8,905)
Repayment of lease obligations	(503)	(452)	(4,462)
Cash dividends paid	(1,050)	(920)	(9,313)
Purchase of treasury shares	(270)	(1)	(2,395)
Other, net	(5)	(5)	(45)
Net cash used in financing activities	(2,147)	(2,623)	(19,044)
Effect of exchange rate changes on cash and cash equivalents	–	–	–
Net decrease in cash and cash equivalents	(3,340)	(2,577)	(29,625)
Cash and cash equivalents at beginning of period	16,371	17,001	145,210
Cash and cash equivalents at end of period	¥13,031	¥14,424	\$115,585

See the accompanying note.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Basis of financial statements

MARUDAI FOOD CO., LTD. (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Company Law and accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas affiliated companies are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices. These financial statements should be read along with the Annual Report to Shareholders for the year ended 31st March 2017.

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 30th September 2017, which was ¥112.74 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.

DIRECTORS AND STATUTORY AUDITORS

(As of 30th September 2017)

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

OUTLINE OF THE COMPANY

(As of 30th September 2017)

Established: 10th June 1958

Stated Capital: ¥6,716 million

Number of Employees: 2,087

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, 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.
10 Other subsidiaries

Associated Company:

Betagro MF Deli Co., Ltd.

MARUDAI FOOD CO., LTD.

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