



Semi-Annual Report 2018

For the Six-Month Period Ended 30th September 2018

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 a third 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 71th fiscal year.

During the first six-month period ended 30th September 2018, amid continuing improvement in the labour market and personal incomes, the Japanese economy achieved a moderate recovery. However, prospects for the Japanese economy remain

unclear since the impact of a series of natural disasters is a concern, in addition to uncertainties regarding overseas economies due to the emergence of trade issues and other factors, and the effects of fluctuations in financial markets.

In the industry in which the Marudai Food Group operates, a challenging business environment is continuing, exemplified by labour shortages and increases in logistics and energy costs amid further intensifying price competition as consumers become increasingly budget-minded. Regarding the meat market, beef prices, which had been below the previous year's level, recently exceeded that level. On the other hand, pork prices remained soft.

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 0.4% year on year to ¥121,229 million. Operating income decreased by 44.5% to ¥1,026 million and profit attributable to the owners of the parent decreased by 47.0% to ¥638 million.

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 2018.

Tokuo Kudara
President and Representative Director

A handwritten signature in black ink that reads "Tokuo Kudara". The signature is written in a cursive, flowing style.

PRODUCTS

Processed Food Products

The Ham & Sausage Products operations endeavoured to expand sales by introducing new products such as “*Oryori Bacon*,” “*Arabiki Sausage MINION*,” and “*Fish Sausage MINION*” in addition to vigorous sales promotion, such as “*Wanpaku Challenge! Campaign*,” centring on mainstay items, such as the “*Kunseiya-Ripened Pork Sausage*.” 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 6.4% year on year mainly because of further intensifying price competition against the backdrop of consumers’ persisting budget-mindedness.

In the Precooked & Processed Foods operations, sales of the “*Sundubu*” series for which we have introduced a product consisting of three microwavable one-person-portion packages as well as the “*Bistro Club Beef Curry*” series were robust. In addition, the “*Salad Chicken*” series continued to contribute to sales. Desserts and beverages showed strong sales growth, to which the popular “*TAPIOCA TIME*” series of beverages containing black tapioca contributed greatly. As a result, sales in the Precooked & Processed Foods operations increased by 9.6% year on year.

As a result, sales in the Processed Food Products segment amounted to ¥84,804 million, an increase of 1.4% year on year. Operating income, however, was far below the previous year’s level, having decreased by 72.5% year on year to ¥211 million, owing to a decrease in sales of the mainstay Ham & Sausage Products operations and the impact of the initial cost associated with the start-up of a new plant for products for convenience stores.

Meat Products

With regard to beef, although both sales volume and sales of imported beef were lower than the previous year’s level, overall beef sales slightly exceeded the previous year’s level, mainly because sales of Japanese beef grew as the sales volume expanded. Regarding pork, while both sales volume and sales of Japanese pork were lower than the previous year’s level, we managed to secure overall pork sales on a par with the previous year’s level mainly because sales of imported pork exceeded the previous year’s level as the sales volume expanded. Sales volume and sales of chicken were far below the previous year’s level mainly owing to the impact of declining prices.

As a result, sales in the Meat Products segment decreased by 1.9% year on year to ¥36,344 million. Operating income decreased by 23.6% to ¥772 million mainly because of the decline in profitability of chicken.

Other

Sales in the Other business increased by 11.2% year on year to ¥81 million, but operating income decreased by 39.8% to ¥43 million.

CONSOLIDATED BALANCE SHEETS

30th September 2018 and 2017

(Unaudited)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Current assets:			
Cash and time deposits	¥ 8,086	¥ 13,031	\$ 71,192
Receivables:			
Trade notes and accounts	31,811	30,824	280,076
Other	734	418	6,462
Allowance for doubtful accounts	(17)	(26)	(150)
Inventories	17,662	16,010	155,503
Advances and other current assets	964	702	8,488
Total current assets	59,240	60,959	521,571
Investments and other assets:			
Investment securities			
Other	15,299	13,342	134,698
Deferred tax assets	328	270	2,888
Other	3,783	4,071	33,307
Allowance for doubtful accounts	(128)	(139)	(1,127)
Total investments and other assets	19,282	17,544	169,766
Property, plant and equipment, at cost:			
Land	19,010	19,018	167,371
Buildings and structures	53,338	50,398	469,607
Machinery and equipment	63,915	59,973	562,731
Lease assets	8,854	8,587	77,954
Construction in progress	641	1,246	5,644
	145,758	139,222	1,283,307
Less accumulated depreciation	(88,044)	(85,039)	(775,172)
Net property, plant and equipment	57,714	54,183	508,135
Intangible assets	2,424	1,338	21,342
Total assets	¥138,660	¥134,024	\$1,220,814

See the accompanying note.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Current liabilities:			
Payables:			
Trade notes and accounts payable	¥ 25,254	¥ 26,567	\$ 222,345
Other	8,628	8,659	75,964
Short-term borrowings	10,212	5,222	89,910
Long-term debt due within one year	1,472	1,575	12,960
Short-term lease obligations	1,007	1,089	8,866
Accrued income taxes	471	641	4,147
Allowance for bonuses	1,103	1,111	9,711
Other current liabilities	2,367	2,543	20,841
Total current liabilities	50,514	47,407	444,744
Long-term liabilities:			
Long-term debt due after one year	2,424	2,052	21,342
Long-term lease obligations	4,842	4,380	42,631
Deferred tax liabilities	2,138	1,268	18,824
Liabilities for retirement benefits	554	1,083	4,878
Other long-term liabilities	734	725	6,461
Total long-term liabilities	10,692	9,508	94,136
NET ASSETS			
Shareholders' equity:			
Common stock			
Authorised — 200,000,000 shares			
Issued — 132,527,909 shares in 2018 (132,527,909 shares in 2017) ...	6,716	6,716	59,130
Capital surplus	22,086	22,086	194,453
Retained earnings	44,087	43,832	388,158
Treasury stock, at cost	(2,635)	(783)	(23,199)
Total shareholders' equity	70,254	71,851	618,542
Accumulated other comprehensive income:			
Unrealised gains on securities	7,254	5,737	63,867
Deferred gains on hedges	10	11	88
Foreign currency translation adjustments	38	38	334
Adjustments for retirement benefits	(586)	(974)	(5,159)
Total accumulated other comprehensive income	6,716	4,812	59,130
Non-controlling interests	484	446	4,262
Total net assets	77,454	77,109	681,934
Total liabilities and net assets	¥138,660	¥134,024	\$1,220,814

See the accompanying note.

CONSOLIDATED STATEMENTS OF INCOME

Six months ended 30th September 2018 and 2017

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Net sales	¥121,229	¥120,785	\$1,067,345
Cost of sales	94,491	93,762	831,934
Gross profit	26,738	27,023	235,411
Selling, general and administrative expenses	25,712	25,174	226,378
Operating income	1,026	1,849	9,033
Other income (expenses):			
Interest and dividend income	164	139	1,444
Real estate rent	95	96	836
Interest expense	(106)	(92)	(933)
Gain on sale of securities, net	79	–	696
Loss on disposal of property, plant and equipment, net	(85)	(29)	(748)
Loss on impairment of assets	(27)	(16)	(238)
Loss compensation	(56)	–	(493)
Other, net	51	65	449
	115	163	1,013
Income before income taxes	1,141	2,012	10,046
Income taxes:			
Current	556	720	4,895
Deferred	(64)	76	(563)
	492	796	4,332
Profit	649	1,216	5,714
Profit attributable to non-controlling interests	(11)	(12)	(97)
Profit attributable to owners of parent	¥ 638	¥ 1,204	\$ 5,617
		Yen	U.S. dollars (Note)
Profit attributable to owners of parent per share (Note)	¥25.01	¥45.83	\$0.22

See the accompanying note.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six months ended 30th September 2018 and 2017

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Profit	¥ 649	¥1,216	\$ 5,714
Other comprehensive income:			
Unrealised gains on securities	858	697	7,554
Deferred gains on hedges	19	10	167
Adjustments for retirement benefits	144	221	1,268
Share of other comprehensive income of associates accounted for using equity method ...	2	(1)	18
Total other comprehensive income	1,023	927	9,007
Comprehensive income	¥1,672	¥2,143	\$14,721
Comprehensive income attributable to:			
Owners of the parent	¥1,661	¥2,131	\$14,624
Non-controlling interests	¥ 11	¥ 12	\$ 97

See the accompanying note.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Six months ended 30th September 2018 and 2017

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Common stock:			
Balance at beginning and end of period	¥ 6,716	¥ 6,716	\$ 59,130
Capital surplus:			
Balance at beginning and end of period	¥22,086	¥22,086	\$194,453
Retained earnings:			
Balance at beginning of period	¥44,470	¥43,679	\$391,530
Cash dividends paid	(1,021)	(1,051)	(8,989)
Profit attributable to owners of parent	638	1,204	5,617
Balance at end of period	¥44,087	¥43,832	\$388,158
Treasury stock, at cost:			
Balance at beginning of period	¥ (2,457)	¥ (513)	\$ (21,632)
Purchase of treasury stock	(178)	(270)	(1,567)
Balance at end of period	¥ (2,635)	¥ (783)	\$ (23,199)
Unrealised gains on securities:			
Balance at beginning of period	¥ 6,396	¥ 5,040	\$ 56,313
Increase for period	858	697	7,554
Balance at end of period	¥ 7,254	¥ 5,737	\$ 63,867
Deferred gains (losses) on hedges:			
Balance at beginning of period	¥ (9)	¥ 1	\$ (79)
Increase for period	19	10	167
Balance at end of period	¥ 10	¥ 11	\$ 88
Foreign currency translation adjustments:			
Balance at beginning of period	¥ 35	¥ 38	\$ 308
Increase (decrease) for period	3	(0)	26
Balance at end of period	¥ 38	¥ 38	\$ 334
Adjustments for retirement benefits:			
Balance at beginning of period	¥ (730)	¥ (1,195)	\$ (6,427)
Increase for period	144	221	1,268
Balance at end of period	¥ (586)	¥ (974)	\$ (5,159)
Non-controlling interests:			
Balance at beginning of period	¥ 477	¥ 439	\$ 4,200
Increase for period	7	7	62
Balance at end of period	¥ 484	¥ 446	\$ 4,262

See the accompanying note.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended 30th September 2018 and 2017

(Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 1,141	¥ 2,012	\$ 10,046
Depreciation and amortisation	3,085	2,703	27,161
Loss on impairment of assets	27	16	238
Decrease in allowance for doubtful accounts	(6)	(3)	(53)
Increase (decrease) in liabilities for retirement benefits	(48)	94	(423)
Interest and dividend income	(164)	(139)	(1,444)
Interest expense	106	92	933
Gain on sale of securities, net	(79)	–	(696)
Loss on valuation of investment securities	2	1	18
Loss on disposal of property, plant and equipment, net	85	29	748
Increase in receivables	(2,768)	(4,902)	(24,370)
Increase in inventories	(1,619)	(1,165)	(14,254)
Increase in trade notes and accounts payable	1,960	3,194	17,257
Increase (decrease) in consumption tax payable	(87)	144	(766)
Other, net	335	1,269	2,950
Subtotal	1,970	3,345	17,345
Interest and dividends received	164	146	1,444
Interest paid	(105)	(92)	(925)
Income taxes paid	(439)	(651)	(3,865)
Payments for special retirement expenses	(26)	(843)	(229)
Net cash provided by operating activities	1,564	1,905	13,770
Cash flows from investing activities:			
Purchase of short-term investments and investment securities	(16)	(16)	(141)
Proceeds from sale of short-term investments and investment securities	133	1	1,171
Purchase of property, plant and equipment	(5,017)	(3,624)	(44,172)
Proceeds from sale of property, plant and equipment	162	604	1,426
Other, net	(19)	(63)	(166)
Net cash used in investing activities	(4,757)	(3,098)	(41,882)
Cash flows from financing activities:			
Net increase in short-term borrowings	5,082	685	44,744
Repayment of long-term debt	(831)	(1,004)	(7,316)
Repayment of lease obligations	(480)	(503)	(4,226)
Cash dividends paid	(1,019)	(1,050)	(8,972)
Purchase of treasury shares	(178)	(270)	(1,567)
Other, net	(5)	(5)	(45)
Net cash used in financing activities	2,569	(2,147)	22,618
Net decrease in cash and cash equivalents	(624)	(3,340)	(5,494)
Cash and cash equivalents at beginning of period	8,710	16,371	76,686
Cash and cash equivalents at end of period	¥ 8,086	¥13,031	\$ 71,192

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 2018.

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 2018, which was ¥113.58 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.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

Additional Information

The Company consolidated shares of its common stock at a ratio of 5-to-1 on 1 st October 2018, the effective date. Profit attributable to owners of parent per share is computed based on the assumption that the said consolidation of shares was conducted at the beginning of the previous fiscal year.

DIRECTORS AND STATUTORY AUDITORS

(As of 30th September 2018)

President and Representative Director:	Tokuo Kudara
Senior Executive and Managing Directors:	Toshiharu Inoue Yoshio Kuramori
Managing Director:	Yasushi Sawada
Directors:	Shigeki Fukushima Nobuyoshi Katoh Wataru Fukiage
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 2018)

Established: 10th June 1958

Stated Capital: ¥6,716 million

Number of Employees: 2,091

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
4 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.
Marudai Food 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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