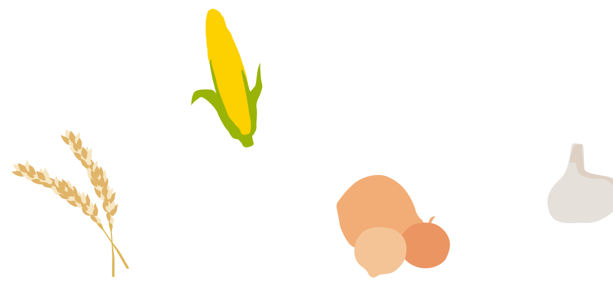
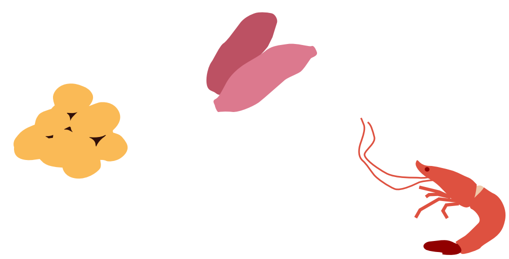
Annual Report 2011
Fiscal year ended March 31, 2011



The Power of Nature
The Power of



Calbee

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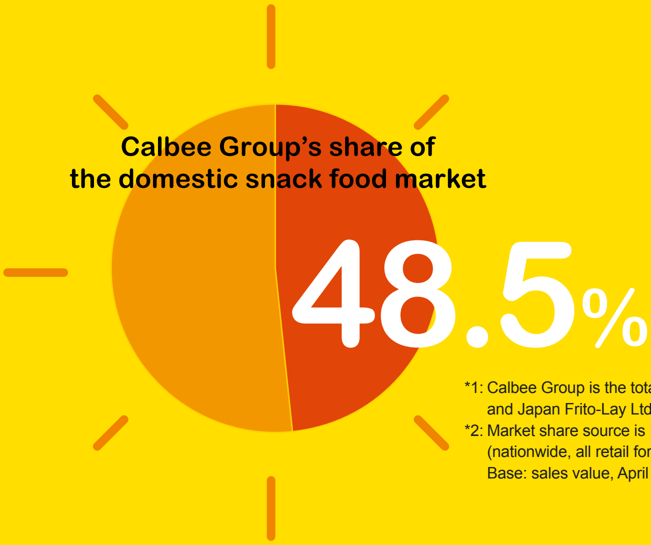
Innovation and

"We are committed to harnessing nature's gifts, to bringing taste and fun, and to contributing to healthy lifestyles." Guided by this corporate philosophy since the establishment of the Calbee Group, we have constantly worked to offer consumers new tastes with our snack foods by using the flavors and nutrition of natural ingredients such as potatoes and prawns. As a leading company with powerful brands, Calbee has captured around 50% of the Japanese snack food market.

Leveraging our expertise and brands, we will strive to transform Calbee into a global food company that is admired worldwide.



*1: Calbee Group is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
*2: Market share source is Intage SRI (nationwide, all retail formats) Base: sales value, April 2010–March 2011

Tradition

Forward-looking Statements
This annual report contains forward-looking statements concerning the future plans, performance and strategies of CALBEE, Inc. and its subsidiaries and affiliated companies. These forward-looking statements are not historical facts. They are judgments and assumptions based on information available to the Company at the time of publication and projections or future policies cannot be assured or guaranteed. Actual results may differ materially from those projected due to changes in economic or market conditions. As such, investors should not place undue reliance on forward-looking statements.

Transforming Calbee from Japan's market leader into a global company

In 2009, Calbee's 60th anniversary, we radically reformed the management structure to mark a new start in our corporate history. We also concluded a strategic alliance with PepsiCo, Inc., one of the world's biggest food and beverage companies, creating a partnership based on shared ideals.

Supported by the twin pillars of cost reduction and innovation (six growth strategies), we will implement structural reforms to realize sustained growth and build a highly profitable operating structure.

Growth

Leveraging our domestic strengths to develop Calbee's presence overseas

Further reinforcing the domestic business

Radical changes to the management structure

- Management reforms
- Stock market listing

CEO Message

Building on domestic leadership to grow in international markets

It is my great pleasure to present Calbee's inaugural annual report, following our listing on the Tokyo Stock Exchange in March 2011. Our new shareholders have every reason to hold high expectations for our Group, as Calbee is the clear leader in Japan's ¥400 billion snack market and our brand has been a household name in Japan for more than 60 years. On behalf of the board I would like to say from the outset that we will do everything we can to meet these expectations.

Since June 2009 Calbee has been operating under a slimmed-down, speeded-up management structure, tasked with delivering a higher level of sustainable, profitable growth.

The impetus for this change came from two critical issues that we had to overcome: slowing growth and weak profitability. Despite being the dominant leader in Japan, with around 50% of the domestic snack market, Calbee had not been sufficiently rigorous about controlling costs, maintaining margins and acting on new opportunities for growth.

At the same time, Calbee had been operating in an increasingly tough environment in Japan, characterized by weak consumer spending and persistent deflationary pressure on pricing.

Akira Matsumoto (born July 20, 1947), joined trading company Itochu Corporation in 1972. In 1993 he moved to Johnson & Johnson Medical Company, where he was appointed Representative Director and General Manager of the Ethicon Endo-Surgery business division. In January 1999, he became President of Johnson & Johnson K.K. and subsequently the company's senior advisor in January 2008. In June 2008, he was appointed as Director of Calbee and then Representative Director, Chairman of the Board and CEO in June of the following year. During his nine-year tenure as President of Johnson & Johnson K.K., sales grew fourfold, with sales and profit expanding every fiscal year he was in charge.

Akira Matsumoto
Chairman of the Board & CEO,
Representative Director

The Twin Pillars of Calbee's Approach

Targeting sustained growth and high profitability

Cost Reduction

Rigorously review costs from production through to head office

Innovation (Growth Strategies)

- Expand overseas business
- Boost new product development
- Increase domestic market share
- Reinforcing the PepsiCo alliance
- Pursue licensing and acquisition
- Identify new business opportunities

One of the upshots of this is that today's consumers, despite their traditionally strong brand loyalty, now quickly turn elsewhere if they cannot find quality products at competitive prices.

Make no mistake, however: Calbee is a great company and has consistently done a lot of things right since its establishment in 1949. We have excelled at delivering a stable supply of original, high-quality products with strong consumer appeal. We have created and expanded a range of new markets, and have been at the forefront of significant innovations, such as the creation of the potato grower contract system, which underpins our product development, and the move toward showing production and best-before dates on packaging. These initiatives have gained wide support, and today Calbee has numerous mega brands, such as *Potato Chips* and *Jagarico*, that are popular throughout Japan.

It is this history of innovation and consistently strong consumer support that makes us confident that we can continue to succeed in the new business environment.

Our approach to realizing a higher level of sustainable growth is based on core elements that are easily understood. We have to cut costs across the Group to boost price competitiveness, and bring innovative products to market more rapidly. We have to fully leverage the product development capabilities and dominant brands we have built up over time, and we must target opportunities in global markets, as well as in Japan.

Earnings already improving on lower costs

Since I became CEO, cost reductions have helped lift Calbee's operating margin from 3.2% to 6.5% in fiscal 2010 and 6.9% in fiscal 2011. We believe a realistic operating margin target is 10%, and we are focused on achieving this as rapidly as possible. By pushing ahead with cost reduction measures in all areas, we aim to create and maintain a level of cost-competitiveness that will enable us to compete successfully in domestic and global markets, while creating a solid business base that is resilient to changes in the operating environment.

Measures taken since 2009 have already made a significant difference. In procurement, for example, we have sharply driven down purchasing costs for cooking oils and other raw materials by creating a central Procurement Department, replacing the previous system where each of our factories independently purchased raw materials and machinery. We have also integrated seven regional businesses into four regional business divisions and reviewed the type of products made at each factory, leading to an improvement in capacity utilization.

We have reduced depreciation and amortization expenses by optimizing capital expenditure, and are now making capital expenditure decisions on the basis of whether the investment will deliver outcomes in four core areas: consumer peace of mind and food safety; business expansion; cost reduction; and improvements to employee working environments.

Six strategies for growth

We have six core strategies to generate growth.

Our first strategy, and the most important one, is to expand our business overseas. Calbee has a large share of the domestic market, but Japan only accounts for 2% of the global population and it's population is set to decline. Currently overseas sales account for only around 3.3% of our total sales. By aggressively developing our overseas business we plan to raise this figure to 30% over the medium to long term.

Our second strategy is to boost new product development. We aim to increase the pace of product development, subject our new product pipeline to closer management scrutiny and target setting, and develop a wider range of unique added-value products with strong consumer appeal.

Our third strategy is to increase Calbee's domestic market share. Despite the high market share we already have in Japan, we believe there is ample opportunity to build on this by leveraging Calbee's exceptionally strong brands and our product development capabilities. Our aim is to secure at least 70% of the potato chips market and at least 60% of the snack market.

Our fourth growth strategy is to reinforce our strategic alliance with PepsiCo, Inc. We formed this alliance in July 2009, and will strengthen our cooperation and realize synergies in a number of mutually beneficial areas.

The fifth of our core strategies is to identify and pursue licensing and acquisition (L&A) opportunities. There are attractive L&A opportunities both in Japan and overseas, and we will aggressively pursue these to achieve growth.

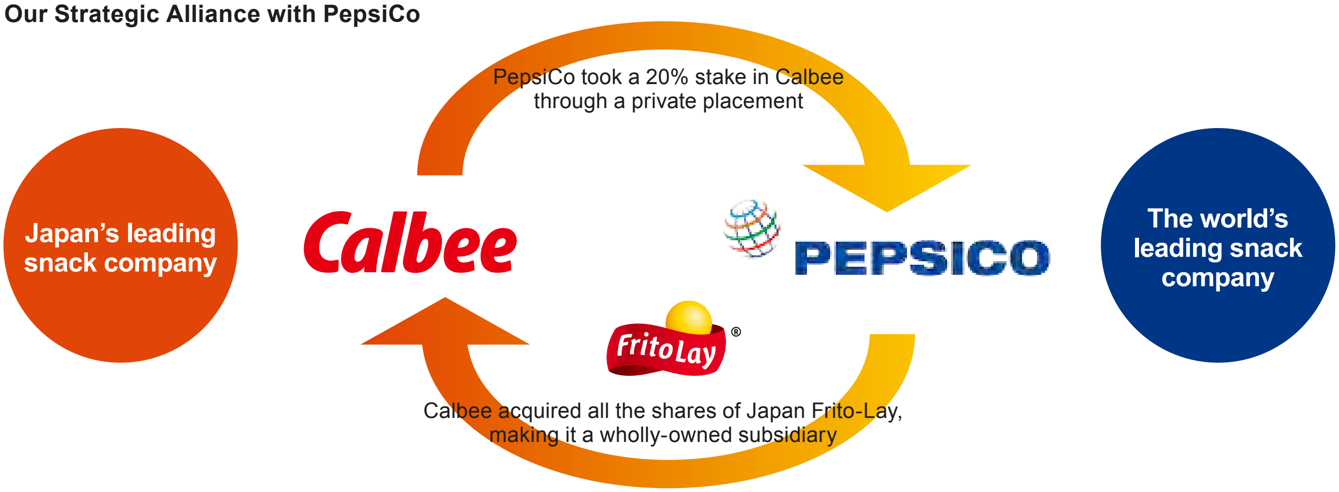
Our sixth growth strategy is to develop new businesses in areas close to the Group's existing core business if they make compelling strategic sense.

Overseas strategy

Our overseas strategy will play the most important role in realizing strong growth for the Calbee Group. We have positioned North America, China and other Asian markets, such as South Korea, Thailand, Taiwan and Hong Kong, as strategic regions, and are developing specific strategies and operating plans for each of them. Where necessary, we also plan to forge alliances with strong local partners in each country.

In China, we are targeting rapid business expansion amid prospects for significant growth in demand on the back of rising incomes. In North America, the world's largest snack market, we aim to build our market presence through products such as *Jagarico*, *Jagabee* and *Vegips* that incorporate our proprietary technology. In South Korea, which we view as Asia's most promising snack market after Japan and China, we are growing the Calbee brand through a joint

Our Strategic Alliance with PepsiCo



Working as partners, Calbee and PepsiCo aim to generate synergies by combining their management expertise

venture we established in July 2011 with HAITAI Confectionery & Foods Co., Ltd., one of the country's leading confectionery makers. HAITAI Confectionery & Foods has been selling Calbee products in the country based on a licensing agreement signed in 2003, and this joint venture will allow us to take a more proactive role in developing Calbee's presence. Each partner has a 50% stake in the joint venture, but the CEO is from Calbee and the company will be a consolidated subsidiary. We are targeting sales of at least ¥3.0 billion within five years.

Strategic alliance with PepsiCo

As I mentioned earlier, in July 2009 we concluded a strategic alliance with PepsiCo based on shared ideals. As part of the alliance, Calbee agreed to acquire all the shares in PepsiCo subsidiary Japan Frito-Lay Ltd., Japan's largest supplier of corn-based snacks by market share. In return, PepsiCo took a 20% stake in Calbee by subscribing to new shares issued through a private placement. We had been exploring a range of possibilities with PepsiCo for more than a decade, and came to the conclusion that we needed to forge an alliance in order to support our efforts to transform Calbee into a global food company. PepsiCo, in turn, decided that rather than trying to grow its low market share in Japan by competing with Calbee, it could form an alliance that would lead to synergies and growth for both companies.

The alliance will allow us to absorb PepsiCo's extensive global business experience and cooperate in a wide range of fields, including raw materials procurement, sales, and research and development.

Global standard corporate governance

My long experience in a foreign firm has greatly influenced my views on corporate governance. That is why I have been determined to build an effective, highly transparent system of corporate governance that would be recognized globally. We have clearly separated the roles of directors and executive officers and reduced the number of executive directors from nine to two. At the same time, we have strengthened the supervisory functions of the board by increasing the number of outside directors from two to five. One of these outside directors has been seconded to us from PepsiCo, while the remaining four have a high degree of independence and possess extensive top-level experience and knowledge in their respective fields.

Realizing sustainable growth and rewarding shareholders

Listing Calbee on the First Section of the Tokyo Stock Exchange on March 11, 2011 marked an important new phase in our business development. As well as diversifying our sources of funds, our business will now be under the watchful eye of the capital market and be in a position to receive its support. I believe this will facilitate the healthy development of Calbee, which is the main reason why we decided to list. Being a listed company will enhance our corporate image, and help change the mentality of our employees. It should also make Calbee a more attractive destination for the talented people we need to grow the company.

As a corporate citizen and a listed company, we have a responsibilities to all our stakeholders, including our customers and business partners, our employees and their families, our shareholders, and the communities and environments—including the natural environment—in which we do business. Ultimately, our responsibility in all these respects will be fulfilled if we can achieve sustained—and sustainable—growth as a profitable, respected business that contributes to society.

In closing, I would like to express my sincere appreciation for your interest in Calbee, and my hope that we will continue to benefit from your close engagement and feedback as we embark on an exciting new stage of development.

August 2011

Akira Matsumoto
Chairman of the Board & CEO, Representative Director

COO Message

Shuji Ito
President & COO,
Representative Director

We are targeting top- and bottom-line growth through further cost reduction and innovation

Fiscal 2011 was a record year for sales and profits

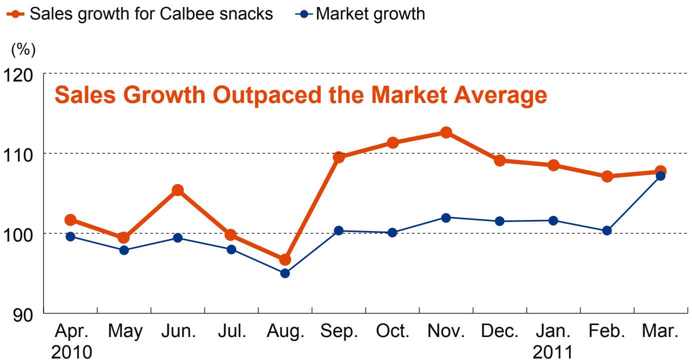
In fiscal 2011, ended March 21, 2011, net sales grew 6.2% year on year to ¥155,529 million. Sales promotion initiatives aimed at boosting our domestic market share paid off, with sales of *Potato Chips* and *Jagabee* in our potato-based snack range posting higher sales. Sales of corn-based snacks also grew, partly due to the contribution from a full-year of sales at Japan Frito-Lay Ltd., which became a consolidated subsidiary in June 2009.

We spent aggressively on sales promotion and advertising to boost our share of the domestic market. This led to an increase in sales and higher operating rates at our factories, which together with cost reductions, translated into an improvement in the cost of sales ratio. As a result, operating income rose 12.4% year on year to ¥10,717 million and the operating margin improved 0.4 percentage point to 6.9%. Although we incurred disaster losses of ¥2,163 million related to the Great East Japan Earthquake in March 2011, net income rose 5.9% year on year to ¥4,253 million.

Net sales and operating income both exceeded our forecasts to reach record highs. Net income fell short of our forecast owing to extraordinary losses related to the Great East Japan Earthquake, but this was still the highest level ever achieved by Calbee.

Shuji Ito (born February 25, 1957), joined Calbee in 1979. He was appointed executive officer and COO of the East Japan Company in 2001, then director, executive officer and COO of the Jagarico Company in 2004. The following year he became a director, executive managing officer and the controller of the Marketing Group. He was appointed Representative Director, President & COO in 2009. Since joining Calbee, he has worked in many areas of the business, from manufacturing and sales through to business planning and marketing.

Sales Growth for Snacks



* Sales data compiled by Intage SRI (nationwide, all retail formats)
Base: sales value

Sales Contribution by Product (Fiscal 2011)

(Millions of yen)

Sales		+ 9,076
	Potato Chips	+ 3,995
	Jagabee	+ 2,566
Potato-based snacks total		+ 6,645
Corn-based snacks total		+ 2,673
Processed bread, cereals		+ 410
Others		– 652

Our basic dividend policy is to pay a stable and progressive dividend while referencing consolidated earnings performance, financial position and other factors. Based on this comprehensive approach, we decided to raise the dividend by ¥4 to ¥28 per share.

Sales growth for mainstay potato-based snacks driven by market share gains

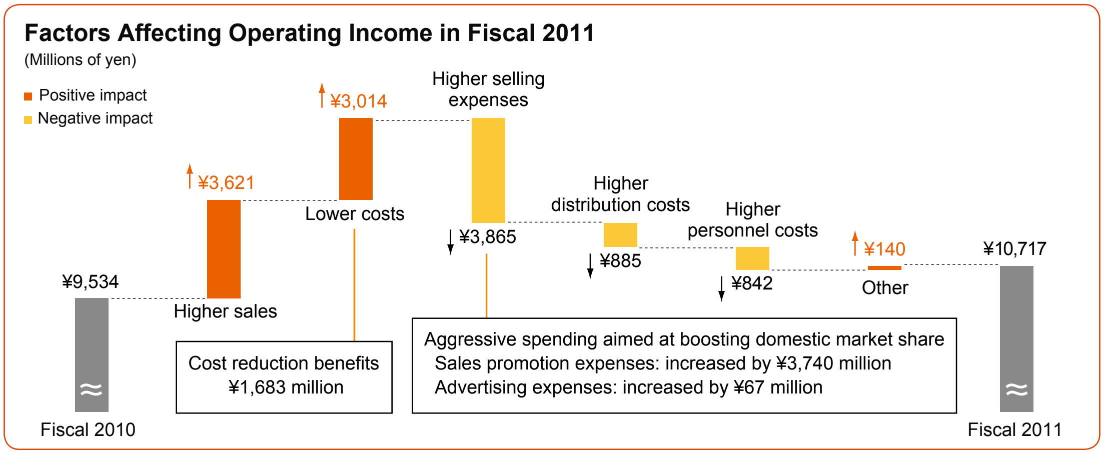
We are aiming to capture an overwhelming share of the domestic snack market. Overall sales in Japan's snack market rose slightly year on year in fiscal 2011, but sales of our products outpaced average sales growth thanks to aggressive marketing activities centered on *Potato Chips*. Compared with the end of fiscal 2010, our share of the Japanese snack foods market rose 2.4 percentage points to 48.5%.

Until 2003, our share of the domestic potato chips market exceeded 75%, but this gradually declined as rival makers cut prices, falling to 60.4% in fiscal 2010. In fiscal 2011, we used the gains generated by cost reduction efforts to fund price cuts. In addition to lowering prices, we relaunched the *Norishio* (salted nori laver) flavor and released two new spicy flavors. We also revamped our *Thickly Sliced Chips* brand. As a result, our share of the potato chips market in Japan recovered to 62.5%, marking Calbee's first gains in the market for seven years.

We have positioned *Jagabee* as a strategic product going forward. Sales in this range rose 47% year on year to ¥8.0 billion in fiscal 2011, reflecting expansion in sales channels and the launch of new flavors such as *Butter Shoyu* (butter and soy sauce). Sales of *Jagabee* have grown steadily since we launched the brand in 2006. We are upgrading our manufacturing framework for *Jagabee* in fiscal 2012, and we will leverage this increased capacity, along with a TV advertising campaign, marketing activities such as free samples, and the launch of a new *Pepper & Salt* flavor, to transform *Jagabee* into one of our megabrands.

Profit growth supported by margin improvement and cost reductions

We have made steady progress with cost reductions, which remains an urgent issue for Calbee. We have radically reformed our cost structure in order to increase cost competitiveness while maintaining our reputation for quality. As a result, the cost of sales ratio in fiscal 2011 was 58.2%, an improvement of 1.9 percentage points compared with the previous year and beating our target of 59.5%. This partly reflected a downward trend in raw materials prices, but we achieved this better-than-projected result mainly by promoting centralized purchasing, reviewing products manufactured at each factory, and implementing



more accurate production plans. Also, compared with the level three years ago, the cost of sales ratio has improved by a considerable 6.6 percentage points. Our approach of supplying high-quality products while emphasizing profits has now taken root, with this improvement in cost performance reflecting Groupwide efforts.

Looking ahead, we expect costs to deteriorate owing to an upward trend in raw materials prices and the impact for the earthquake. Consequently, we will target further reductions in costs. With the Procurement Department taking the lead, we will work to cut procurement prices even further by continuing to promote centralized purchasing, including overseas. At the same time, we will boost operating rates and productivity by continuing to review the products made at each factory and by optimizing our manufacturing workforce. All these efforts will be directed at ultimately reducing costs even further.

Impact of the Great East Japan Earthquake

Calbee is gradually returning to growth, illustrated by gains in domestic market share and the emerging benefits of cost reduction efforts. However, the Great East Japan Earthquake that occurred on March 11, 2011 forced us to slow down slightly. Of our 17 factories, four had to suspend production activities after being damaged by the disaster. We also incurred disaster losses totaling ¥2,163 million, including ¥1,686 million for damage to fixed assets (including removal and repair costs), ¥160 million for inventory losses, ¥101 million for support provided to the disaster-affected region, and ¥217 million in other losses (opportunity losses, etc.). We gradually began restoring production from late March and by early June all our production lines were operating as normal. Although we managed to compensate for lost production volume at the four damaged factories by using other sites to supply products, we had to focus on ensuring our mainstay products reached retailer's shelves. This prevented us from launching new products, resulting in a tough start to fiscal 2012.

The disaster has led to power shortages, disruptions to supplies of raw materials, and weak consumer spending. However, in order to minimize these impacts and rapidly return operations to normal, we began launching new products and rolled out sales promotions from June to drive sales growth.

Stepping up product launches

Calbee has traditionally been strong in potato-based snacks. We will continue to work on further increasing sales of these products, but we also plan to aggressively boost sales of products in other categories.

In fiscal 2011, we put a particular focus on two products — *Hitokuchi Bizen*, which are bite-size snacks made from cereals and fruit, and *Vegips*.

Vegips, launched initially in the Kinki and Chubu regions in February 2011, are a new type of vegetable chip product that bring out the unique savory and sweet flavor and texture of vegetables such as onions and pumpkin. We also launched them in the US from July on a trial basis. We plan to roll out *Vegips* nationwide in Japan from fiscal 2012. To support this, we will add production capacity and launch an active marketing campaign.

Hitokuchi Bizen, which are aimed at female consumers who watch their calorie intake and health, contain abundant nutritional ingredients such as fiber and minerals. The earthquake delayed the full-scale launch of *Hitokuchi Bizen* by two months, but the eventual roll out in May was backed by an aggressive sales promotion campaigns including TV commercials.

Calbee has expanded by launching a major product once every decade or so. These products have included *Kappa Ebisen* (prawn crackers), *Potato Chips*, *Fruit Granola*, *Jagarico*, and *Jagabee*. However, amid the drastic changes in our operating environment due to the increasingly varied tastes of consumers, growing interest in healthy lifestyles and Japan's falling number of children and aging society, it is vital that we now drive constant innovation in the market. In particular, we have to develop new products that are one step ahead of consumer demand. This will mean strengthening the management of our product pipeline and increasing investment in research and development to accelerate new product development. Based on this approach, we are targeting major new product launches once every three to five years.

Leveraging our strengths to become a global food company

I believe our greatest strength is the brand power we have cultivated during the 60 years since Calbee was established. We have consistently been the leader in the Japanese snack food market thanks to the development of competitive products and pioneering innovations in the sector.

Although we were latecomers to the potato chips market, we grew to capture a dominant share of the market by taking full responsibility for every stage of the process — from raw materials right through to our customers — and our activities today are constantly focused on this complete business model. For example, the condition of raw potatoes has a large say in the quality of the final product, so we have built a procurement system based on grower contracts that ensure we have access to stable supplies of high-quality potatoes. Also, although we sell processed food, we began focusing on the "freshness" of our snacks. In 1973 we started displaying the production date on packets and in 1985 we adopted aluminum absorbed film for packaging to protect contents from degradation caused by ultraviolet light. In 1996 we started injecting inert nitrogen gas into our packages, to block oxidation of the contents. All these moves were aimed at setting our products apart from those of our competitors.

In order to transform Calbee from Japan's leading snack food company into a global food company, we will have to accelerate the pace at which we do business. We will also simplify and clarify our organizational structure and devolve more power to our business divisions to encourage employees to take the initiative more.

In the short term, our operating environment is likely to be challenging due to the impact of the disaster and rising raw materials prices. We aim to boost sales by launching new products like *Hitokuchi Bizen* and *Vegips* that complement existing core products such as *Potato Chips* and *Jagabee*, while continuing to cut costs. Our objective is to sustain the increases in sales, profits and the dividend that we achieved this year.

August 2011

Shuji Ito

Shuji Ito
President & COO, Representative Director

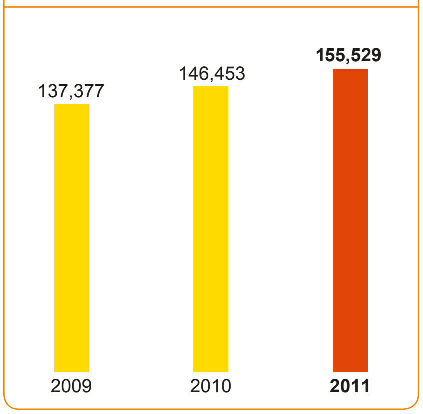
Financial Highlights

Years ended March 31, 2009, 2010 and 2011

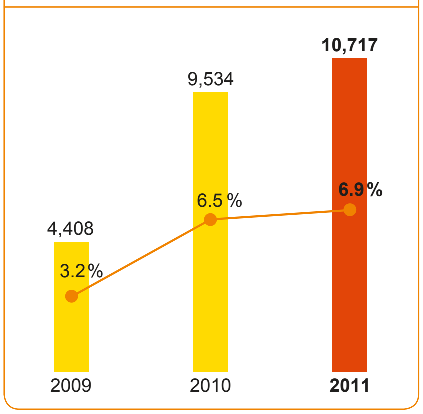
	Millions of yen			Thousands of U.S. dollars (Note 2)
	2011	2010	2009	**2011**
FOR THE YEAR:				
Net sales	**¥ 155,529**	¥ 146,453	¥ 137,377	**$ 1,870,466**
Operating income	**10,717**	9,534	4,408	**128,891**
Operating margin (%)	**6.9**	6.5	3.2	**—**
Net income	**4,253**	4,017	2,523	**51,154**
Net income margin (%)	**2.7**	2.7	1.8	**—**
ROE (%)	**6.5**	7.1	5.0	**—**
Research and development costs	**2,213**	3,097	3,064	**26,619**
Capital expenditures	**4,050**	3,390	5,079	**48,706**
Depreciation and amortization	**7,244**	7,915	8,325	**87,116**
PER SHARE (¥ / $) (Note 3) **:**				
Net income	**146.48**	144.03	98.29	**1.76**
Net assets	**2,200.55**	2,117.76	2,008.93	**26.46**
Cash dividends	**28.00**	24.00	20.00	**0.34**
Payout ratio (%)	**19.1**	16.7	38.1	**—**
AT YEAR-END:				
Total assets	**99,394**	93,658	92,169	**1,195,353**
Net assets	**72,925**	63,770	53,932	**877,024**
Working capital	**16,132**	123	(5,663)	**194,011**
Interest-bearing debt	**300**	7,493	19,984	**3,605**
Equity ratio (%)	**70.7**	65.2	56.0	**—**
Debt to equity ratio (times)	**0.0**	0.1	0.4	**—**
Number of consolidated subsidiaries	**18**	18	17	**—**
Number of employees (consolidated)	**2,911**	2,864	2,657	**—**
CASH FLOWS:				
Net cash provided by operating activities	**16,665**	19,492	11,160	**200,419**
Net cash used in investing activities	**(620)**	(11,378)	(4,740)	**(7,462)**
Net cash used in financing activities	**(2,125)**	(6,954)	(6,389)	**(25,554)**
Cash and cash equivalents at end of year	**18,238**	4,469	3,365	**219,344**

Notes: 1. Consolidated financial statements prepared from 2009.
2. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥83.15 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2011.
3. A 50-to-1 stock split was conducted on January 14, 2011. Per-share figures were retroactively adjusted to reflect this stock split.

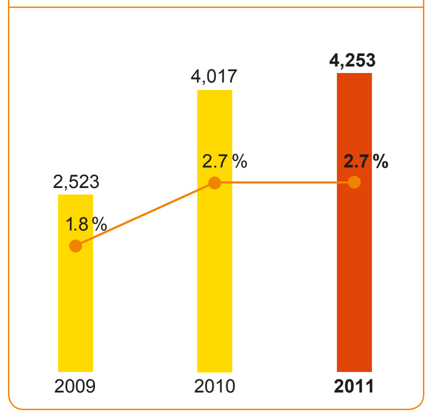
Net Sales
(Millions of yen)



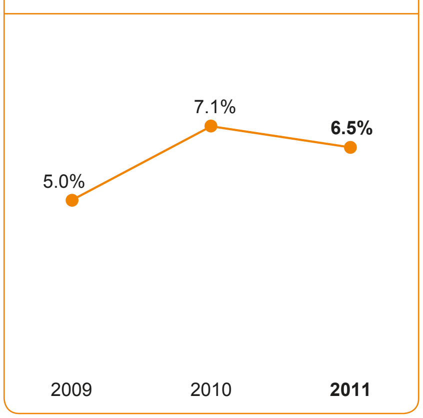
Operating Income / Operating Margin
(Millions of yen, %)
Operating income · Operating margin



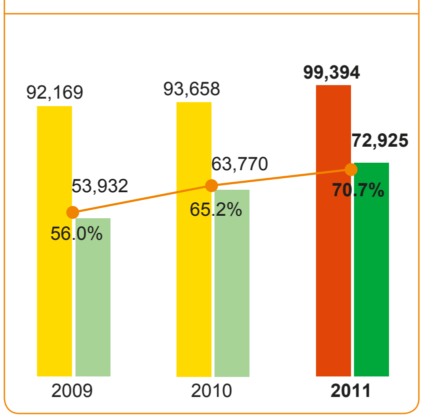
Net Income / Net Income Margin
(Millions of yen, %)
Net income · Net income margin



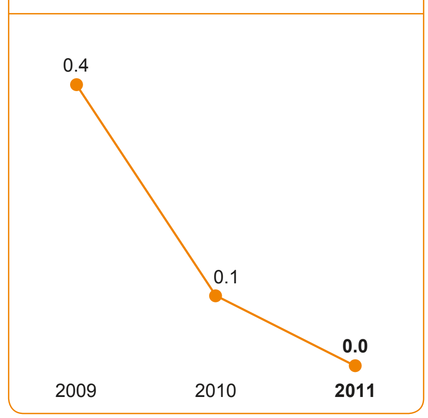
ROE
(%)



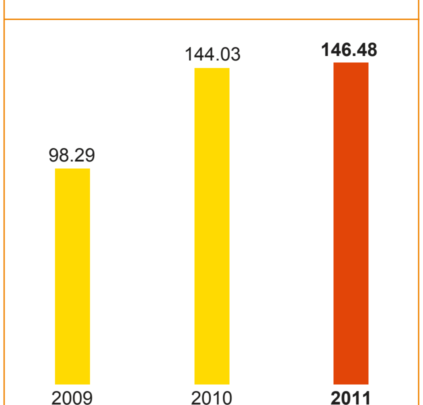
Total Assets / Net Assets / Equity Ratio
(Millions of yen, %)
Total assets · Net assets · Equity ratio



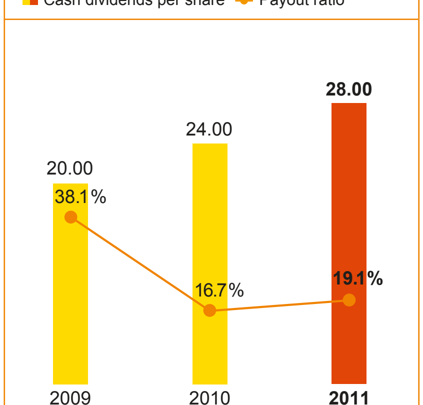
Debt to Equity Ratio
(Times)



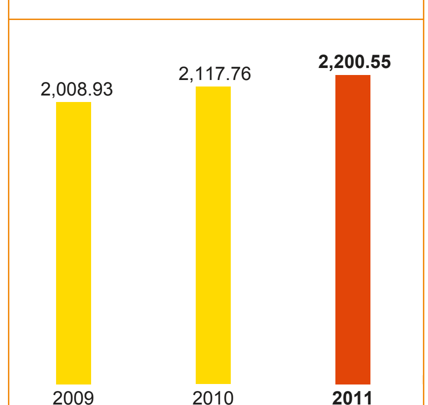
Net Income per Share
(Yen)



Cash Dividends per Share / Payout Ratio
(Yen, %)
Cash dividends per share · Payout ratio

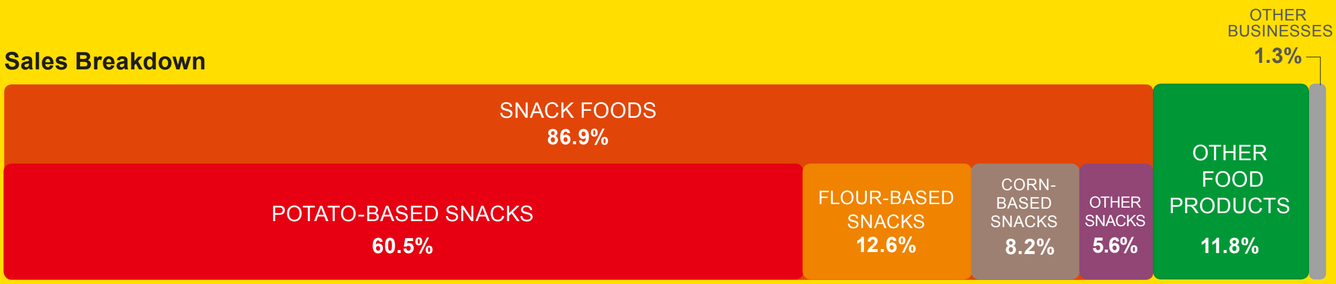


Net Assets per Share
(Yen)



At a Glance

Sales Breakdown



POTATO-BASED SNACKS 60.5%
Composition of Net Sales

Potato Chips (launched 1975)
37.9%

Although we were relative latecomers to the market, our potato procurement system allowed us to supply *Potato Chips* nationwide throughout the year. Our TV advertising campaign also proved successful, propelling *Potato Chips* to the leading position in the market. Today, *Potato Chips* are still the only nationwide potato chips brand in Japan’s snack food market, generating sales of over ¥50 billion annually.

In addition to our range of conventional thin-style potato chips fried in cooking oil, we sell a wide range of different potato chip styles and flavors, such as *Kata-Age Potato*, a range of thickly sliced potatoes fried slowly in a kettle using a traditional method, and *Pizza Potato Chips*, made with our unique “melt flake” technology that gives them an authentic cheese taste. Our lineup is also bolstered by a wide range of flavors to match different seasons, situations and local tastes, helping us to stand out in the market with a product range that satisfies the diverse needs of our customers.

Jagarico (launched 1995)
15.9%

Jagarico is our second megabrand after *Potato Chips*. It was Japan’s first snack in a cup and it has proved popular with a wide range of customers thanks to the unique crunchy texture of the snacks and the easy-to-eat style that leaves hands clean.

Three years after launch, annual *Jagarico* sales reached ¥10 billion, growing to ¥20 billion eight years later. Annual sales have remained stable and today stand at ¥25 billion. This growth reflects the success of targeting *Jagarico* marketing at female school students, in addition to the usual snack food target customer groups of male school students and housewives.

Jagabee (launched 2006)
5.2%

We created *Jagabee* as a strategic product to support future growth. *Jagabee* are made from unpeeled potatoes processed into stick shapes that maintain the original flavor of the potatoes. Their unique texture also sets them apart from *Jagarico*.

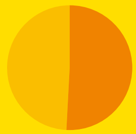
The dough for *Jagabee* is made by Calbee subsidiary RDO-CALBEE FOODS, LLC in the US, with final finishing and packaging carried out in Japan.

Domestic Market Share (Fiscal 2011)

Potato-based Snacks

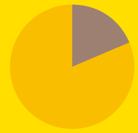
71.0%
No.1

Flour-based Snacks



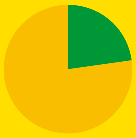
51.1%
No.1

Corn-based Snacks



18.7%
No.1

Cereals



22.8%

1. Calbee Group is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
2. Market share source is Intage SRI (nationwide, all retail formats) Base: sales value, April 2010–March 2011

FLOUR-BASED SNACKS

Composition of Net Sales 12.6%

Launched in 1964, *Kappa Ebisen* (prawn crackers) is made from whole natural prawns, giving them an irresistible flavor that makes it hard to stop snacking. *Kappa Ebisen* is a long-selling product that marked its 47th anniversary this year. Other products in this category include vegetable snacks such as *Sapporo Potato*, *Sayaendo* (mangetout) and *Yaki Morokoshi* (grilled corn), made using natural ingredients.

CORN-BASED SNACKS

Composition of Net Sales 8.2%

Launched in 1983, *Mike Popcorn Butter Shoyu* (butter and soy sauce) flavor was Japan's first popcorn using ingredients to create a Japanese taste. It has remained a popular product ever since. Our corn-based snack business also includes Frito-Lay's global megabrands, *Doritos* and *Cheetos*.

CEREALS

Composition of Net Sales 3.4%

Fruit Granola is Japan's most popular cereal brand. Containing fragrant roasted brown rice, oats and other cereals mixed with dry fruit that retain their natural sweetness, *Fruit Granola* has proved very popular mainly among women, who see it as a ready source of fiber, iron and vitamins.

PROCESSED BREAD

Composition of Net Sales 8.4%

We manufacture sweet buns and bread with savory fillings for supply to retailers.

Special Feature

Calbee's Strengths

Since its establishment in 1949, Calbee has created a steady stream of unique and competitive products that have helped it capture a dominant share of the Japanese snack food market. This overwhelming brand power has been built on a deep commitment to harnessing the flavor and nutrition of natural ingredients to create delicious snack foods. In this special feature, we introduce our portfolio of mega-brands and explain the value chain that supports them.

Value chain covering raw material procurement through to sales

Powerful Brands and Products

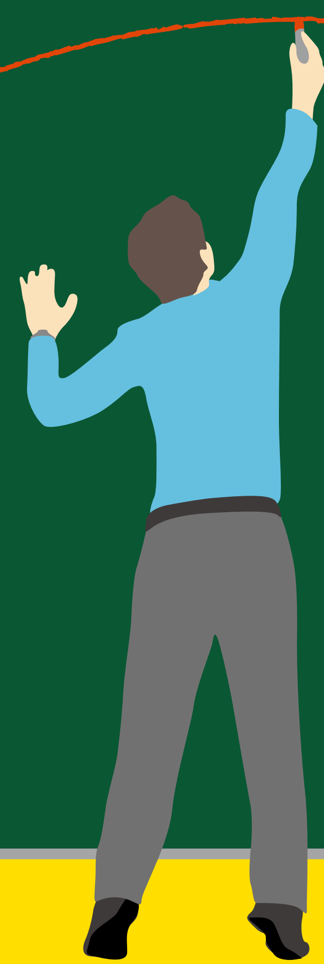
+

Raw material procurement capabilities

+

Brand development capabilities

Close attention to consumer needs



Leading market share in each category

Unique products not offered by overseas competitors

Jagarico Jagabee Vegips

Overwhelming brand power

Domestic snack food market share of 48%

Global Potential

Special Feature

Powerful Brands and Products

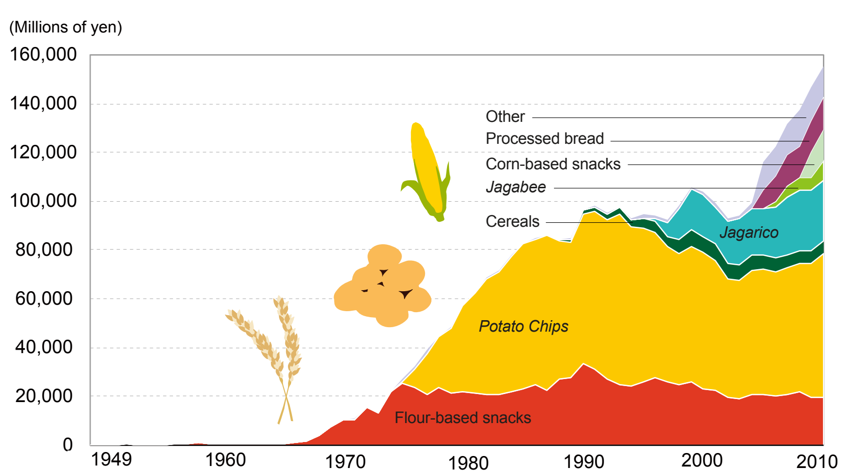
Growth driven by a major new product each decade

Calbee has expanded its business by developing and launching a major new product every 10 years. These products have grown quickly to generate annual sales of ¥10 billion not long after launch, without eating into the sales of existing products.

Calbee is the only company in the domestic confectionery market with megabrands generating sales of over ¥10 billion, while *Potato Chips* is Japan's biggest brand with sales in excess of ¥50 billion. This reflects raw material procurement and sales capabilities that allow us to sell these products across Japan and throughout the year.

Our ability to develop and then nurture megabrands is the Calbee Group's greatest strength.

Net Sales by Product



* On a consolidated basis from 2005

New product development is part of Calbee's corporate DNA

The use of whole natural ingredients is a key feature of Calbee's products. This approach led directly to the success of our first major hit product with sales of over ¥10 billion — *Kappa Ebisen* (prawn crackers), developed in 1964 by Calbee's founder Takashi Matsuo. *Kappa Ebisen* was developed based on the innovative idea of making the crackers from flour, rather than rice, which was traditionally used to make crackers in Japan until that point. Whole fresh prawns were also used. This resulted in a rich flavor that proved extremely popular in the market.

Product development at Calbee is mainly carried out by the R&D Group. This organization develops products based on new ingredients, technologies and approaches, but is also responsible for developing the necessary production facilities and for commercializing the product itself, resulting in an integrated approach. It also installs large volume production lines in parallel with sample product lines.

Innovative ideas are crucial to developing highly original products. To encourage original thinking, Calbee presents an Innovation Prize to the best new product idea submitted by employees from across the Group. The innovative approaches followed by Calbee's founder are part of our corporate DNA today and we seek to draw on this by actively involving employees outside the R&D Group in product development.

We plan to reinforce the management of our product pipeline, reducing the time it takes to develop major new products from 10 years to three to five years. We also intend to step up the development of products based on ingredients other than potatoes.

R&D Group

Jagarico: close attention to consumer needs and a unique manufacturing approach created a new market

We launched *Jagarico* in 1995. To ensure greater success, it was aimed at teenage girls, particularly high-school girls, and young women in their twenties, in addition to our typical target customer groups of teenage boys and housewives. In customer focus groups prior to development, many people said they disliked powder from snacks sticking to their hands. Latching on to this, we adopted a unique production method for *Jagarico* that folds the seasoning into the dough of the snack. We also used an innovative processing method to create the product's original crunchy texture. The cup-style packaging, a first for the snack foods industry, was chosen so that high-school girls could carry *Jagarico* around in their bags. These distinctive features helped *Jagarico* to become popular among a wide range of consumer groups, not just young girls, and it has now grown to become one of Calbee's leading brands.

Jagabee, launched in 2006, is aimed at women in their twenties, who typically tend to shy away from snack foods. Sales are growing steadily on the back of sales area expansion and the roll out of new flavors.

In this way, our new products are opening up new markets, helping us to achieve growth without eating into the sales of existing products.

Jagarico

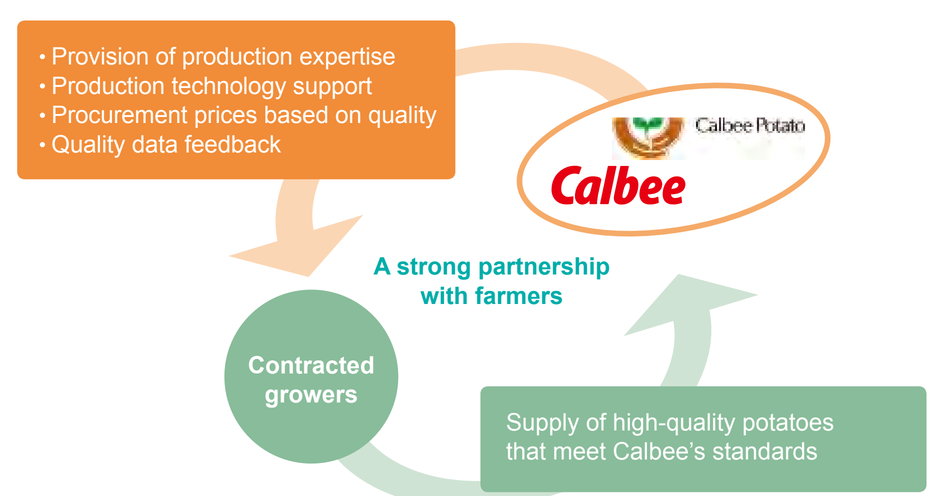
Special Feature

Raw Material Procurement Capabilities

Cultivating potatoes exclusive to Calbee through partnerships with contracted growers

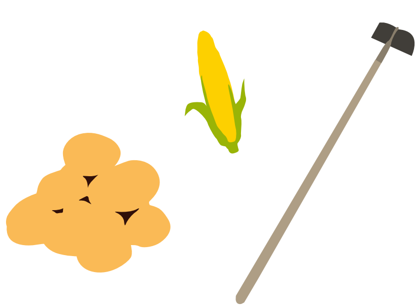
Calbee products are made using processing methods that utilize whole natural ingredients such as potatoes and other vegetables, as well as prawns. Consequently, the quality and volume of our products are highly dependent on growing methods and changes in the weather. We have therefore built close partnerships with producers in the farming and fishing industries to create high-quality raw materials.

In principle, Japan's Plant Protection Act prevents imports of raw potatoes. Although Calbee was a relative latecomer to the potato chips market, our focus on building a stable



procurement system when we launched *Potato Chips* helped propel the brand to the top of the market. We started building this system in 1974 to ensure we had access to steady supplies of the high-quality potatoes needed to make *Potato Chips*. In 1980, we spun off our Potato Procurement Department as CALBEE POTATO INC. This company works to boost quality in a number of ways, such as cultivating new potato varieties, developing new growing technologies, conducting research into stockpiling techniques, and providing support to contracted producers. As of March 31, 2011, Calbee had around 2,500 contracted producers. Japan produces a total of approximately 2.7 million tons of potatoes each year, with Calbee using around 8% of that volume (or 50% of all potatoes used for processing).

The annual potato harvest has to meet supply for 365 days of the year, so stockpiling expertise is crucial. Our stable procurement system and stockpiling know-how are the key to Calbee's competitiveness.



Establishing an overseas procurement route Japan's only plants permitted to import potatoes

We are working to build a system that enables imports of potatoes from overseas in the event of fluctuations in domestic supply volume. Japan has put strict regulations on imports of potatoes in order to protect plants from harmful diseases and pests. Potatoes are particularly susceptible to this kind of infection. Currently, Calbee's Hiroshima-Nishi and Kagoshima factories are the only places in Japan permitted to import potatoes. In the summer of 2010, bad weather led to a drop in the potato harvest and poor plant growth. However, using potatoes produced overseas, we were able to maintain *Potato Chips* supply volume.

Meanwhile, *Jagabee* is made from processed potatoes sourced from our US subsidiary RDO-CALBEE FOODS, LLC, a joint venture with the biggest potato grower in the US, R.D. OFFUTT COMPANY.

We also source raw materials from other countries based on their suitability for processing.

Conditions for Potato Imports

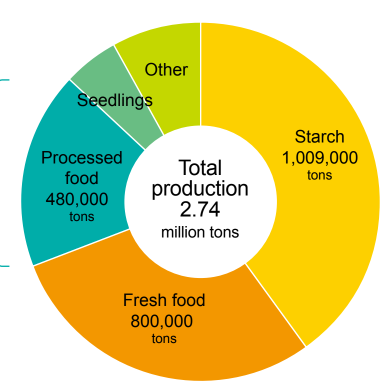
• **Use**	Potato chip processing
• **Growing regions**	California and 12 other US states
• **Import period**	Domestic producer off-season (Feb–Jun)
• **Processing sites**	MAFF-approved factories located in port areas

Domestic Potato Usage by Application (2008)

Calbee's annual usage: roughly 230,000 tons

Around 48% of volume used for processed food

(Equating to roughly 8% of total domestic production)



Source: Hokkaido Government

Special Feature

Brand Development Capabilities

Extensive follow-up system at the retail level

In Japan's confectionery industry, manufacturers typically supply products to wholesalers, who then distribute them to retailers.

Under this system, in order to ensure close communication with consumers, we aim to be faster than any other confectionery company in following up on sales at the retail level. We have marketing representatives throughout Japan who visit sales floors at major retailers. Based on an understanding of the ages and household sizes of customers who visit these stores, they develop high value-added sales promotions that are not simply based on discounting, such as promotions tailored to seasonal and local events. They also offer ideas to energize snack food sales areas, including support for point-of-purchase displays and product displays. In this

way, our marketing representatives have been able to exert considerable control over in-store snack food sales areas. As a result, nearly all major retailers stock our products and display our newly launched products. Each week, several of our new products achieve top-ranked sales.

Major sales structure reforms in 2011

Calbee had used a sales structure based on two organizations: one to follow up on sales at the retail level and another assigned to the head offices of each wholesaler and major retailer. However, we implemented major reforms in April 2011, and the system is now based on sales areas. Supermarkets and convenience stores are the main sellers of our products, but retail formats are becoming increasingly diverse amid intense competition in the industry. The retailers we seek to work with also depend on the region. In order to rapidly and accurately respond to changes in this kind of environment, we decided to create a system that enables each sales team to develop optimum sales promotion activities based on an ongoing understanding of conditions in their sales region and at their respective retailers. This new system is helping us to reinforce sales in each region.

Rejuvenating brands with product relaunches

Even in brands that have become long-sellers, we have to continue rolling out initiatives to keep consumers interested. In our *Potato Chips* range, for example, we launch seasonal flavors available for only a few months and flavors limited to certain local markets. These products complement mainstay flavors that have remained popular for many years, such as *Usushio* (lightly salted), *Norishio* (salted nori laver), and *Consome Punch* (Consommé).

Based on this approach, each year we launch around twenty to thirty new products to keep brands fresh. In mainstay flavors as well, we constantly fine-tune taste and packaging once very few years, while taking due care to protect the characteristics and world-view of the brand image. To support these efforts, the R&D Group, which plays a central role in product development, works daily to create new flavors.

NEW CALBEE SHOP OPENED IN SAN FRANCISCO

In July 2011, we opened a Calbee Shop in the Westfield San Francisco Centre (one of 119 shopping malls operated by the Westfield Group worldwide) to check US market receptivity for our products. The shop has a floor space of around 40m^2 and has a simple, sophisticated feel. It is mainly aimed at working women aged from 20 to 50 and families. Products sold at the Calbee Shop include *Jagarico* (vegetable, curry, black pepper, and teriyaki flavors), *Jagabee* (lightly salted and purple mix flavors), *Vegips* (Garden Duo and Harvest Trio), and *Island Special* (sweet potato chips). They are available in three sizes of cup packaging: small (65g), medium (85g) and large (105g).

Address: 845 Market Street,
San Francisco, CA

http://www.calbeeshop.com/

Corporate Governance

The Calbee Group is working to reinforce its corporate governance system. Through the appointment of outside directors and outside auditors and the introduction of an executive officer system, we have separated business execution and supervisory functions, enhanced management transparency, clarified management responsibilities, speeded up decision-making and reinforced management monitoring functions.

Basic Approach

As stated in our corporate philosophy, “We are committed to harnessing nature’s gifts, to bringing taste and fun, and to contributing to healthy lifestyles.” Based on this thinking, we aim to win the trust and meet the expectations of shareholders, customers, business partners, local communities, and all our other stakeholders, and increase corporate value, which encompasses value for shareholders, customers and employees. We believe reinforcing and enhancing corporate governance plays an important role in this process.

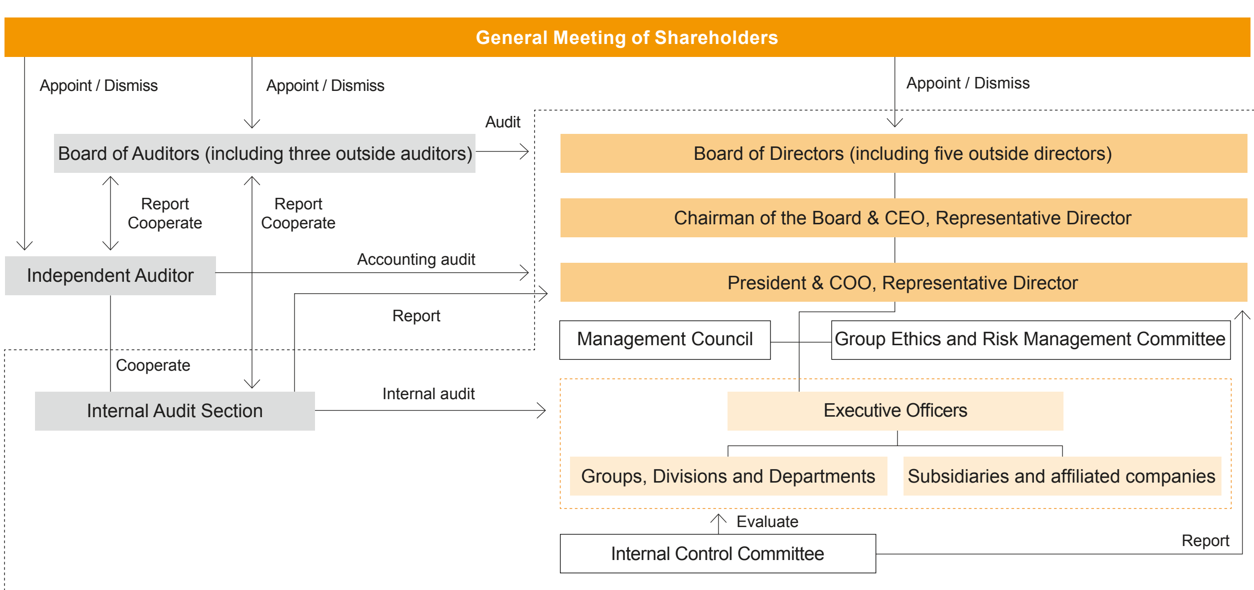
Measures to Reinforce Corporate Governance

2001	• Executive officer system introduced • Outside directors appointed	Business execution and supervisory functions separated, management monitoring functions reinforced
2009	• Number of directors reduced from 11 to seven • Number of outside directors increased from two to five	Separation of business execution and supervisory functions clarified, management monitoring functions reinforced, speed of decision-making increased

Board of Directors and Business Execution

To enhance management transparency, we have appointed outside directors with a high degree of independence and introduced an executive officer system. This separation of business execution and supervisory functions aimed at actively strengthening the monitoring of the Board of Directors is a key characteristic of the Calbee Group’s corporate governance system. The Board of Directors is comprised of two directors and five outside directors. As a general rule, the board meets once every month to discuss resolutions on matters stipulated by law, formulate and

Corporate Governance System



make decisions on key management policies and strategies, and supervise business execution. All the outside directors have extensive management experience and knowledge and perform a business execution supervisory role from an independent standpoint. In fiscal 2011, average attendance at board meetings by outside directors was 88.9%. Business execution is carried out by 23 executive officers who have been given authority to manage specific organizations within the Group. This devolution of authority is part of efforts to create a management system that speeds up decision-making and clarifies business execution responsibility.

To promote rapid and appropriate decision-making, important business matters are discussed in the Management Council by senior executive officers and the heads of relevant business divisions prior to discussion by the Board of Directors.

Board of Auditors and Auditing System

Calbee has adopted a Board of Auditors system. The Board of Auditors comprises four auditors, three of whom are outside auditors. The board works to ensure management transparency and performs a monitoring and supervisory role. As part of this supervisory role, the auditors actively participate in meetings of the Board of Directors and other management meetings, supervising and monitoring the activities of directors and executive officers to ensure no problems arise in business execution. Calbee has concluded an auditing contract with independent auditor Ernst & Young ShinNihon LLC. The Company's auditors receive annual auditing plans and reports on the results of internal audits performed by the independent auditor. They also participate in audits by the independent auditor as needed, and exchange information and opinions on a regular basis as part of a close working relationship.

AN OUTSIDE DIRECTOR'S VIEW

Yuzaburo Mogi, Director

Thanks to the strong lead taken by Calbee executives, I expect to see further reforms to Calbee's corporate governance system in the future.

Calbee has created Japan's most progressive corporate governance system, with two directors and five outside directors.

The system has been in place for two years and is now functioning well. The first reason for this is the strong lead taken by Calbee's executives. To make a system like this work, senior management has to take a proactive role, and in Calbee's case, we have somebody who fills this role—a CEO who worked for many years in a leadership position at a foreign firm and who has a distinctive management approach. He works closely with the COO, a committed long-term employee of Calbee, to carry out business execution based on an understanding of every aspect of the Group and a clear strategic vision. The second reason the system is functioning well lies with Calbee's five outside directors, who carry out all monitoring functions from the standpoint of the ordinary shareholder. The five outside directors are a balanced group drawn from different industries. They check whether the correct decisions are being made through active discussions and question-and-answer sessions during meetings of the Board of Directors.

This corporate governance system has also been accepted by the Group's employees. My impression is that Calbee has an open corporate culture that is welcoming to new ideas. I look for these reforms to gain further ground, helping to drive even greater changes in thinking across the whole Calbee Group.

Internal Control System and Internal Audits

We have established an Internal Control Committee headed by the President & COO as part of efforts to construct and evaluate internal control mechanisms.

In the area of compliance, we have formulated the Calbee Group Code of Conduct and established the Group Ethics and Risk Management Committee headed by the director in charge of compliance. This committee is responsible for implementing activities to promote compliance. The Ethics and Risk Management Division maintains relevant regulations, conducts training for employees and carries out monitoring. It also seeks to maintain and raise awareness about compliance using the Group's internal reporting system.

The Group Ethics and Risk Management Committee was also set up to accurately identify and assess all risks that could have a major impact on the Group's operations in order to minimize any losses. The committee analyses risks facing the Group and examines measures to mitigate any impact, maintains relevant regulations, and submits proposals to the Board of Directors where necessary.

The Internal Audit Section, which has a dedicated staff of five and is under the direct supervision of the President & COO, is responsible for conducting internal audits of the whole Group in accordance with annual audit plans.

Executive Remuneration

Remuneration for Calbee executives comprises basic remuneration commensurate with executive duties, bonuses paid in accordance with the Company's business results for each fiscal year, executive retirement benefits linked to performance during the period of appointment, and stock options. All require approval at the General Meeting of Shareholders.

Total remuneration by executive classification, type of remuneration and number of eligible recipients

Executive classification	Total remuneration (Millions of yen)	Total remuneration by type (Millions of yen)				Number of eligible executives
		Basic remuneration	Stock options	Bonuses	Retirement benefits[1]	
Directors (excluding outside directors)	204	120	—	56	28	2
Auditors (excluding outside auditors)	31	21	—	6	3	1
Outside directors and auditors	104	104	—	—	—	9

Total remuneration paid to individual directors

Name	Total remuneration[2] (Millions of yen)	Executive positions	Total remuneration by type (Millions of yen)			
			Basic remuneration	Stock options	Bonuses	Retirement benefits[1]
Akira Matsumoto	102	Chairman of the Board & CEO, Representative Director	60	—	28	14
Shuji Ito	102	President & COO, Representative Director	60	—	28	14

Notes: 1. Amount provided for in reserve for retirement benefits
2. Only individuals with total remuneration exceeding ¥100 million have been shown.

Board of Directors, Auditors and Executive Officers

(As of June 28, 2011)

Directors

Akira Matsumoto

Chairman of the Board & CEO,
Representative Director

Shuji Ito

President & COO,
Representative Director

Yuzaburo Mogi

Director

1958 Joined Kikkoman Corporation

1995 Appointed Representative Director, President and CEO, Kikkoman

2004 Appointed Representative Director, Chairman and CEO, Kikkoman

2009 Appointed Director, CALBEE, Inc. (current position)

2011 Appointed Honorary CEO and Chairman of the Board of Directors, Kikkoman (current position)

Koji Kioka

Director

1964 Joined KAGOME CO., LTD.

2002 Appointed Representative Director, President, KAGOME

2009 Appointed Representative Director, Chairman, KAGOME

2009 Appointed Director, CALBEE, Inc. (current position)

2011 Appointed Director, Chairman, KAGOME (current position)

Takuma Otoshi

Director

1971 Joined IBM Japan, Ltd.

1999 Appointed Representative Director, President, IBM Japan

2008 Appointed Representative Director, President and CEO, IBM Japan

2009 Appointed Chairman, IBM Japan (current position)

2009 Appointed Director, CALBEE, Inc. (current position)

Kazuo Ichijo

Director

1984 Received MA, Graduate School of Social Sciences, Hitotsubashi University

1995 Received PhD in Business Administration, Graduate School of Business Administration, University of Michigan

2003 Appointed Adjunct Professor, Organizational Behavior and Management, IMD (current position)

2007 Appointed Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (current position)

2009 Appointed Director, CALBEE, Inc. (current position)

Ümran Beba

Director

1994 Joined Frito-Lay Turkey

2009 Appointed South East Europe Region President, PepsiCo, Inc.

2009 Appointed Asia Pacific Region President, PepsiCo (current position)

2010 Appointed Director, CALBEE, Inc. (current position)

Auditors

Tadashi Ishida
Statutory Auditor

1974 Joined Arthur Young, Tokyo Office
1980 Joined Asahi & Co. (now KPMG AZSA LLC)
1980 Registered as Certified Public Accountant (Japan)
2003 Appointed CFO & Executive Vice President, McDonald's Co. (Japan), Ltd.
2011 Appointed Statutory Auditor, CALBEE, Inc. (current position)

Kenji Hara
Statutory Auditor

1977 Joined CALBEE, Inc.
1996 Appointed Manager of Hiroshima Factory, CALBEE
2005 Appointed Manager of Compliance Department, CALBEE
2006 Appointed Manager of General Affairs Department, CALBEE
2009 Appointed Statutory Auditor, CALBEE (current position)

Yoji Inaba
Statutory Auditor

1973 Joined Japan Development Bank (now Development Bank of Japan)
1986 Appointed Senior Economist, Energy Economics Analysis Division, OECD/IEA
1994 Appointed Washington Bureau Chief, Japan Development Bank
1997 Appointed Executive Director, The Japan Economic Research Institute
1997 Appointed Specialist, Electricity Industry Advisory Board, Ministry of International Trade and Industry
2003 Appointed Professor, Faculty of Law, Nihon University (current position)
2007 Appointed Statutory Auditor, CALBEE, Inc. (current position)

Tomomi Yatsu
Statutory Auditor

1986 Joined Sanwa-Tohmatsu Aoki (now Deloitte Touche Tohmatsu LLC)
1990 Registered as Certified Public Accountant
2001 Registered as Attorney-at-Law
2001 Joined New Tokyo International Law Office (now Bingham McCutchen Murase, Sakai Mimura Aizawa – Foreign Law Joint Enterprise)
2007 Appointed Partner, Sakai Mimura Aizawa – Foreign Law Joint Enterprise (current position)
2009 Appointed Statutory Auditor, CALBEE, Inc. (current position)

Executive Officers

Executive Vice Presidents

Takayoshi Naganuma
General Manager of Human Resource & General Affairs Group

Haruhiko Sekiguchi

Executive Managing Officer

Masatoshi Aki
General Manager of R&D Group

Senior Executive Officers

Shoji Tobayama
General Manager of Strategic Planning & New Business Development Group

Makoto Ehara
President & Representative Director of Japan Frito-Lay Ltd.

Executive Officers

Satoshi Eguchi
General Manager of Hokkaido Division

Masakazu Fujii
General Manager of East Japan Division

Yoshihiko Hosokawa
General Manager of Central Japan Division

Kaoru Ishikawa
General Manager of West Japan Division

Hiroaki Yamasaki
General Manager of Marketing Group

Hisao Ebihara
General Manager of Potato Chips Division

Shinobu Egi
General Manager of Snack Division

Naosuke Takaoka
General Manager of Jagarico & Jagabee Division

Hideki Ishibe
General Manager of Sales Group

Takeshi Taniguchi
General Manager of Operation Group

Hideo Abe
General Manager of Engineering Department

Isao Hirakawa
General Manager of Finance & Accounting Group

Yasuyuki Kajigano
General Manager of Information System Group

Kaoru Ishigaki
General Manager of Administration Division

Yasuhide Hayashi
General Manager of Overseas Business Division 1

Seishi Ueno
General Manager of Overseas Business Division 2

Corporate Social Responsibility

The Calbee Group strives to be respected, admired and loved as a corporate group that gives consideration to local communities where it operates and to the natural resources and environments of countries worldwide. The Group implements a wide range of activities with these objectives in mind.

Community Initiatives

Support for Local Communities

We established a Social Contribution Committee in October 2009. The committee is made up of 12 members appointed for two years. Its goal is to help employees across the entire Calbee Group conduct activities that contribute to the community. The committee comes under the direct control of Calbee's President and its members are drawn from a range of divisions and regions selected via an application process. In accordance with the Group's social contribution mission statement, the committee organizes activities to clean up and protect environments around the Group's factories and offices. It also supports sports events and implements other initiatives as part of Calbee's efforts to fulfill its responsibility to local communities and contribute to global society.

Social Contribution Mission Statement

As employees of the Calbee Group and as good citizens, we endeavor to contribute to local communities where we work and to global society as a whole.

Key Themes

1 Support for Local Communities
2 Support for Parenting
3 Protecting the Environment

● Assistance for areas affected by the Great East Japan Earthquake

Four Calbee Group manufacturing sites were damaged by the Great East Japan Earthquake on March 11, 2011. We immediately set up a task force after the earthquake and began confirming the safety of our employees and suppliers. We also rapidly implemented response and support measures to restore operations.

Employees and the Company donated a total of approximately ¥140 million to the disaster region and those affected by the earthquake, including donations of ¥76 million, and supplies worth ¥64 million.

We plan to continue implementing a range of measures to assist the recovery in the disaster region, including using our volunteer leave system to enable employees to participate in the recovery effort.

● Dietary education activities

The Calbee Group aims to use its snack foods to help children learn how to lead healthy lives. Our Calbee Snack School visits elementary schools nationwide to provide children with useful advice and hands-on experiences that help them to enjoy their food. As of fiscal 2011, a total of 190,000 children had taken part in these sessions since they started in 2003.

● Support for KIDS EARTH FUND

We donate a portion of sales from *Jagabee* products to the KIDS EARTH FUND. The KIDS EARTH FUND is an organization that provides support for daily living and psychological care to children worldwide who have been affected by disease, war and disasters, through activities such as painting workshops. Paintings created by children are displayed on *Jagabee* packaging and some of the money from these packets is donated to support the fund's Kids Helping Kids program.

Jagabee packaging printed with "Cute Giraffe" by 5-year-old Fang Tianes of China.

Support for Employees

● Promoting diversity

We established a Diversity Promotion Committee in April 2010 made up of 15 members appointed for one year. The committee is guided by the idea that a diverse and enthusiastic workforce can energize companies.

In fiscal 2011, the official start date of our diversity program, we held a number of events to promote greater employee understanding and shared ideals about diversity. We also revised and raised the awareness of related systems such as personnel systems. We plan to continue this diversity program so that Calbee becomes a company where anyone can succeed, regardless of gender, nationality, or disability.

Environmental Initiatives

Working to solve environmental issues, such as preventing global warming and reducing waste, is a vital social quality for companies that pursue sustainable development. In order to minimize the impact of the Calbee Group's products and business activities on the environment, we aim to use natural resources efficiently, utilize recyclable resources that are managed in a sustainable manner, and reduce waste emission volume to zero. We are putting priority on reducing CO_2 emissions, water usage, and waste as key areas specific to our business activities.

● Combating global warming

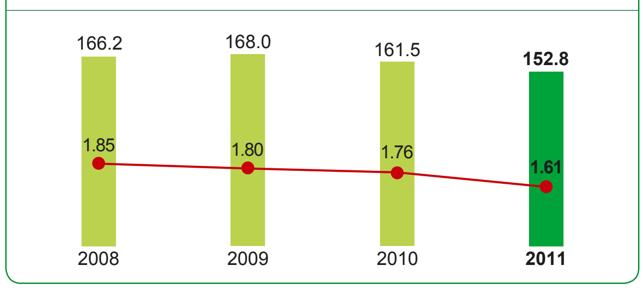
The Calbee Group launched a CO_2 Reduction Project in 2008 and is working to conserve energy and reduce resource usage across the Group.

In our production activities, we compile and disclose energy consumption for each processing line, make improvements to production schedules, and with the aim of fundamentally reducing energy usage, convert energy sources to alternative fuels.

In our distribution and transport activities, we are reviewing distribution routes, improving truck fuel efficiency, and expanding the use of rail transport.

In fiscal 2011, the Group's CO_2 emissions totaled 152.8 thousand tons (down 5.4% year on year; 5.1% lower than targeted), while CO_2 emissions per one ton of production totaled 1.61 tons (down 8.5% year on year).

CO_2 Emissions and Emissions Per Unit of Production



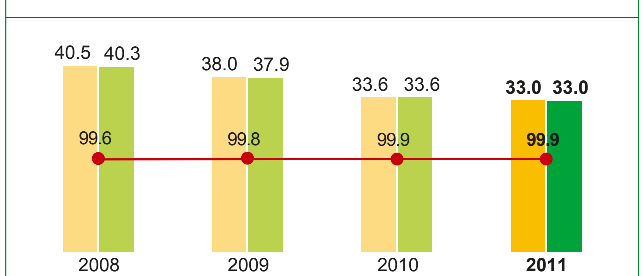
Source: CALBEE, Inc., oisia FOODS CO., LTD., CALBEE POTATO INC.

● Using resources efficiently

Each Calbee factory is working to reduce waste such as vegetable matter like potato skin and unusable potato parts leftover after the production process, by promoting zero emissions and recycling. Specific initiatives include separating waste, limiting the creation of waste, using leftover vegetable matter for fertilizer, cleaning effluent using microorganisms, and recycling used oils and plastic packaging.

In fiscal 2011, the Group's 12 main factories, out of a total of 17, generated 33.0 thousand tons of waste, of which 99.9% was recycled.

Waste Volume, Reused Waste Volume and Recycling Ratio



Source: CALBEE, Inc. (nine factories), oisia FOODS CO., LTD., CALBEE POTATO INC. (Obihiro Factory), R&D Group (attached factory)

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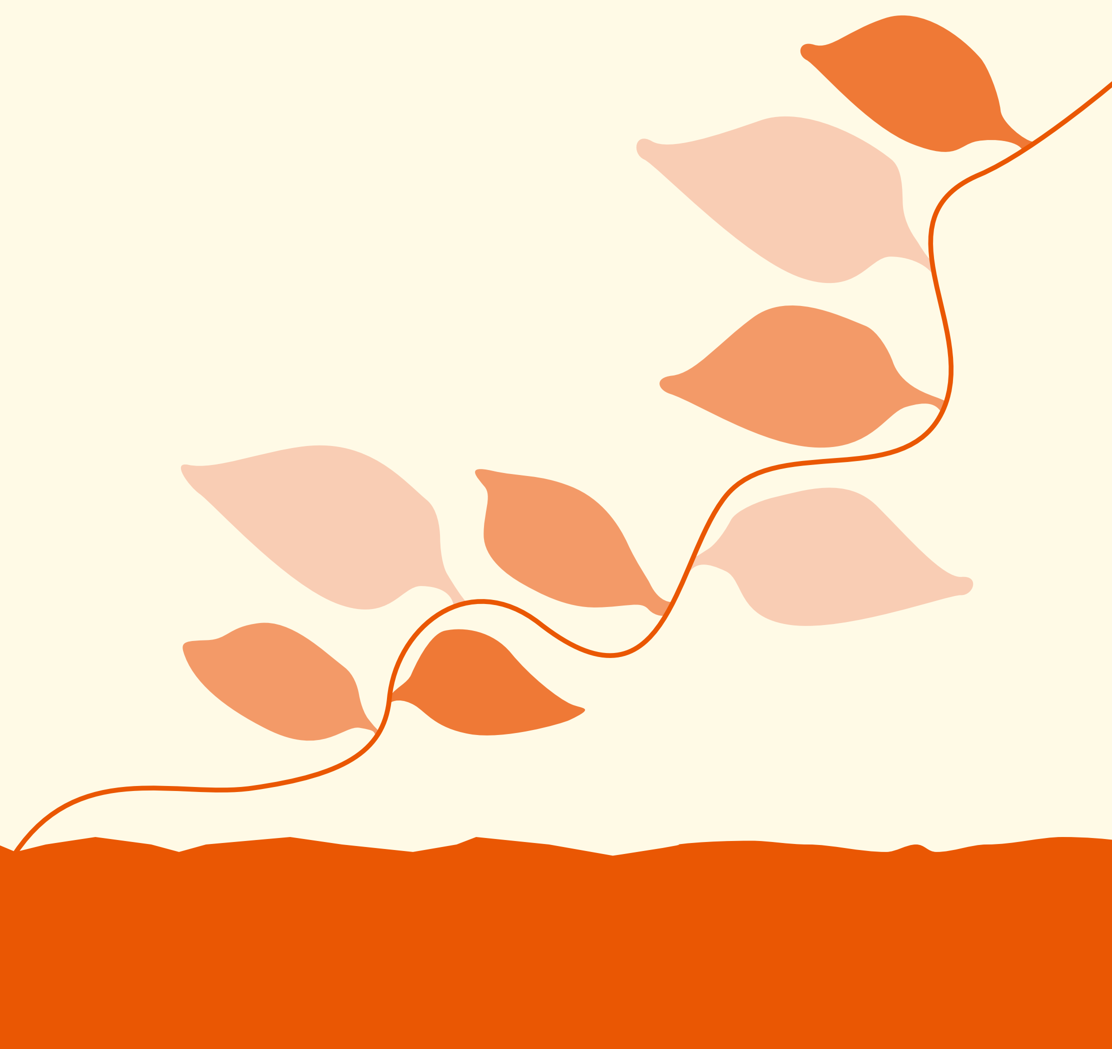
Financial Section



Management's Discussion and Analysis

Operating Results

Net Sales

In the fiscal year ended March 31, 2011 (fiscal 2011), net sales increased ¥9,076 million (6.2%) year on year to ¥155,529 million, mainly reflecting a strong performance by the food production and sales business.

Net sales in the food production and sales business totaled ¥153,507 million, an increase of 6.1% year on year.

Snack food sales rose 6.7% to ¥135,158 million, driven by potato- and corn-based snack products.

1) Potato-based Snacks

In the *Potato Chips* brand, we rolled out aggressive marketing activities during the year. Specific initiatives included relaunching the *Norishio* (salted nori laver) flavor and releasing new spicy flavors.

In order to strengthen our *Thickly Sliced Chips* brand, we launched seasonal products in our *Pizza Potato Chips* range and began selling other products throughout the year. In the *Jagabee* brand, we expanded sales channels and strengthened the product range. As a result, sales of potato-based snacks rose year on year.

2) Flour-based Snacks

Sales of mainstay products such as *Kappa Ebisen* (prawn crackers) and *Sapporo Potato* were steady, partly thanks to being featured in a popular TV show. As a result, sales of flour-based snacks were roughly level with the previous fiscal year.

3) Corn-based Snacks

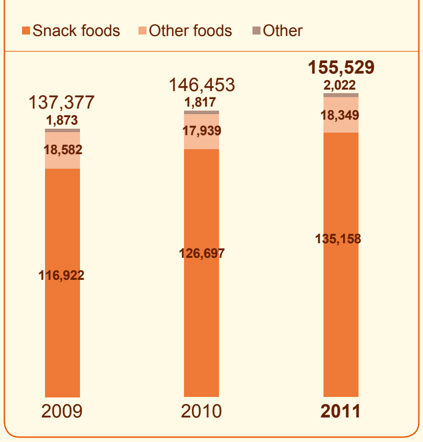
Sales increased year on year due to robust sales of mainstay products such as *Mike Popcorn* and private-brand products. The increase in sales also reflected a full year of sales at Japan Frito-Lay Ltd. in fiscal 2011, compared with only three quarters in fiscal 2010 (the company became a consolidated subsidiary in July 2009).

In **other food products** (processed bread, cereals), sales rose 2.3% year on year to ¥18,349 million, supported by higher sales of processed bread and cereals.

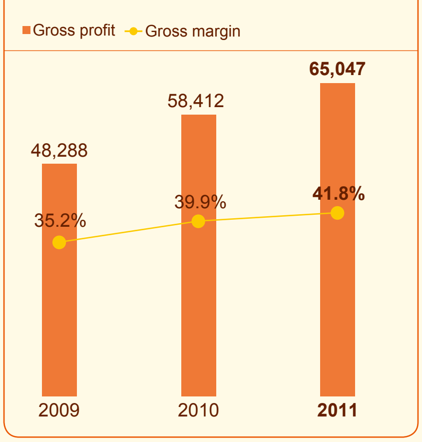
The growth in processed bread reflected firm sales of fresh processed bread to convenience stores, while cereal sales rose on the back of strong sales of *Fruit Granola*.

In **other businesses**, sales increased 11.3% year on year to ¥2,022 million, owing to higher sales in the distribution business and in the sales promotion tool business.

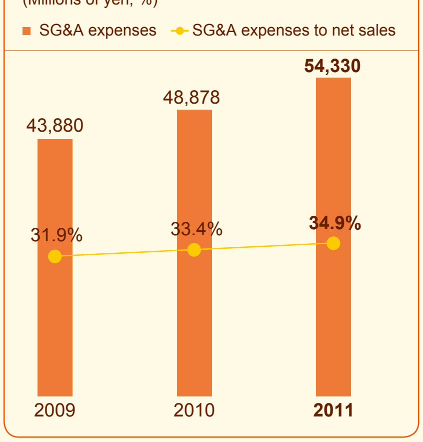
Net Sales
(Millions of yen)



Gross Profit / Gross Margin
(Millions of yen, %)



SG&A Expenses / SG&A Expenses to Net Sales
(Millions of yen, %)



Gross Profit

Gross profit increased ¥6,635 million year on year to ¥65,047 million, mainly reflecting cost reductions, a decline in material costs thanks to the strong yen, and higher sales. The gross margin rose 1.9 percentage points year on year to 41.8%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥5,452 million year on year to ¥54,330 million. The increase was mainly due to aggressive spending on sales promotion aimed at boosting domestic market share.

Operating Income

As a result of the above, operating income rose ¥1,183 million (12.4%) year on year to ¥10,717 million.

Other Income (Expenses)

Other income deteriorated by ¥400 million, with losses of ¥2,163 million incurred as a result of the Great East Japan Earthquake outweighing a rise of ¥961 million in gains on the sale of property, plant and equipment, a decrease in impairment losses of ¥809 million, and a decline in loss on disposal of property, plant and equipment of ¥577 million.

Net Income

As a result of the above, net income rose ¥236 million (5.9%) year on year to ¥4,253 million.

Net income per share was ¥146.48. ROE was 6.5%, a deterioration of 0.6 percentage point compared with fiscal 2010.

Financial Position

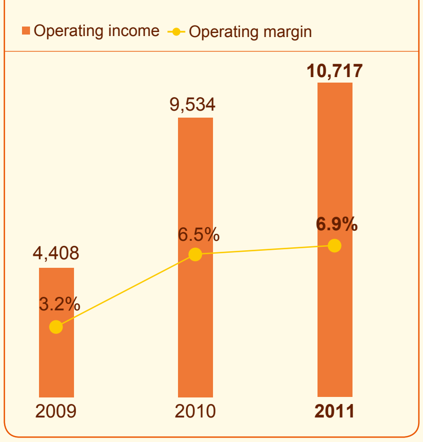
Assets, Liabilities and Net Assets

As of March 31, 2011, total assets stood at ¥99,394 million, an increase of ¥5,736 million compared with the end of the previous fiscal year. This mainly reflected an increase in capital and additional paid-in capital as a result of the public offering when the Company listed on the First Section of the Tokyo Stock Exchange. Meanwhile, in order to strengthen the balance sheet, the Company sold and disposed of property, plant and equipment and repaid debt.

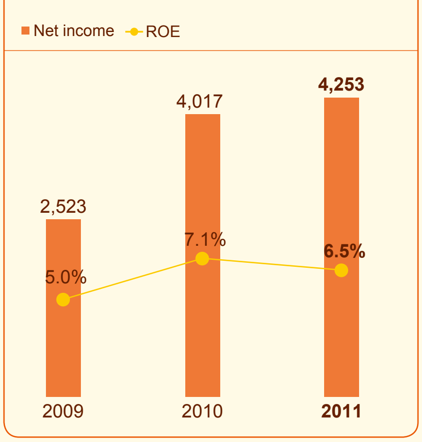
Despite declines for buildings and structures, machinery and vehicles, land, and investment securities, total assets increased by ¥5,736 million from the end of the previous fiscal year to ¥99,394 million, mainly due to an increase in cash and deposits.

Other payables related to the purchase of equipment increased and the Company booked an allowance for loss on disaster, but liabilities declined by ¥3,419 million to ¥26,469 million, owing to the repayment of long-term debt.

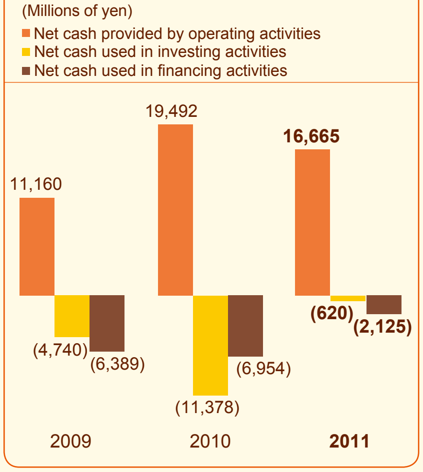
Operating Income / Operating Margin
(Millions of yen, %)



Net Income / ROE
(Millions of yen, %)



Cash Flows
(Millions of yen)



Net assets increased by ¥9,155 million to ¥72,925 million, due to an increase in capital and additional paid-in capital following the public offering and the booking of net income.

As a result, the equity ratio rose 5.4 percentage points year on year to 70.7%. Net assets per share was ¥2,200.55.

Cash Flows

As of March 31, 2011, cash and deposits totaled ¥18,238 million, an increase of ¥13,769 million compared with the end of the previous fiscal year.

Cash flows and the main factors behind the changes in cash flows during fiscal 2011 were as follows:

Cash Flows from Operating Activities

Operating activities provided net cash of ¥16,665 million, down from ¥19,492 million provided in the previous fiscal year. Increases in cash included income before income taxes and minority interests of ¥8,332 million, depreciation and amortization of ¥7,244 million, and loss on disaster of ¥2,163 million, while decreases in cash included income taxes paid of ¥4,123 million and a decrease in gain on sale of property, plant and equipment of ¥871 million.

Cash Flows from Investing Activities

Investing activities used net cash of ¥620 million, compared with net cash used of ¥11,378 million in the previous fiscal year. Decreases in cash included payments for the acquisition of property, plant and equipment of ¥3,551 million, mainly production equipment in the food production and sales business, while increases included proceeds from sale of property, plant and equipment of ¥3,125 million.

Cash Flows from Financing Activities

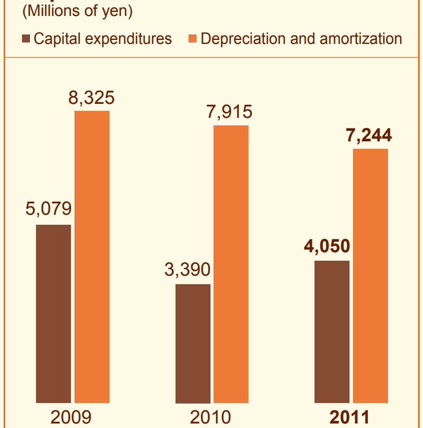
Financing activities used net cash of ¥2,125 million, compared with net cash used of ¥6,954 million in the previous fiscal year. Increases in cash included inflow from stock issuance of ¥5,541 million, while decreases included a net decrease in short-term borrowings of ¥2,600 million and repayment of long-term debt of ¥4,569 million.

Capital Expenditures

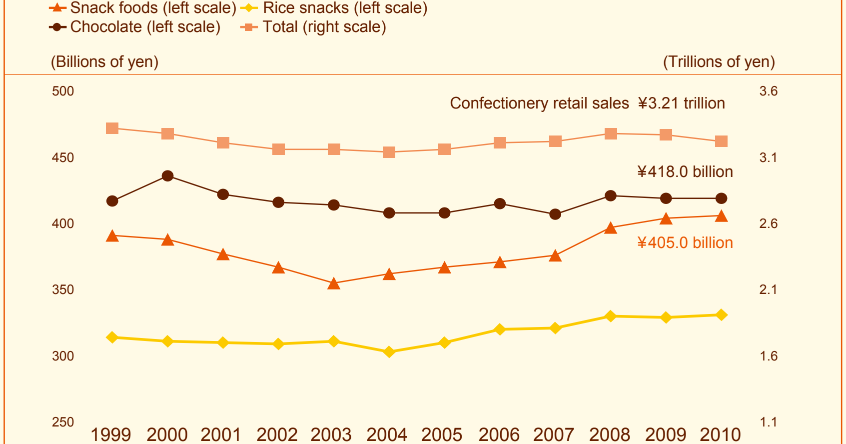
In fiscal 2011, capital expenditure totaled ¥4,050 million. This mainly comprised ¥476 million for *Hitokuchi Bizen* (bite-size cereal snacks) manufacturing facilities and ¥230 million for *Jagabee* manufacturing facilities. In addition, the Group invested to upgrade other production equipment in the food production and sales business to improve environmental performance, productivity and quality.

The Company did not sell or dispose of any major facilities during fiscal 2011.

Capital Expenditures / Depreciation and Amortization
(Millions of yen)



Market Size of Confectionery in Japan



Source: All Nippon Kashi Association

Business Risks

The major risks to which the Calbee Group (the Group) is exposed in its operations are described below. In the interests of full disclosure, information has also been provided on risks that are not anticipated to necessarily have a major impact on the business but has been deemed important to engender greater understanding of the Group's business activities.

Recognizing the possibility that these risks may materialize, the Group's policy is to avoid such risks where possible and to mitigate any impact in the event that they materialize. The potential risks and forward-looking statements described below are based on judgments made by the Group as of the date of publication of this report.

1. Product Development

The Group conducts research and development activities to provide customers with unique, value-added products that maximize the nutritional content and flavor of natural ingredients. The Group's operating environment is meanwhile undergoing considerable change owing to diversifying customer tastes, growing health awareness, and Japan's ageing society. The ability to rapidly respond to these changes and develop high value-added products is becoming an increasingly important factor in the Group's business expansion. As such, the Group conducts research and development activities in accordance with annual plans in the areas of new product development, existing product improvement, cost reduction, and analysis of ingredients and nutrients. However, there is no guarantee that investment in these development activities will succeed and all new products will be launched, and any divergence between research and development themes and market needs could have an impact on the Group's operating results and financial position.

2. Ingredient Procurement

In principle, imports of raw potatoes, the main ingredient of potato snacks such as *Potato Chips*, *Jagarico* and *Jagabee*, are not permitted in Japan. In order to secure sufficient supplies of domestically produced high-quality potatoes at a stable price, the Group has sought to build a procurement system based on grower contracts that it has concluded since launching its first potato-based snacks. Although these grower contracts enable stable supplies, harvest conditions could prevent the Group from securing sufficient supplies of raw potatoes, resulting in sales opportunity losses and an increase in costs due to emergency procurement that could have an impact on the Group's operating results and financial position.

Changes in procurement costs for a wide range of raw materials such as cooking oils and other ingredients and product packaging, due to changing demand trends and fluctuations in the price of crude oil, could also have an impact on the Group's operating results and financial position.

3. Product Safety

Consumer demands for greater food safety have risen in recent years. In response, the Group strictly monitors the quality of ingredients and manufacturing processes and takes all possible precautions to ensure product quality and prevent foreign objects from entering its products. However, unforeseen problems related to ingredients and manufacturing processes could have an impact on the Group's operating results and financial position.

Furthermore, in April 2002 the Swedish government released the results of research showing that grilling or frying foods with high carbohydrate content can generate acrylamide, a carcinogen. Japan's Ministry of Health, Labour and Welfare has said it does not foresee any health impact from this substance for people who consume average amounts of this type of food, and at this point, there has been no impact on the Group's operating results. Nevertheless, this issue could develop in the future to the point where it has an impact on the entire snack foods industry.

4. Competitive Risk

The Group has a stable share of the snack food market. However, intensifying competition from rival domestic companies, a significant influx of foreign capital into the market, or sector realignment due to M&A deals could have an impact on the Group's operating results and financial position.

In addition, choosing to lower prices in response to price reductions implemented by competitors could result in lower profit margins and other outcomes, which in turn could have an impact on the Group's operating results and financial position.

5. Global Expansion

The Group is using subsidiaries in China, Hong Kong, Thailand, and the US to expand its operations outside the Japanese market. The Group believes it is necessary to develop markets from a global perspective to deliver growth over the longer term. Going forward, it intends to expand its operations more rapidly and boost its competitiveness. However, efforts to develop its presence in global markets may not proceed as anticipated and the Group may have to review its growth strategy. In addition, as the Group expands its operations, changes in the political and economic conditions of a variety of countries and regions, as well as fluctuations in foreign exchange markets, could have an impact on the Group's operating results and financial position.

6. Relationship with Major Shareholder

As of March 31, 2011, FRITO-LAY GLOBAL INVESTMENTS B.V. (FLGI), a wholly-owned subsidiary of PepsiCo, Inc., owned 20.00% of CALBEE, Inc. shares (after full dilution) making Calbee (the Company) an equity-method affiliate of PepsiCo. FLGI, which directly owns the shares of the Company, is a wholly-owned PepsiCo subsidiary, so PepsiCo effectively makes all decisions regarding the exercise of common share voting rights. PepsiCo is one of the world's largest food and beverage makers and is listed on the New York Stock Exchange. Also, PepsiCo operates globally in the same snack foods field as the Company via group companies, primarily its subsidiary Frito-Lay North America, Inc.

On June 24, 2009, the Company and PepsiCo concluded a strategic alliance, based on the understanding that combining management capabilities to generate synergies was necessary to deliver sustained growth for both companies. In order to reinforce the partnership with PepsiCo, the Company allocated new shares to PepsiCo's wholly-owned subsidiary FLGI via a private placement, and at the same time, acquired all the shares of PepsiCo's subsidiary Japan Frito-Lay Ltd.

Under the strategic partnership, PepsiCo has agreed not to operate a snack food business in the Japanese market and therefore does not compete with the Company in Japan. Also, because no restrictions have been placed on overseas business development, the Company believes there are no limits on its management decisions or business development under the agreement.

The Company intends to maintain this strategic partnership and work toward boosting corporate value. However, in the future it may no longer be possible to generate synergies from the partnership in the event that PepsiCo makes changes to its management policy and business strategy. In addition, the PepsiCo Group could become a competitor in the Japanese market in the event that the partnership is dissolved for whatever reason. Any of these developments could have an impact on the Group's operating results and financial position.

a. Personnel Relationship

Currently, one person from the PepsiCo Group has been invited to sit on the Company's Board of Directors as an outside director. The Company made this invitation in order to benefit from the individual's detailed understanding of the global food industry and their knowledge and experience as a manager of a multinational company.

Name	Position at the Company	Position in the PepsiCo Group
Ümran Beba	Director	PepsiCo Asia Pacific Region President

b. Business Relationship

The Company's subsidiary Japan Frito-Lay Ltd. receives imports of snack foods from Frito-Lay, Inc., a PepsiCo Group company.

c. Capital Relationship

Under the strategic partnership with PepsiCo, the Company and PepsiCo have agreed that from the perspective of maintaining the strategic partnership, PepsiCo shall not own more than 20.00% of the Company's shares. In the future, PepsiCo's ownership ratio in the Company may be subject to change, owing to changes in the management policies or business strategies of PepsiCo or the Company, or as a result of other factors such as changes in the Company's internal or external business environment.

7. Legal Regulations

In the course of its business activities, the Group is subject to a range of legal regulations, including the Food Sanitation Act, Act against Unjustifiable Premiums and Misleading Representations, Measurement Act, Unfair Competition Prevention Act, Plant Protection Act, and Consumer Product Safety Act. The Group may incur additional costs to respond to revisions to these regulations or their abolishment and the implementation of new regulations, and this could have an impact on the Group's operating results and financial position.

The Group has also received a variety of permits and licenses necessary to conduct its business activities. However, the Group's business activities may be restricted if these permits and licenses are cancelled due to legal infringements or other reasons, which could have an impact on the Group's operating results and financial position.

8. Natural Disaster Risk

The Group conducts necessary periodic inspections of its manufacturing lines to avoid the potential risk of shutdowns to these lines. It has also built a stable product supply framework by dispersing its manufacturing sites. However, there is no guarantee that manufacturing facilities will not be damaged as a result of a natural disaster or other event. Any such damage to facilities could lead to a drop in sales and an increase in costs, which could have an impact on the Group's operating results and financial position.

9. Risks Related to Fixed Asset Impairment Losses

The Group owns a wide range of assets such as business facilities and real estate. The Group may be required to record impairment losses on these assets owing to factors such as the level of use, declining market prices, and anticipated future cash flows, which could have an impact on the Group's operating results and financial position.

10. Risks Related to Intellectual Property Rights

The Group works to protect and manage its various intellectual property rights through a specialist department. It also strives to avoid infringements of rights owned by third parties. However, unauthorized use of the Group's intellectual property rights by a third party or pursuit of damages by a third party for infringement of their rights by the Group could have an impact on the Group's operating results and financial position.

11. Environmental Risk

The Group is aiming to save energy and reduce CO_2 emissions by implementing initiatives to conserve energy based on the approach of curbing energy losses. This is part of its efforts to comply with environmental laws and regulations. However, the Group may have to invest in new facilities and change its waste disposal methods as a result of revisions to environmental regulations, and this could have an impact on the Group's operating results and financial position.

Consolidated Balance Sheets

CALBEE, Inc. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	**2011**	2010	**2011**
Current assets:			
Cash and deposits (Notes 5 and 14)	**¥ 18,238**	¥ 4,469	**$ 219,344**
Notes and accounts receivable (Note 5)	**11,139**	11,911	**133,968**
Inventories (Note 7)	**4,277**	4,669	**51,431**
Deferred tax assets (Note 9)	**2,003**	1,647	**24,087**
Others	**1,777**	1,794	**21,368**
Allowance for doubtful accounts	**(14)**	(23)	**(169)**
Total current assets	**37,420**	24,467	**450,030**
Property, plant and equipment:			
Land (Note 18)	**10,707**	11,739	**128,769**
Buildings and structures (Note 18)	**53,064**	58,530	**638,173**
Machinery and vehicles	**69,831**	69,843	**839,815**
Tools, furniture and fixtures	**3,303**	3,599	**39,720**
Lease assets	**462**	320	**5,558**
Construction in progress	**619**	220	**7,446**
	137,986	144,250	**1,659,481**
Accumulated depreciation	**(89,508)**	(90,569)	**(1,076,460)**
Property, plant and equipment, net	**48,478**	53,681	**583,021**
Investments and other assets:			
Investment securities (Notes 5 and 6)	**1,139**	1,616	**13,697**
Investments in affiliates (Notes 5 and 6)	**12**	201	**139**
Long-term loans	**160**	148	**1,919**
Prepaid pension cost (Note 11)	**2,537**	2,699	**30,515**
Deferred tax assets (Note 9)	**377**	339	**4,531**
Goodwill (Note 13)	**4,823**	5,373	**58,002**
Others	**4,543**	5,564	**54,640**
Allowance for doubtful accounts	**(95)**	(430)	**(1,141)**
Total investments and other assets	**13,495**	15,510	**162,302**
Total assets	**¥ 99,394**	¥ 93,658	**$ 1,195,353**

Liabilities	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 4) 2011
Current liabilities:			
Accounts payable (Note 5)	¥ 5,656	¥ 5,876	$ 68,022
Short-term borrowings and current portion of long-term debt (Note 8)	290	6,367	3,485
Lease obligations (Note 8)	105	71	1,260
Other payables	3,914	2,716	47,076
Income taxes payable	2,444	2,566	29,389
Deferred tax liabilities (Note 9)	93	105	1,122
Allowance for bonuses	3,096	2,360	37,235
Allowance for directors' bonuses	182	196	2,191
Allowance for loss on disaster	1,379	—	16,582
Others	4,130	4,088	49,663
Total current liabilities	21,288	24,344	256,025
Non-current liabilities:			
Long-term debt (Note 8)	10	1,126	120
Lease obligations (Note 8)	259	228	3,110
Deferred tax liabilities (Note 9)	350	337	4,203
Allowance for employees' retirement benefits (Note 11)	3,335	3,309	40,111
Allowance for directors' retirement benefits	425	339	5,107
Asset retirement obligations	658	—	7,918
Others	144	204	1,735
Total non-current liabilities	5,181	5,544	62,304
Net assets (Note 10):			
Shareholders' equity:			
Common stock:			
Authorized 2010 and 2011—44,000,000 shares			
Issued 2010—577,135 shares	—	7,757	—
Issued 2011—31,917,450 shares	10,744	—	129,217
Additional paid-in capital	10,313	7,325	124,023
Retained earnings	49,939	46,395	600,586
Treasury stock:			
2010—146 shares	—	(14)	—
2011— 0 shares	—	—	—
Total shareholders' equity	70,996	61,463	853,826
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	(62)	36	(748)
Foreign currency translation adjustments	(697)	(403)	(8,388)
Total accumulated other comprehensive income (loss)	(760)	(367)	(9,136)
Subscription rights	103	119	1,236
Minority interests	2,586	2,555	31,099
Total net assets	72,925	63,770	877,024
Total liabilities and net assets	¥99,394	¥93,658	$1,195,353

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

CALBEE, Inc. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Net sales	¥155,529	¥146,453	$1,870,466
Cost of sales (Notes 7 and 16)	90,482	88,041	1,088,181
Gross profit	65,047	58,412	782,285
Selling, general and administrative expenses (Notes 15 and 16)	54,330	48,878	653,395
Operating income	10,717	9,534	128,891
Other income (expenses):			
Interest and dividend income	69	77	834
Settlement of recycling commission fee	98	141	1,183
Interest expense	(59)	(159)	(705)
Foreign exchange losses	(237)	(89)	(2,852)
Gain on sale of property, plant and equipment (Note 17)	967	6	11,631
Gain on compensation	—	112	—
Gain on receipt of subsidy	172	70	2,074
Loss on disposal of property, plant and equipment (Note 17)	(494)	(1,071)	(5,944)
Impairment loss (Note 18)	(101)	(910)	(1,213)
Loss on disaster (Note 19)	(2,163)	—	(26,010)
Effect of adopting accounting standard for asset retirement obligations	(351)	—	(4,227)
Loss on sale of investment securities (Note 6)	(164)	—	(1,973)
Other	(124)	(161)	(1,487)
Income before income taxes and minority interests	8,332	7,549	100,203
Income taxes (Note 9):			
Current	(4,016)	(3,492)	(48,301)
Deferred	324	244	3,896
	(3,692)	(3,247)	(44,404)
Income before minority interests	4,640	4,302	55,799
Minority interests	(386)	(285)	(4,645)
Net income	¥ 4,253	¥ 4,017	$ 51,154

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

CALBEE, Inc. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Income before minority interests	¥4,640	¥4,302	$55,799
Other comprehensive income			
Unrealized holding gain (loss) on securities	(98)	25	(1,180)
Foreign currency translation adjustments	(461)	(217)	(5,541)
Total other comprehensive income	(559)	(193)	(6,721)
Comprehensive income	¥4,081	¥4,108	$49,078
Comprehensive income attributable to the owners of the Company	¥3,860	¥3,895	$46,427
Comprehensive income attributable to minority interests	¥ 220	¥ 214	$ 2,651

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

CALBEE, Inc. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Shareholders' equity			
Common stock:			
Balance at beginning of the year	¥ 7,757	¥ 2,745	$ 93,289
Issuance of stock	2,784	5,007	33,476
Issuance of stock (exercise of subscription rights)	204	5	2,452
Balance at end of the year	¥10,744	¥ 7,757	$129,217
Additional paid-in capital:			
Balance at beginning of the year	¥ 7,325	¥ 2,313	$ 88,088
Issuance of stock	2,784	5,007	33,476
Issuance of stock (exercise of subscription rights)	204	5	2,452
Disposition of treasury stock	1	—	7
Balance at end of the year	¥10,313	¥ 7,325	$124,023
Retained earnings:			
Balance at beginning of the year	¥46,395	¥46,772	$557,972
Cash dividends paid	(692)	(514)	(8,327)
Net income	4,253	4,017	51,154
Changes in scope of consolidation	(18)	—	(212)
Retirement of treasury stock	—	(3,881)	—
Balance at end of the year	¥49,939	¥46,395	$600,586
Treasury stock:			
Balance at beginning of the year	¥ (14)	¥ —	$ (167)
Acquisition of treasury stock	—	(3,895)	—
Retirement of treasury stock	—	3,881	—
Disposition of treasury stock	14	—	167
Balance at end of the year	¥ —	¥ (14)	$ —
Total shareholders' equity:			
Balance at beginning of the year	¥61,463	¥51,830	$739,182
Net changes during the year	9,533	9,633	114,644
Balance at end of the year	¥70,996	¥61,463	$853,826
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities:			
Balance at beginning of the year	¥ 36	¥ 11	$ 432
Net changes during the year	(98)	25	(1,180)
Balance at end of the year	¥ (62)	¥ 36	$ (748)
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (403)	¥ (255)	$ (4,842)
Net changes during the year	(295)	(147)	(3,547)
Balance at end of the year	¥ (697)	¥ (403)	$ (8,388)
Total accumulated other comprehensive income:			
Balance at beginning of the year	¥ (367)	¥ (244)	$ (4,410)
Net changes during the year	(393)	(123)	(4,726)
Balance at end of the year	¥ (760)	¥ (367)	$ (9,136)
Subscription rights:			
Balance at beginning of the year	¥ 119	¥ —	$ 1,425
Net changes during the year	(16)	119	(189)
Balance at end of the year	¥ 103	¥ 119	$ 1,236
Minority interests:			
Balance at beginning of the year	¥ 2,555	¥ 2,346	$ 30,733
Net changes during the year	30	209	365
Balance at end of the year	¥ 2,586	¥ 2,555	$ 31,099
Total net assets:			
Balance at beginning of the year	¥63,770	¥53,932	$766,931
Net changes during the year	9,154	9,838	110,093
Balance at end of the year	¥72,925	¥63,770	$877,024

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

CALBEE, Inc. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 8,332	¥ 7,549	$100,203
Depreciation and amortization	7,244	7,915	87,116
Impairment loss	101	910	1,213
Goodwill amortization	570	406	6,860
Effect of adopting accounting standard for asset retirement obligations	351	—	4,227
Increase (decrease) in allowance for doubtful accounts	(344)	(344)	(4,137)
Increase (decrease) in allowance for bonuses	738	152	8,872
Increase (decrease) in allowance for directors' retirement benefits	85	(382)	1,027
Interest and dividend income	(69)	(77)	(834)
Interest expenses	59	159	705
Gain on compensation	—	(112)	—
Gain on receipt of subsidy	(172)	(70)	(2,074)
Gain on sale of property, plant and equipment	(871)	(3)	(10,478)
Loss on disposal of property, plant and equipment	494	1,071	5,944
Loss on disaster	2,163	—	26,010
Decrease (increase) in accounts receivables	706	1,281	8,492
Decrease (increase) in inventories	174	2,143	2,092
Increase (decrease) in other payables	491	488	5,905
Others	606	466	7,289
Subtotal	20,657	21,552	248,433
Interest and dividends received	112	33	1,349
Interest paid	(67)	(164)	(811)
Compensation payment received	—	112	—
Subsidy received	172	70	2,074
Payments related to loss on disaster	(87)	—	(1,041)
Income taxes paid	(4,123)	(2,111)	(49,585)
Net cash provided by operating activities	16,665	19,492	200,419
Cash flows from investing activities			
Acquisition of property, plant and equipment	(3,551)	(2,993)	(42,700)
Proceeds from sale of property, plant and equipment	3,125	115	37,587
Acquisition of intangible fixed assets	(499)	(397)	(6,006)
Proceeds from sale of investment securities	209	28	2,519
Inflow from acquisition of subsidiaries' shares resulting in changes in scope of consolidation (Note 14)	—	(7,347)	—
Acquisition of shares in affiliates	(93)	(180)	(1,123)
Payment of security deposit	(68)	(667)	(823)
Collection of security deposit	282	457	3,387
Others	(25)	(394)	(302)
Net cash used in investing activities	(620)	(11,378)	(7,462)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(2,600)	(8,766)	(31,268)
Proceeds from long-term debt	3	—	40
Repayment of long-term debt	(4,569)	(3,703)	(54,950)
Inflow from stock issuance	5,541	9,975	66,641
Inflow from exercise of stock options	392	8	4,714
Payment for acquisition of treasury stock	—	(3,895)	—
Cash dividends paid	(692)	(514)	(8,327)
Cash dividends paid to minority shareholders	(117)	(5)	(1,412)
Others	(82)	(56)	(992)
Net cash used in financing activities	(2,125)	(6,954)	(25,554)
Effect of exchange rate changes on cash and cash equivalents	(178)	(56)	(2,145)
Net increase (decrease) in cash and cash equivalents	13,741	1,104	165,258
Cash and cash equivalents at beginning of year	4,469	3,365	53,750
Increase in cash and cash equivalents from changes in scope of consolidation	28	—	336
Cash and cash equivalents at end of year (Note 14)	¥18,238	¥ 4,469	$219,344

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2011

1. Basis of Presentation

The accompanying consolidated financial statements of CALBEE, Inc. (the "Company") and its consolidated subsidiaries have been prepared from the consolidated financial statements filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Accordingly, International Financial Reporting Standards are not applied in preparing the accompanying consolidated financial statements. The consolidated financial statements are not intended to present the financial position, results of operations or cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present the information in a form familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen.

As permitted, amounts of less than one million yen are rounded to the nearest one million yen. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The consolidated financial statements consist of the Company and its 18 significant subsidiaries as listed below.

Consolidated subsidiaries

- Calbee Shokuhin Co., LTD.
- CALBEE POTATO INC.
- Snack Food Service Co., Ltd.
- Garden Bakery, Inc.
- Tower Bakery, Inc.
- Star Bakery, Inc.
- Calnac Co., Ltd.
- oisia FOODS CO., LTD.
- Japan Frito-Lay Ltd.
- Calbee Eatalk Co., Ltd. (Note 1)
- Calbee America, Inc. (Note 3)
- Calbee Tanawat Co., Ltd. (Note 3)
- CIL COMPANY LIMITED (Formerly, Calbee (International) Limited)
- Calbee Four Seas Co., Ltd.
- CALBEE FOURSEAS (SHANTOU) CO., LTD. (Note 3)
- QINGDAO CALBEE FOODS CO., LTD. (Note 3)
- YANTAI CALBEE CO., LTD. (Note 3)
- RDO-CALBEE FOODS, LLC (Notes 3 and 4)
- Calbee Konan, Co., Ltd. (Note 2)

Notes:
1. Calbee Eatalk Co., Ltd. is included in the scope of consolidation from the year ended March 31, 2011 due to its increased significance.
2. Calbee Konan, Co., Ltd. was merged into the Company effective April 1, 2010, and therefore, it is excluded from the scope of consolidation for the year ended March 31, 2011.
3. The fiscal year-end of these subsidiaries is December 31.
4. RDO-CALBEE FOODS, LLC's fiscal year-end was changed from June 30 to December 31 during the year ended March 31, 2011. This change had no impact on earnings.

For the year ended March 31, 2010, the Company's subsidiaries Calbee Eatalk Co., Ltd. and Snack Salad Marketing & Technologies Inc. were neither included in the scope of consolidation nor accounted for by the equity method as they were not significant in terms of total assets, net sales, net income, and retained earnings of the consolidated financial statements. As mentioned above, Calbee Eatalk Co., Ltd. became a consolidated subsidiary from the year ended March 31, 2011, and Snack Salad Marketing & Technologies Inc. was liquidated during the year ended March 31, 2011. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

For the years ended March 31, 2011 and 2010, three associates of the Company, Potato Foods Co., LTD., Hiroshima Agricultural Produce Distributors Cooperative, and Socio Kobo Co., Ltd., were not accounted for using the equity method as they were not significant in terms of net income and retained earnings of the consolidated financial statements.

All significant intercompany balances and transactions have been eliminated in consolidation. Accounts of subsidiaries whose year-ends differ by three months from March 31 have been included using pro forma financial information prepared as of March 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the balance sheet date and gains or losses arising from such translation is credited or charged to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the exchange rate in effect at the balance sheet date, whereas shareholders' equity of such subsidiaries is translated at the historical rate that prevailed on the date of their acquisition. Income and expenses of overseas subsidiaries are translated into yen using the average exchange rate during the fiscal year. Translation adjustments are included in foreign currency translation adjustments and minority interests in net assets section of the accompanying consolidated balance sheets.

(c) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks available for withdrawal on demand and short-term highly liquid investments with an original maturity of three months or less which are readily convertible into cash and subject to insignificant risk of changes in value.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the Company's actual historical experience of credit loss for active accounts and on an individual basis after an analysis of collectibility for certain doubtful accounts.

(e) Marketable and investment securities

Marketable and investment securities are valued using the following methods.

Securities for which fair values are readily available: Marked-to-market using market prices at the fiscal year-end, with any changes in unrealized holding gains or losses, net of applicable income taxes, included directly in net assets. Cost of securities sold is determined using the moving average method.

Securities for which fair values are not readily available: Stated at cost based on the moving-average method.

(f) Inventories

Inventories are stated at cost using the average method for finished goods and work-in-process. The moving-average method is applied for commercial goods, raw materials and supplies. The book value of inventories is written down to reflect any declines in profitability.

(g) Property, plant and equipment (except for leases)

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated primarily by the declining balance method over the estimated useful lives of the respective assets, except for buildings (excluding leasehold improvements) acquired subsequent to March 31, 1998, for which depreciation is calculated by the straight-line method. The useful lives of buildings are as follows:

	Useful lives (years)
Buildings	15 to 31 years
Machinery and equipment	10 years

After property, plant and equipment acquired prior to April 1, 2007 are depreciated to the depreciable limit (5% of the acquisition price), the remaining balance is further depreciated to memorandum value using the straight-line method over five years beginning in the following year.

(h) Intangible assets (except for leases)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over the estimated useful life of five years.

(i) Leases

Finance lease assets that do not transfer ownership of the property to the lessee are depreciated using the straight-line method over the lease term with no residual value, except for those leased prior to April 1, 2008, which are accounted for in a similar manner to operating lease transactions.

(j) Allowance for bonuses

Allowance for bonuses is provided for the bonus payments to employees and directors in the estimated bonus amount attributable to the current fiscal year.

(k) Allowance for loss on disaster

Estimated expenses to restore damaged assets and losses as a result of the Great East Japan Earthquake are recorded as an allowance for loss on disaster.

(l) Allowance for employees’ retirement benefits

Allowance for employees’ retirement benefits is provided for the retirement benefits payable to employees based on projected retirement benefit obligations and plan assets at the consolidated balance sheet date.

Unrecognized prior service cost is amortized by the straight-line method over a specified number of years (five years) within the average remaining service period of employees at the time the cost incurred.

Net unrecognized actuarial gain or loss is amortized beginning in the following fiscal year by the straight-line method over a specified number of years (12 years) within the average remaining service period of employees at the time the difference arose.

For part-time employees, amount payable at the fiscal year- end in accordance with internal regulations is provided for.

Certain consolidated subsidiaries apply the simplified method.

(m) Allowance for directors' retirement benefits

To provide for the payment of directors' retirement benefit, the amount payable under internal regulations at the consolidated balance sheet date is recorded.

(n) Consumption taxes

Transactions subject to consumption tax and local consumption tax are stated at the amount, net of consumption taxes.

(o) Stock issuance costs

Stock issuance costs are expensed as incurred.

(p) Derivative financial instruments and hedging activities

The Company uses interest rate swaps to mitigate risks arising from possible movement in interest rates associated with the Company's borrowings. As the interest rate swaps meet certain conditions, including their critical terms matching with those of the underlying borrowings, the special treatment of interest rate swaps is applied and the testing of hedge effectiveness is omitted. The Company does not use derivatives for speculative or trading purposes.

3. Changes in Significant Accounting Policies

(a) Accounting standard for asset retirement obligations

Effective April 1, 2010, the Company adopted ASBJ Statement No.18, "Accounting Standard for Asset Retirement Obligations" issued on March 31, 2008 and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations" issued on March 31, 2008. As a result of this adoption, for the year ended March 31, 2011, gross profit decreased by ¥46 million ($552 thousand), operating income decreased by ¥56 million ($676 thousand), income before income taxes and minority interests decreased by ¥394 million ($4,738 thousand). Initial recognition of asset retirement obligations due to this adoption amounted to ¥648 million ($7,791 thousand).

(b) Accounting standard for business combination

Effective April 1, 2010, the Company adopted ASBJ Statement No. 21, "Accounting Standard for Business Combinations," ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," ASBJ Statement No. 23, "Partial Amendments to Accounting Standard for Research and Development Costs," ASBJ Statement No. 7, "Revised Accounting Standard for Business Divestitures," ASBJ Statement No. 16, "Revised Accounting Standard for Equity Method of Accounting for Investments," ASBJ Guidance No.10, "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(c) Accounting standard for presentation of comprehensive income

Effective April 1, 2010, the Company adopted ASBJ Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income."

4. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by converting Japanese yen amounts at the rate of ¥83.15 = U.S.$1, the approximate rate in effect on March 31, 2011. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

5. Financial Instruments

Effective April 1, 2009, the Company has adopted ASBJ Statement No. 10 (Revised 2008), “Accounting Standard for Financial Instruments” and ASBJ Guidance No.19, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” issued on March 10, 2008.

(1) Policy for financial instruments

The Company’s fund management policy is to use highly secure financial instruments, such as term deposits, with purchases of financial instruments carried out in accordance with internal regulations including the rules of board of directors. As for funding, domestic consolidated subsidiaries are prohibited from borrowing from third parties and are only allowed to borrow from the Company. The Company borrows necessary funds from third parties if necessary. The Company uses derivatives in order to hedge foreign exchange risk and interest rate risk and does not enter into derivative transactions for speculative or trading purposes.

(2) Nature of financial instruments and the related risks and risk management

Trade receivables consist of notes and accounts receivable and are exposed to customers’ credit risk. In order to reduce such risk, the Company monitors the credit standing, due dates and outstanding balance by individual customer in accordance with the Group credit management policy.

Investment securities consist of shares of companies with business relationship and debt securities for surplus fund management, and are exposed to market volatility risk. In order to reduce such risk, the Company reviews the market values and the financial position of the issuers on a regular basis.

Trade payables consist of accounts payable and borrowings and are exposed to liquidity risk. The Company manages such risk by preparing fund management plans on a monthly basis. Also, the Company enhanced its centralized funding and cash management functions by implementing a cash management system in March 2011.

Borrowings with floating interest rates are exposed to interest rate volatility risk. For a portion of long-term debt, the Company uses interest rate swaps to hedge interest volatility risk related to the interest payments and to fix interest payments. As these interest rate swaps satisfy the criteria for the special treatment of interest rate swaps, the test of hedge effectiveness is omitted. As of March 31, 2011, there are no open interest rate swap transactions.

To hedge exchange rate volatility risk related to monetary payables denominated in foreign currencies, the Company uses forward foreign exchange contracts. These derivative transactions are executed and managed in accordance with the internal regulations governing the transaction authorizations. The Company considers that credit risk arising from non-performance of counterparties is minimal because the counterparties to the derivative transactions are limited to domestic banks with high credit standing.

(3) Supplementary explanation of the estimated fair value of financial instruments

The contract amount of derivative transactions shown in Note 21. Derivative Financial Instruments does not represent market risk.

(4) Fair values of financial instruments

Carrying amount, estimated fair value and the difference between them for financial instruments as of March 31, 2011 and 2010 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Notes 2 and 3 below).

(As of March 31, 2011)	Millions of yen Carrying amount	 Estimated fair value	 Difference
(1) Cash and deposits	**¥18,238**	**¥18,238**	**—**
(2) Notes and accounts receivable	**11,139**	**11,139**	**—**
(3) Investment securities			**—**
Available-for-sale	**1,109**	**1,109**	**—**
Total assets	**30,487**	**30,487**	**—**
Accounts payable	**(5,656)**	**(5,656)**	**—**
Total liabilities	**(5,656)**	**(5,656)**	
Derivative transactions			**—**
Hedge accounting not applied	**(11)**	**(11)**	**—**
Total derivative transactions	**(11)**	**(11)**	**—**

(As of March 31, 2011)	Thousands of U.S. dollars Carrying amount	 Estimated fair value	 Difference
(1) Cash and deposits	**$219,344**	**$219,344**	**—**
(2) Notes and accounts receivable	**133,968**	**133,968**	**—**
(3) Investment securities			
Available-for-sale	**13,335**	**13,335**	**—**
Total assets	**366,647**	**366,647**	**—**
Accounts payable	**(68,022)**	**(68,022)**	**—**
Total liabilities	**(68,022)**	**(68,022)**	**—**
Derivative transactions			
Hedge accounting not applied	**(132)**	**(132)**	**—**
Total derivative transactions	**(132)**	**(132)**	**—**

(As of March 31, 2010)	Millions of yen Carrying amount	 Estimated fair value	 Difference
(1) Cash and deposits	¥ 4,469	¥ 4,469	—
(2) Notes and accounts receivable	11,911	11,911	—
(3) Investment securities			
Available-for-sale	1,277	1,277	—
Total assets	17,658	17,658	—
Accounts payable	(5,876)	(5,876)	—
Total liabilities	(5,876)	(5,876)	—
Total derivative transactions	—	—	—

* Receivables and payables arising from derivative transactions are presented in net amount, with the net liability amount presented in parenthesis.

Notes: 1. Methods to determine the estimated fair value of financial instruments and information related to securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

The carrying amount approximates fair value due to the short maturities.

(3) Investment securities (Available-for-sale securities)

Fair values of equity securities are based on the quoted prices on stock exchanges, and fair values of debt securities are based on the prices quoted by financial institutions.

Liabilities

Accounts payable

The carrying amount approximates fair value due to the short maturities.

Derivative transactions

Refer to Note 21 Derivative Financial Instruments.

2. Unlisted shares with carrying value of ¥30 million ($362 thousand) and ¥339 million at March 31, 2011 and 2010, respectively, are not included in "(3) Investment securities (Available-for-sale securities)" in the above table as their market value is not readily available. Net realizable values that are below 50% of the acquisition costs are considered to have "significantly declined," and impairment losses are recognized unless there is sufficient evidence for their recoverability. Investments in affiliates with carrying value of ¥12 million ($139 thousand) and ¥201 million at March 31, 2011 and 2010, respectively, are also excluded from the above table as their market value is not readily available.

3. Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2011.

(As of March 31, 2011)	Millions of yen Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥18,216	—	—	—
Notes and accounts receivable, trade	11,139	—	—	—
Investment securities				
Available-for-sale securities with maturity				
Foreign debt securities	—	¥14	—	—
Total	¥29,356	¥14	—	—

(As of March 31, 2011)	Thousands of U.S. dollars Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	$219,075	—	—	—
Notes and accounts receivable, trade	133,968	—	—	—
Investment securities				
Available-for-sale securities with maturity				
Foreign debt securities	—	$169	—	—
Total	$353,043	$169	—	—

6. Investment Securities

(1) The summary of acquisition cost and carrying value of available-for-sale securities as of March 31, 2011 and 2010 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011					
Description	Carrying value	Acquisition cost	Unrealized gains (losses)	Carrying value	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	**¥ 416**	**¥ 299**	**¥ 117**	**$ 4,998**	**$ 3,590**	**$ 1,407**
Debt securities	**14**	**13**	**1**	**169**	**162**	**7**
Subtotal	**¥ 430**	**¥ 312**	**¥ 118**	**$ 5,167**	**$ 3,752**	**$ 1,414**
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	**¥ 679**	**¥ 928**	**¥(248)**	**$ 8,168**	**$11,156**	**$(2,988)**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**¥ 679**	**¥ 928**	**¥(248)**	**$ 8,168**	**$11,156**	**$(2,988)**
Total	**¥1,109**	**¥1,240**	**¥(131)**	**$13,335**	**$14,908**	**$(1,573)**

	Millions of yen		
	2010		
Description	Carrying value	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥ 501	¥ 341	¥ 160
Debt securities	15	14	1
Subtotal	¥ 516	¥ 355	¥ 161
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	¥ 762	¥ 897	¥(135)
Debt securities	—	—	—
Subtotal	¥ 762	¥ 897	¥(135)
Total	¥1,277	¥1,252	¥ 26

Note: Unlisted shares with carrying values of ¥30 million ($362 thousand) and ¥339 million at March 31, 2011 and 2010, respectively, are not included in the above table as their market value is not readily available.

(2) Sales of available-for-sale securities

During the year ended March 31, 2011, equity securities classified as available-for-sale securities with a carrying value of ¥210 million ($2,522 thousand) were sold, and total gains of ¥36 million ($428 thousand) and total losses of ¥164 million ($1,973 thousand) were recognized. Information on the available-for-sale securities sold during the year ended March 31, 2010 is not disclosed as the amount was not material.

(3) Impairment loss on available-for-sale securities

The Company recognizes impairment loss for the full amount of securities when the fair value declines below 50% of the acquisition cost, and for amounts deemed necessary after consideration of recoverability when the fair value declines by 30 to 50% of the acquisition cost. During the years ended March 31, 2011 and 2010, impairment losses recognized on equity securities classified as available-for-sale securities amounted to nil and ¥1 million, respectively.

7. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Finished goods and commercial goods	**¥1,281**	¥1,531	**$15,412**
Work in process	**1,140**	1,252	**13,715**
Raw materials and supplies	**1,855**	1,885	**22,304**
	¥4,277	¥4,669	**$51,431**

Valuation losses due to declines in profitability included in cost of sales for the years ended March 31, 2011 and 2010 were ¥52 million ($628 thousand) and ¥27 million, respectively.

8. Short-Term Borrowings and Long-Term Debt

(1) The outstanding balance of short-term borrowings, current portion of long-term debt, current portion of lease obligation, long-term debt excluding current portion, lease obligation excluding current portion, other interest-bearing liabilities as at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2011	2010	**2011**	**2011**	2010
Short-term borrowings	**¥108**	¥2,726	**$1,296**	**2.2%**	0.64%
Current portion of long-term debt	**182**	3,641	**2,189**	**1.1**	1.29
Current portion of lease obligations	**105**	71	**1,260**	**—**	—
Long-term debt, excluding current portion	**10**	1,126	**120**	**6.5**	1.64
Lease obligations, excluding current portion	**259**	228	**3,110**	**—**	—
Other interest-bearing liabilities	**36**	43	**428**	**1.9**	1.70
Total	**¥699**	¥7,835	**$8,402**	**—**	—

Note: "Average interest rate" represents the weighted average interest rate on the respective ending balance. The average interest rate for lease obligations is not disclosed as lease obligations include the interest component of the lease payments and it is not practicable to calculate average interest rate.

The aggregate annual maturities of long-term debt and lease obligations are summarized below:

	Long-term debt		Lease obligations	
Years ending March 31,	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2012	¥182	$2,189	¥105	$1,260
2013	4	44	102	1,223
2014	3	38	89	1,069
2015	3	37	55	657
2016 and thereafter	—	—	13	161

9. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes: corporate tax, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 40.4% for the fiscal years ended March 31, 2011 and 2010. Overseas subsidiaries are subject to income and other taxes of the respective countries in which they operate.

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2011 and 2010 was as follows:

	2011	2010
Statutory tax rate	**40.4%**	40.4%
Adjustments:		
Entertainment and other permanently non-deductible expenses	**2.9**	2.5
Dividend and other permanently non-taxable income	**(6.7)**	(1.9)
Special tax credit for income tax	**(1.0)**	(0.8)
Per capita inhabitant tax	**1.1**	1.0
Changes in valuation allowances	**2.5**	2.9
Tax loss carryforward	**—**	(4.0)
Tax rate differences in consolidated subsidiaries	**(1.7)**	(1.3)
Effect of consolidation adjustments	**5.8**	4.4
Others	**1.0**	(0.2)
Effective tax rates	**44.3%**	43.0%

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 9**	¥ 161	**$ 113**
Allowance for bonuses	**1,359**	1,057	**16,344**
Accrued expenses	**299**	211	**3,591**
Enterprise tax payable	**204**	224	**2,459**
Allowance for employees' retirement benefits	**360**	326	**4,324**
Allowance for directors' retirement benefits	**127**	121	**1,523**
Share-based payment expense	**42**	48	**500**
Depreciation	**143**	159	**1,719**
Tax loss carryforward	**—**	22	**—**
Impairment loss	**262**	372	**3,154**
Asset retirement obligations	**217**	—	**2,616**
Unrealized holding loss on securities	**47**	—	**568**
Others	**672**	357	**8,085**
Subtotal	**3,741**	3,059	**44,995**
Less valuation allowances	**(875)**	(667)	**(10,526)**
Total deferred tax assets	**2,866**	2,392	**34,468**
Deferred tax liabilities:			
Unrealized holding gain on securities	**—**	(11)	**—**
Reserve for accelerated depreciation	**(637)**	(563)	**(7,666)**
Asset retirement obligations	**(102)**	—	**(1,231)**
Others	**(190)**	(273)	**(2,279)**
Total deferred tax liabilities	**(929)**	(847)	**(11,176)**
Net deferred tax assets	**¥1,937**	¥1,545	**$ 23,292**

10. Net Assets

(1) Movements of number of common stock issued and outstanding during the year ended March 31, 2011 and 2010 are as follows:

	Shares	
	2011	2010
Balance at beginning of year	**577,135**	513,567
Increase	**31,340,315**	104,417
Decrease	**—**	(40,849)
Balance at end of year	**31,917,450**	577,135

Notes: 1. The increase during the year ended March 31, 2011 includes 2,815,700 shares due to a public offering, 28,311,465 shares due to a share split, and 213,150 shares due to an exercise of subscription rights. The increase during the year ended March 31, 2010 includes 104,317 shares by third-party allocation of shares and 100 shares by exercise of subscription rights.

2. The decrease during the year ended March 31, 2010 represents retirement of treasury stock based on the resolution by the board of directors.

(2) Movements of number of treasury stock during the year ended March 31, 2011 and 2010 are as follows:

	Shares	
	2011	2010
Balance at beginning of year	**146**	—
Increase	**7,154**	40,995
Decrease	**7,300**	(40,849)
Balance at end of year	**—**	146

Notes: 1. The increase during the year ended March 31, 2011 resulted from a share split. The increase during the year ended March 31, 2010 resulted from a repurchase of treasury stock based on the resolution by the ordinary shareholders' meeting.
2. The decrease during the year ended March 31, 2011 represents disposition of treasury stock. The decrease during the year ended March 31, 2010 represents retirement of treasury stock based on the resolution by the board of directors.

(3) As of March 31, 2011 and 2010, the outstanding balance of subscription rights provided for as stock options was ¥103 million ($1,236 thousand) and ¥119 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2011 and 2010 was approved at the annual meeting of the Company's shareholders held on June 28, 2011 and June 25, 2010, respectively.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash dividends	**¥894**	¥692	**$10,748**

Cash dividends attributable to the year ended March 31, 2009 of ¥514 million were paid during the year ended March 31, 2010 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 24, 2009.

11. Retirement Benefits for Employees

The Company and its four domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans as defined benefit pension plan. Other domestic consolidated subsidiaries have only lump-sum payment plans. The Company adopts defined contributions pension plans and prepaid retirement allowance plans.

The following table summarizes the funded status and amounts recognized in the consolidated balance sheets for the Company's plan at March 31, 2011 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Retirement benefit obligations	**¥(11,057)**	¥(11,024)	**$(132,975)**
Fair value of plan assets	**8,959**	8,754	**107,749**
Unfunded retirement benefit obligations	**(2,098)**	(2,270)	**(25,226)**
Unrecognized actuarial loss	**1,354**	1,659	**16,279**
Unrecognized prior service cost	**(54)**	—	**(650)**
Net book value on the consolidated balance sheets	**(798)**	(611)	**(9,596)**
Prepaid pension cost	**2,537**	2,699	**30,515**
Allowance for employees' retirement benefits	**¥ (3,335)**	¥ (3,309)	**$ (40,111)**

Notes: 1. Retirement benefit obligations include those for executive officers.
2. Retirement benefit obligations for certain of the Company's retirement benefit plans and certain consolidated subsidiaries are calculated using the simplified method.

The components of net periodic retirement benefit expenses for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 676	¥ 571	$ 8,129
Interest cost	212	204	2,546
Expected return on plan assets	(87)	(81)	(1,042)
Amortization of actuarial loss	220	239	2,646
Amortization of prior service cost	(14)	—	(162)
Retirement benefit expense	1,008	933	12,117
Contributions paid to defined contribution pension plan	104	79	1,247
Total	¥1,111	¥1,012	$13,364

Notes: 1. “Service cost” includes retirement benefit expense for executive officers.
2. Retirement benefit expense applicable to the Company and consolidated subsidiaries calculated by the simplified method is included in “Service cost.”

Assumptions used in determining retirement benefit obligations for the years ended March 31, 2011 and 2010 are as follows:

	2011	2010
Discount rate	1.5 to 2.0%	1.6 to 2.0%
Expected rate of return	1.0%	1.0%
Amortization period of prior service cost	5 years	—
Amortization period of actuarial gains/losses	12 years	12 years

12. Contingent Liabilities

The Company is contingently liable as a guarantor of loans from financial institutions to Hiroshima Agricultural Produce Distributors Cooperative, an affiliate of the Company, in the amounts of ¥192 million ($2,309 thousand) and ¥298 million as of March 31, 2011 and 2010, respectively.

13. Goodwill

Goodwill is amortized using the straight-line method over 5, 10 or 20 years. Negative goodwill is amortized using the straight-line method over 5 years.

Goodwill or negative goodwill are presented at a net amount. The gross amounts of goodwill and negative goodwill before offsetting are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Goodwill	¥4,834	¥5,394	$58,136
Negative goodwill	11	21	134
Total goodwill	¥4,823	¥5,373	$58,002

14. Supplemental Cash Flow Information

Cash and cash equivalents presented in the consolidated statements of cash flows for the years ended March 31, 2011 and 2010 consist of cash and deposits presented in the consolidated balance sheets as of March 31, 2011 and 2010.

During the year ended March 31, 2010, the Company acquired ownership interest in Japan Frito-Lay Ltd. The following table summarizes the acquired assets and liabilities assumed at the time of consolidation, acquisition cost and net cash flow from this acquisition.

	Millions of yen
Current assets	¥2,799
Non-current assets	1,903
Goodwill	5,234
Current liabilities	(1,691)
Non-current liabilities	(442)
Acquisition cost of Japan Frito-Lay Ltd. stock	7,804
Cash and cash equivalents of Japan Frito-Lay Ltd.	(457)
Cash outflow from acquisition	¥7,347

15. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sales promotion expenses	**¥16,100**	¥12,359	**$193,621**
Advertisement expenses	**3,984**	3,917	**47,916**
Freight expenses	**9,348**	8,681	**112,426**
Salaries and other allowances	**10,003**	9,277	**120,299**
Provision for directors' retirement benefits	**111**	114	**1,331**
Provision for employees' bonuses	**1,506**	1,365	**18,110**
Provision for directors' bonuses	**182**	210	**2,191**
Retirement benefit expense	**618**	594	**7,438**
Share-based payment expense	**—**	120	**—**

16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing expenses for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Selling, general and administrative expenses	**¥2,211**	¥3,096	**$26,585**
Manufacturing expenses	**3**	2	**35**
Total	**¥2,213**	¥3,097	**$26,619**

17. Sale and Disposal of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Buildings and structures	**¥ 18**	¥—	**$ 219**
Machinery and vehicles	**3**	6	**37**
Land	**938**	—	**11,282**
Other	**8**	—	**94**
Total	**¥967**	¥ 6	**$11,631**

Loss on sale of property, plant and equipment for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Buildings and structures	**¥ 3**	¥—	**$ 31**
Machinery and vehicles	**64**	2	**770**
Land	**29**	—	**350**
Intangible fixed assets	**0**	—	**1**
Other	**0**	1	**1**
Total	**¥96**	¥ 3	**$1,153**

Loss on disposal of property, plant and equipment for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Buildings and structures	**¥143**	¥ 218	**$1,722**
Machinery and vehicles	**249**	666	**2,996**
Land	**—**	9	**—**
Intangible fixed assets	**84**	154	**1,012**
Other	**18**	24	**214**
Total	**¥494**	¥1,071	**$5,944**

18. Impairment Loss

For the years ended March 31, 2011 and 2010, the Company recognized impairment losses of ¥101 million ($1,213 thousand) and ¥910 million, respectively, on real estate for which there is no intended use in the future and whose market values significantly declined. The carrying value of these assets is written down to their net realizable value based on the net selling price or zero if it is not likely that these assets can be sold or used for other purposes.

For the purpose of impairment testing, assets of the Company are generally grouped based on region, however, idle assets without any intended use are grouped by individual property.

The details of impairment loss recognized are as follows:

(For the year ended March 31, 2011)

Location	Number of properties subject to impairment	Purpose of use	Type of asset	Amount	
				Millions of yen	Thousands of U.S. dollars
Hokkaido	2	Idle assets	Building	¥101	$1,213

(For the year ended March 31, 2010)

Location	Number of properties subject to impairment	Purpose of use	Type of asset	Amount
				Millions of yen
Hiroshima	7	Idle assets, etc.	Building and structures Land, etc.	¥759
Gunma	3	Recreation facility	Building and structures Land	45
Kagoshima	1	Real estate for rent	Land	106
Total				¥910

19. Loss on Disaster

The Company recognized expenses to restore assets damaged in the Great East Japan Earthquake as loss on disaster. The components of loss on disaster recognized for the year ended March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2011	
Loss on disposal of inventories	¥ 160	$ 1,926
Loss on disposal of fixed assets	166	1,991
Removal and repair costs	1,520	18,275
Support for disaster area	101	1,211
Other	217	2,607
Total	¥2,163	$26,010

The total loss on disaster of ¥2,163 million ($26,010 thousand) includes provision for allowance for loss on disaster of ¥1,379 million ($16,582 thousand).

20. Leases

Future minimum lease payments subsequent to March 31, 2011 and 2010 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due in 1 year or less	¥ 94	¥124	$1,127
Due over 1 year	129	299	1,553
Total	¥223	¥422	$2,681

Leased assets under finance lease transactions contracted prior to April 1, 2008 that do not involve the transfer of ownership are accounted for in a similar manner as operating leases. Had these leases been accounted for under the accounting treatment for finance leases, the acquisition cost, accumulated depreciation and net book value would have been as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011					
Leased assets	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥342	¥242	¥100	$4,116	$2,914	$1,202
Other	153	116	37	1,835	1,391	444
Total	¥495	¥358	¥137	$5,950	$4,305	$1,646

	Millions of yen		
	2010		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥101	¥ 66	¥ 35
Machinery and vehicles	426	268	158
Other	223	159	64
Total	¥749	¥493	¥257

Future minimum lease obligations under finance lease transactions subsequent to March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due in 1 year or less	¥ 75	¥119	$ 908
Due over 1 year	61	138	738
Total	¥137	¥257	$1,646

Lease payments (equivalent to depreciation expense of the leased assets calculated by the straight-line method over the lease term with zero residual value) for the years ended March 31, 2011 and 2010 were ¥104 million ($1,254 thousand) and ¥155 million, respectively.

21. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2011 is as follows:

	Millions of yen			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
US dollars	¥5,649	¥2,195	¥(43)	¥(43)
Euro	541	339	32	32
Total	¥6,190	¥2,534	¥(11)	¥(11)

	Thousands of U.S. dollars			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
US dollars	**$67,942**	**$26,396**	**$(519)**	**$(519)**
Euro	**6,505**	**4,077**	**387**	**387**
Total	**$74,447**	**$30,473**	**$(132)**	**$(132)**

* Fair value is determined based on the price provided by the financial institutions that are counterparties to the transactions.

As of March 31, 2010, the Company had entered into an interest rate swap with a contract amount of ¥573 million and a fair value of ¥(11) million in order to hedge the risk of interest rate fluctuation for interest payments on long-term debt, to which special treatment for interest rate swaps was applied. The interest rate swap was terminated during the year ended March 31, 2011 as the long-term debt was repaid.

22. Business Combinations

On November 8, 2010, the Company acquired additional shares of its consolidated subsidiary Calbee Tanawat Co., Ltd. (“Calbee Tanawat”), who manufactures and sells snack foods, to expand business in Thailand. As a result of this acquisition, the Company’s ownership ratio of the voting rights of Calbee Tanawat increased from 49.0% to 68.0%.

The acquisition was accounted for as a transaction under common control (a transaction with a minority shareholder) in accordance with ASBJ Statement No. 21, “Accounting Standard for Business Combinations” and ASBJ Guidance No.10, “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures,” issued on December 26, 2008.

Acquisition cost of ¥93 million ($1,123 thousand) includes stock consideration of ¥91 million ($1,089 thousand) and the direct expense incurred for the acquisition of ¥3 million ($34 thousand).

Goodwill of ¥21 million ($249 thousand) arose from the acquisition of additional shares of Calbee Tanawat as the difference between the acquisition cost and the resulting decrease in minority interests and were expensed for the year ended March 31, 2011.

23. Stock Options

As of March 31, 2011 and 2010, the Company has the following stock option programs.

Date of resolution	February 15, 2005	June 24, 2009
Type and number of eligible persons	[The Company] Director: 12 Statutory auditor: 4 Employees: 165 [the Company’s subsidiaries] Director: 27 Statutory auditor: 1	[The Company] Director: 2 Statutory auditor: 1 Employees: 14 [the Company’s subsidiaries] Director: 2
Class and number of shares to be granted	Common stock: 1,477,500 shares	Common stock: 400,000 shares
Grant date	March 22, 2005	June 30, 2009
Vesting requirement	—	—
Vesting period	—	—
Exercise period	From April 1, 2007 to March 31, 2014	From July 1, 2009 to June 30, 2019

Note: Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011.

(1) Number and price information

(As of March 31, 2011)

Date of resolution	Shares February 15, 2005	Shares June 24, 2009
Unvested stock options	—	—
Outstanding as of March 31, 2010	—	—
Granted	—	—
Expired	—	—
Vested	—	—
Outstanding as of March 31, 2011	—	—
Vested stock options		
Outstanding as of March 31, 2010	**1,477,500**	**395,000**
Vested	—	—
Exercised	**192,500**	**52,500**
Expired	**50,000**	—
Outstanding as of March 31, 2011	**1,235,000**	**342,500**

Note: Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011.

	Yen	U.S. dollars	Yen	U.S. dollars
Date of resolution	February 15, 2005		June 24, 2009	
Exercise price[1]	**¥1,600**	**$19.24**	**¥1,600**	**$19.24**
Average stock price at exercise[2]	**2,174**	**26.15**	**2,110**	**25.38**
Fair value at grant date[3]	—	—	**300**	**3.61**

Notes: 1. Exercise price in the above table reflects the 50-for-1 share split executed on January 14, 2011.
2. Average stock price is calculated under the assumption that the share split took place at the beginning of the period.
3. Fair value is presented under the assumption that the share split took place at the beginning of the period.

(As of March 31, 2010)

For the year ended March 31, 2010, share-based payment expense of ¥120 million was included in selling, general and administrative expenses. The number of shares and price information as of March 31, 2010 do not reflect the stock split executed on January 14, 2011.

Date of resolution	Shares February 15, 2005	Shares June 24, 2009
Unvested stock options		
Outstanding as of March 31, 2010	—	—
Granted	—	8,000
Expired	—	—
Vested	—	8,000
Outstanding as of March 31, 2010	—	—
Vested stock options		
Outstanding as of March 31, 2010	29,500	—
Vested	—	8,000
Exercised	—	100
Expired	—	—
Outstanding as of March 31, 2010	29,500	7,900

Date of resolution	Yen February 15, 2005	Yen June 24, 2009
Exercise price	¥80,000	¥80,000
Average stock price at exercise	—	—
Fair value at grant date	—	15,000

(2) Estimate of fair value of stock option

The fair value of the stock options granted on June 30, 2009 is estimated using the intrinsic value per unit based on the price calculated under the net asset value method and benchmark companies analysis as the Company was not a public company at the time of the grant.

(3) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

(4) Intrinsic value of stock option

	Yen		U.S. dollars
	2011	2010	**2011**
Total intrinsic value at end of period	**¥239,750,000**	¥158,000,000	**$2,883,343.36**
Total intrinsic value on the exercise date of the stock options exercised during the year	**28,524,500**	1,500,000	**343,048.71**

Note: The intrinsic value as of March 31, 2011 is calculated under the assumption that the 50-for-1 share split took place at the beginning of the period.

24. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2011 and 2010.

(1) For the year ended March 31, 2011

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Koji Matsuo	Advisor of the Company	Direct 0.0%	Advisor fee (Note 2-1)	¥10 million ($121 thousand)
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.1%	Advisor fee (Note 2-1)	¥11 million ($128 thousand)
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.1%	Exercise of subscription rights (Note 2-2)	¥40 million ($481 thousand)
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.0%	Exercise of subscription rights (Note 2-3)	¥12 million ($144 thousand)
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.1%	Exercise of subscription rights (Note 2-3)	¥12 million ($144 thousand)

Notes: 1. The above amounts do not include consumption taxes.

2-1. The fee amount is determined in accordance with internal regulations.

2-2. The exercise of stock options granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act.

The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

2-3. The exercise of stock options granted by resolution at the extraordinary shareholders' meeting held on February 15, 2005, pursuant to Article 280-20, 280-21 and 280-27 of the pre-Commercial Code revision (revised in 2001).

The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

(2) For the year ended March 31, 2010

Non-consolidated subsidiaries of the Company

Nature of related party	Name	Location	Capital	Description of business or occupation	Ownership ratio of voting rights	Description of relationship	Description of transaction	Transaction volume (Note 1)
Non-consolidated subsidiary	Calbee Eatalk Co., Ltd.	Shiga, Japan	¥100 million	Manufacture and sale of foods	Direct 100.0%	Business outsource	Subscription to capital increase (Note 2-1)	¥180 million
Non-consolidated subsidiary	Snack Salad Marketing & Technologies Inc.	CA, USA	$280 thousand	License business for Snack Salad brand and products	Direct 92.9%	Product development	Debt forgiveness (Note 2-2)	¥48 million

Notes: 1. The above amounts do not include consumption taxes.
2-1. The Company subscribed to an allocation of new shares to shareholders by Calbee Eatalk Co., Ltd. for ¥2 million per share.
2-2. Debt forgiveness was included as part of the liquidation process of Snack Salad Marketing & Technologies Inc.

Officers and individual major shareholders

Nature of related party	Name	Location	Capital	Description of business or occupation	Ownership ratio of voting rights	Description of relationship	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Koji Matsuo	—	—	Advisor of the Company	Direct 0.1%	—	Advisor fee (Note 2-1)	¥13 million
Officer and his/her close family member	Masahiko Matsuo	—	—	Advisor of the Company	Direct 0.0%	—	Advisor fee (Note 2-1)	¥12 million
Officer and his/her close family member	Haruhiko Sekiguchi	—	—	Senior executive officer of the Company	Direct 0.0%	—	Grant of subscription rights (Note 2-2)	¥11 million
Officer and his/her close family member	Yukihiro Aketa	—	—	Former Chairman of the Company	Direct 0.0%	—	Purchase of treasury stock (Note 2-3)	¥25 million
Officer and his/her close family member	Yasuo Nakata	—	—	Former President of the Company	Direct 0.0%	—	Purchase of treasury stock (Note 2-3)	¥56 million
Officer and his/her close family member (daughter of Masahiko Matsuo, advisor of the Company)	Akiko Suzuki	—	—	—	Direct 0.0%	—	Purchase of treasury stock (Note 2-3)	¥14 million
Entity in which officer and his/her close family member own majority of voting rights	Risk Support Office Co., Ltd. (Note 2-4)	Kita-ku, Tokyo	¥3 million	Insurance agent	—	Insurance agent	Payment of insurance premium (Note 2-5)	¥53 million

Notes: 1. The above amounts do not include consumption taxes.
2-1. The fee amount is determined in accordance with internal regulations.
2-2. "Intrinsic value per unit" which is the difference between the estimated value of treasury stock and the exercise price is used as fair value of stock option. The estimated value of treasury stock is determined based on the net asset value method and benchmark companies analysis.
2-3. The purchase price is determined based on the net asset value method and benchmark companies analysis.
2-4. A close family member of Koji Matsuo, Advisor of the Company, owns 100% of the voting rights.
2-5. The terms and conditions of the transactions are determined in the same way as those applied to third parties.

25. Per Share Information

Per share information as of and for the years ended March 31, 2011 and 2010 is as follows:

	Yen		U.S. dollars
	2011	2010	**2011**
Net assets per share	**¥2,200.55**	¥105,888.19	**$26.46**
Net income per share			
Basic	**¥ 146.48**	¥ 7,201.61	**$ 1.76**
Diluted	**¥ 143.97**	¥ —	**$ 1.73**

As the Company's shares were listed on the Tokyo Stock Exchange on March 11, 2011, the average share price between the listing date and March 31, 2011 is used as the average share price in calculating diluted net income per share for the year ended March 31, 2011.

The Company executed a 50-for-1 share split on January 14, 2011. Had the share split taken place at April 1, 2009, the pro forma net assets per share at March 31, 2010 and pro forma net income per share for the year ended March 31, 2010 would have been ¥2,117.76 and ¥144.03, respectively.

For the year ended March 31, 2010, diluted net income per share is not disclosed because although there were outstanding subscription rights, the Company's shares were not listed and, therefore, an average share price is not available.

Basis for calculation of net assets per share was as follows:

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2011	2010	**2011**
Total net assets (Millions of yen)	**72,925**	63,770	**877,024**
Net assets attributable to common stock (Millions of yen)	**70,236**	61,096	**844,690**
Major components of the difference			
Subscription rights	**103**	119	**1,236**
Minority interests	**2,586**	2,555	**31,099**
Number of common stock issued and outstanding (Shares)	**31,917,450**	577,135	**31,917,450**
Treasury stock of common stock (Shares)	**—**	146	**—**
Number of common shares used in calculation of net assets per share (Shares)	**31,917,450**	576,989	**31,917,450**

Basis for calculation of net income per share was as follows:

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2011	2010	**2011**
Net income (Millions of yen)	**4,253**	4,017	**51,154**
Net income attributable to common stock (Millions of yen)	**4,253**	4,017	**51,154**
Net income not attributable to common stock (Millions of yen)	**—**	—	**—**
Average number of shares outstanding during the year (Shares)	**29,037,338**	557,809	**29,037,338**
Adjustments to net income (Millions of yen)	**—**	—	**—**
Major dilutive factors included in calculating diluted net income per share (Shares)			
Subscription rights	**507,046**	—	**507,046**
Increase in number of common stock (Shares)	**507,046**	—	**507,046**

Note: For the year ended March 31, 2010, two types of subscription rights with 3,745 units in total were not included in calculation of diluted net income per share as they had anti-dilutive effect.

26. Segment Information

Effective April 1, 2010, the Company adopted ASBJ Statement No. 17, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information.”

For the years ended March 31, 2011 and 2010, information on operating segments is not disclosed as the Company has only one reporting segment “Production and sale of snacks and other foods.”

[Related information]

(For the year ended March 31, 2011)

(1) Sales by product and service

	Millions of yen			
	Snacks	Other foods	Other	Total
Sales to third parties	**¥135,158**	**¥18,349**	**¥2,022**	**¥155,529**

	Thousands of U.S. dollars			
	Snacks	Other foods	Other	Total
Sales to third parties	**$1,625,470**	**$220,674**	**$24,323**	**$1,870,466**

(2) Information by region

Information about sales and property, plant and equipment by region is not disclosed as Japan accounts for over 90% of the total amount.

(3) Sales by major customers

		Sales	
	Related segment	Millions of yen	Thousands of U.S. dollars
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	**¥19,425**	**$233,619**

(4) Impairment loss on fixed assets by reporting segment

	Millions of yen				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	**¥101**	**¥101**	**—**	**—**	**¥101**

	Thousands of U.S. dollars				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	**$1,213**	**$1,213**	**—**	**—**	**$1,213**

(5) Amortization and unamortized balance of goodwill by reporting segment

	Millions of yen				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 570	¥ 570	—	—	¥ 570
Balance at end of year	4,823	4,823	—	—	4,823

	Thousands of U.S. dollars				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	$ 6,860	$ 6,860	—	—	$ 6,860
Balance at end of year	58,002	58,002	—	—	58,002

For the year ended March 31, 2011, no gain from negative goodwill is recognized.

27. Subsequent Events

Establishment of a joint venture company

At the meeting of the board of directors held on April 22, 2011, the establishment of a joint venture company with a major Korean snack foods manufacturer, HAITAI Confectionery & Foods Co., Ltd., was approved, and the agreement concluded on April 29, 2011. The Company aims to expand the market share of Calbee products in Korea, which is the third biggest snack food market in Asia after Japan and China.

Details of the joint venture company are summarized below. (Information as of March 31, 2011)

Name of the company	HAITAI-CALBEE Co., Ltd.
Nature of business	Manufacture and sale of snacks
Investment amount	KRW 23.2 billion
Expected time of establishment	June 2011
Acquisition cost	KRW 11.6 billion
Ownership ratio	CALBEE, Inc.: 50% HAITAI Confectionery & Foods Co., Ltd.: 50%

ERNST & YOUNG

Report of Independent Auditors

The Board of Directors
CALBEE, Inc.

We have audited the accompanying consolidated balance sheets of CALBEE, Inc. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CALBEE, Inc. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 4.

Ernst & Young ShinNihon LLC

June 28, 2011

Corporate History

Apr. 1949	Company established
Jan. 1964	*Kappa Ebisen* (prawn crackers) launched
Apr. 1968	Utsunomiya Factory (Tochigi Prefecture) started operations
Nov. 1969	Chitose Factory (Hokkaido) started operations
Mar. 1970	Calbee America, Inc. established in the US
Apr. 1972	Calbee Shokuhin Co., LTD. established
Feb. 1975	Kagoshima Factory (Kagoshima Prefecture) started operations
Sep. 1975	Shimotsuma Factory (Ibaraki Prefecture) started operations
Sep. 1975	*Potato Chips* launched
Nov. 1976	Shiga Factory (Shiga Prefecture; now Konan Factory) started operations
Apr. 1980	Calbee Tanawat Co., Ltd., a joint venture with a local Thai company, established in Thailand
Oct. 1980	Potato Procurement Department spun off as CALBEE POTATO INC.
Jul. 1983	Kakamigahara Factory (Gifu Prefecture) started operations
Nov. 1986	Hiroshima-Nishi Factory (Hiroshima Prefecture) started operations
Jul. 1989	Kiyohara Factory (Tochigi Prefecture) started operations
Jul. 1989	Cereals launched
Apr. 1990	Snack Food Service Co., LTD. established
Jan. 1992	CIL COMPANY LIMITED established in Hong Kong
Feb. 1994	Calbee Four Seas Co., Ltd., a joint venture with Four Seas Mercantile Limited, established in Hong Kong
Jul. 1995	QINGDAO CALBEE FOODS CO., LTD. established in China
Oct. 1995	*Jagarico* launched
Jun. 1996	Garden Bakery, Inc. established
Jun. 1999	Ayabe Factory (Kyoto Prefecture) started operations
Apr. 2000	Calnac Co., LTD. established
Oct. 2002	CALBEE FOURSEAS (SHANTOU) CO., LTD. established in China
Apr. 2004	Cereal Manufacturing Department spun off as oisia FOODS CO., LTD.
Jul. 2004	R&DDE Center (currently R&D Group) started operations
Feb. 2006	Hiroshima Factory (Hiroshima Prefecture) started operations
Apr. 2006	*Jagabee* launched
Aug. 2006	YANTAI CALBEE CO., LTD. established in China
Aug. 2006	RDO-CALBEE FOODS, LLC, a joint venture with R.D. OFFUTT COMPANY, established in the US
Oct. 2006	Acquired 80% of outstanding shares in Tower Bakery, Inc.
Nov. 2007	Calbee Eatalk Co., Ltd., a company employing disabled people, established
Jul. 2009	Strategic alliance formed with US food and beverage manufacturer PepsiCo, Inc. Japan Frito-Lay Ltd. made a wholly-owned subsidiary to strengthen the Group's snack food business (corn-based snacks)
Mar. 2011	Listed on the First Section of the Tokyo Stock Exchange

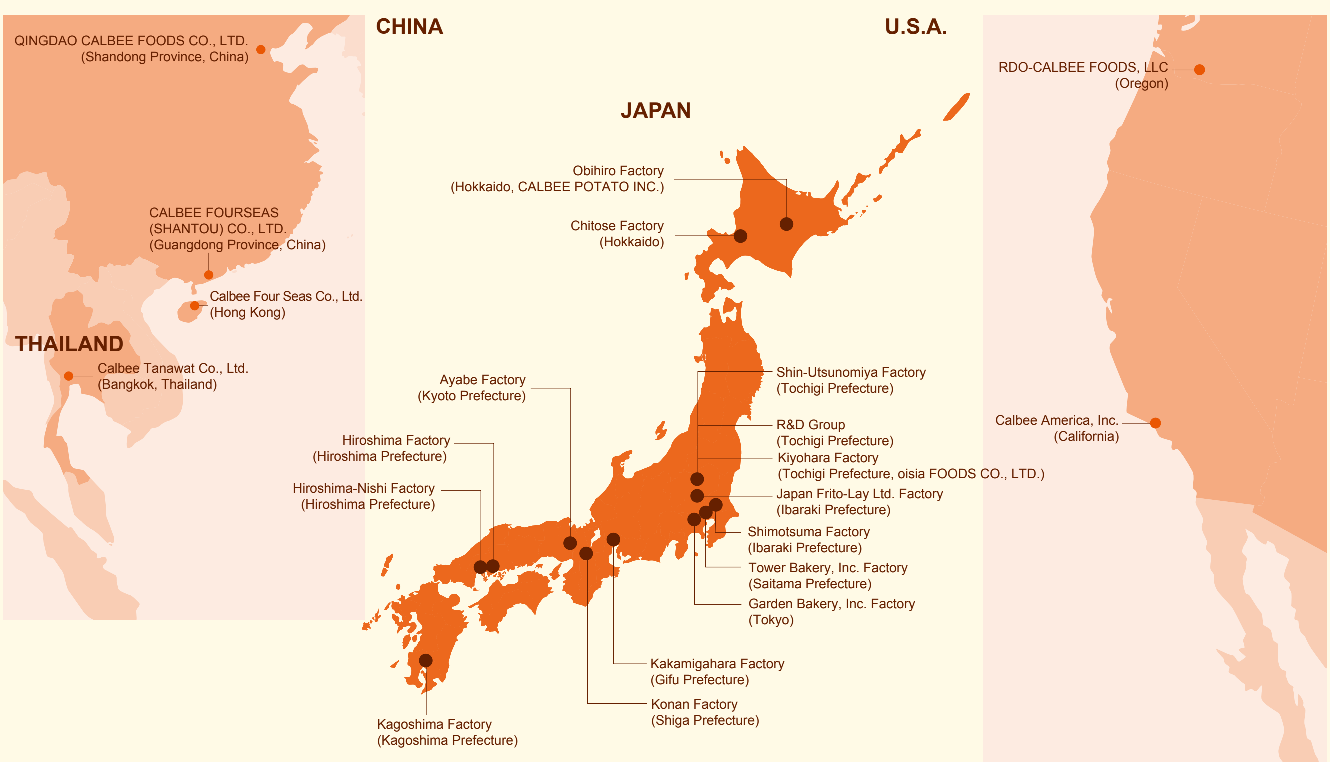
Note: All Calbee companies mentioned above are now consolidated subsidiaries.

Corporate Data

(As of March 31, 2011)

Company name	CALBEE, Inc.
Date of establishment	April 30, 1949
Head office	Marunouchi Trust Tower Main, 22nd Floor 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-0005, JAPAN
Paid-in capital	¥10,744 million
Representatives	Akira Matsumoto, Chairman of the Board & CEO Shuji Ito, President & COO
Number of employees	2,911 (consolidated basis) 1,466 (parent basis)
Fiscal year-end	March 31
Business	Production and sale of snacks and other foods
Independent auditor	Ernst & Young ShinNihon LLC
Group companies	Calbee Shokuhin Co., LTD. CALBEE POTATO INC. Snack Food Service Co., LTD. Garden Bakery, Inc. Tower Bakery, Inc. Star Bakery, Inc. Calnac Co., LTD. oisia FOODS CO., LTD. Japan Frito-Lay Ltd. Calbee Eatalk Co., Ltd. Calbee America, Inc. Calbee Tanawat Co., Ltd. CIL COMPANY LIMITED Calbee Four Seas Co., Ltd. CALBEE FOURSEAS (SHANTOU) CO., LTD QINGDAO CALBEE FOODS CO., LTD. YANTAI CALBEE CO., LTD. RDO-CALBEE FOODS, LLC

Location of factories



Note: Factories without specific company names are all operated by CALBEE, Inc.

Investor Information

(As of March 31, 2011)

Common stock

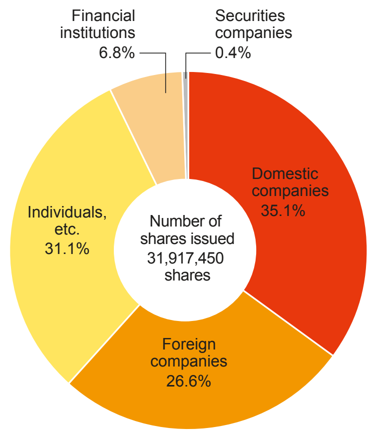
Common stock	
Authorized	44,000,000 shares
Issued	31,917,450 shares
Number of shareholders	9,678
Annual general meeting	June
Date of listing	March 11, 2011
Stock listing	First Section of Tokyo Stock Exchange
TSE code	2229
Share register	The Sumitomo Trust and Banking Co., Ltd.

Principal Shareholders

Shareholder	Number of shares (Thousands)	Ownership ratio (%)
General Incorporated Association Miki-no-Kai [1]	7,040	22.06
FRITO-LAY GLOBAL INVESTMENTS B.V.[2]	6,700	20.99
Calbee Employees Shareholding Association	2,359	7.39
Japan Trustee Services Bank, Ltd. (Trust Account)	686	2.15
Sankyo Polyethylene Co., Ltd.	520	1.63
THE TORIGOE CO., LTD.	484	1.52
NORTHERN TRUST CO AVFC RE NORTHERN TRUST GUERNSEY IRISH CLIENTS	458	1.44
Kirihara Container Industrial Co., Ltd.	363	1.14
Ito Corporation	300	0.94
Mizuho Bank, Ltd.	275	0.86
The Sumitomo Trust and Banking Co., Ltd.	275	0.86

Notes: 1. General Incorporated Association Miki-no-Kai is a shareholding association of the founding family of the Company.
2. FRITO-LAY GLOBAL INVESTMENTS B.V. is a wholly-owned subsidiary of PepsiCo, Inc.

Share Breakdown by Shareholder



Contact

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Please visit our website for the latest information.

http://www.calbee.co.jp/english/ir/

Harvest the Power of Nature.

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