Harvest the Power of Nature.

TSE code: 2229

Calbee Innovation Drives GLOBAL EXPANSION

Annual Report 2012

Fiscal year ended March 31, 2012

Calbee
堅あげポテト
うすしお味
Vegips
さつまいもとかぼちゃ
ポテトチップス
コンソメパンチ
60g
うすしお味
Jagabee
チーズポテト
しょうゆマヨ
じゃがりこ
サッポロポテト
バーベQあじ
チーズ
のりしお
mike
POPCORN
Vegips
春のア・ラ・ポテト
じゃがバター
フルグラ
ポテリッチ
コンソメDX
リッチギザ
さやえんどう
サラダ
かき醤油
58g
贅沢ショコラ
たらこバター
ブラックペッパー
Cheetos
うま辛ポテト
夏ポテト
Doritos
タコス味
しお＆ごま油
シーザーサラダ
つぶつぶベジタブル
旬菜ごぼう
バターしょうゆ
Hot Flavor
ホットチリ味
おさつスナック
ピザポテト
さつまりこ
コンソメ
ベジたべる
ナチョ・チーズ味
紀州の梅
贅沢バニラ
梅
チーズビット
トッピンチョコ
お・と・な じゃがりこ
ジンジャーチキン
ゆずこしょう
えだ豆チーズ

No.1

48.9%

Calbee is the leading company in Japan's snack food market, with a dominant market share.
We have achieved this position through our constant attention to innovation.
Since our establishment in 1949, we have produced a string of innovative hit products, including *Kappa Ebisen*, *Potato Chips*, *Jagarico*, and *Jagabee*.

See page 28, "Calbee's Strengths," for more information.

Domestic Market Share (Fiscal 2012)

Potato-based Snacks

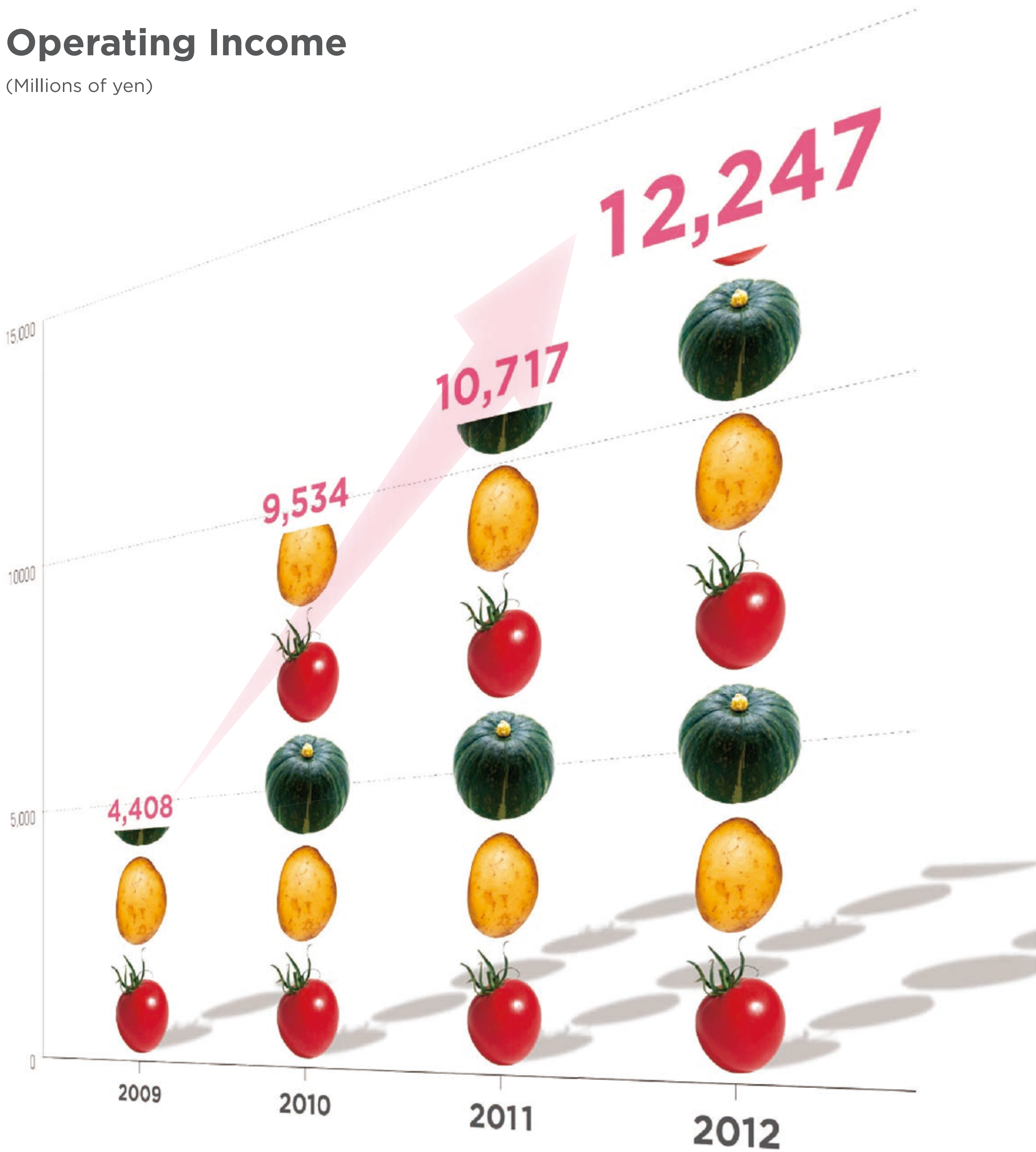
Flour-based Snacks

Corn-based Snacks

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 2011–March 2012

Operating Income

(Millions of yen)



CAGR

Operating Income

40.6%

Calbee has seen a rapid improvement in profits since launching a new management structure in 2009. Our compound annual growth rate (CAGR) for operating income since the fiscal year ended March 31, 2009 is 40.6%, and our operating margin has improved dramatically from 3.2% to 7.5%. Management will continue to focus on the twin pillars of cost reduction and innovation to realize sustained growth and a highly profitable business structure.

See page 10, "CEO Message," for more information.

Looking Ahead...

4% ↗ 30.0%

Calbee is stepping up from No. 1 in Japan to become a global food company.

Calbee is taking steps to develop operations in the regions of Asia/Oceania, North America, and Europe with the goal of achieving an overseas sales ratio of at least 30%.

All our employees are united in our goal of becoming a global food company. Through our individual dedication to continuously practicing innovation we are determined to achieve further growth.

See page 20, "Special Feature—Calbee Innovation Drives Global Expansion," for more information.

Contents

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.

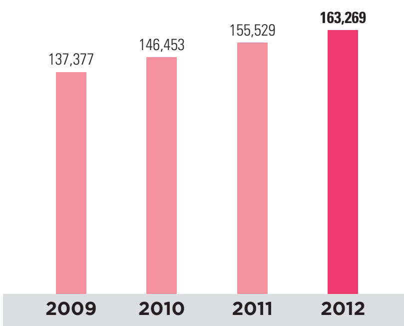
Calbee Performance Highlights

Years ended March 31, 2009, 2010, 2011 and 2012

Financial

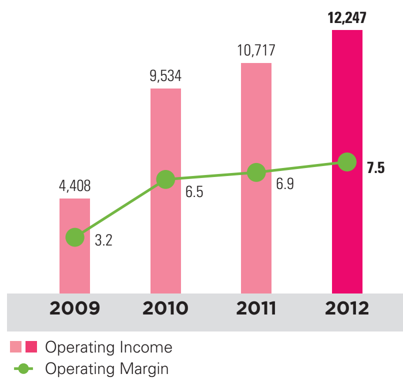
Net Sales

(Millions of yen)



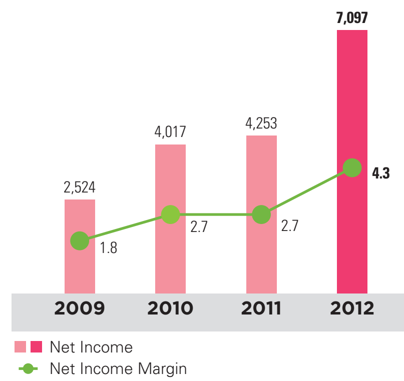
Operating Income / Operating Margin

(Millions of yen / %)



Net Income / Net Income Margin

(Millions of yen / %)

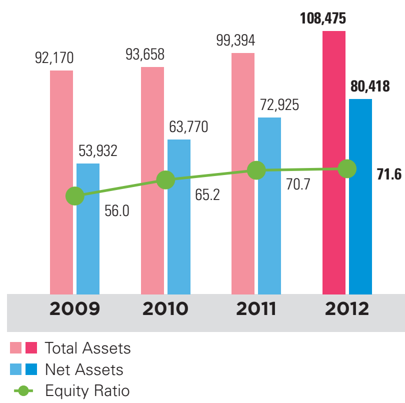


ROE

(%)

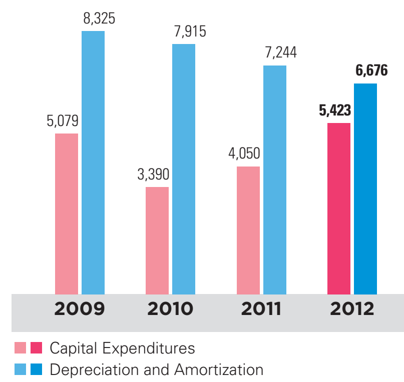
Total Assets / Net Assets / Equity Ratio

(Millions of yen / %)



Capital Expenditures / Depreciation and Amortization

(Millions of yen)



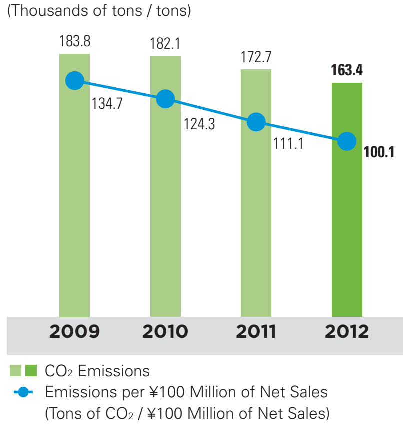
Debt to Equity Ratio

(Times)

Non-financial

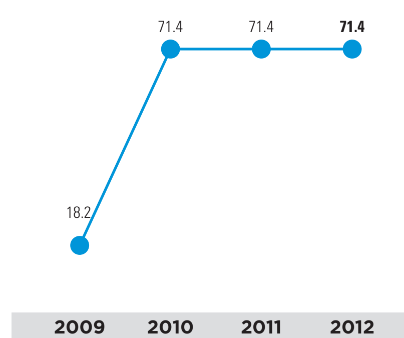
CO_2 Emissions / Emissions per ¥100 Million of Net Sales

(Thousands of tons / tons)



Outside Director Ratio

(%)



Our Recipe for Success:
RELENTLESS INNOVATION

Since its foundation, Calbee has lead the Japanese snack food market through relentless innovation. Looking ahead, we will continue expanding our presence in the international marketplace as a highly competitive global brand to ensure continuous growth and high profitability.

CEO Message

Expanding our presence in the international marketplace to develop as a highly competitive global brand.

See pages **10–15** for more information.

COO Message

Sales and income reached record highs. Calbee will work swiftly to promote its growth strategies to achieve further earnings growth.

See pages **16–19** for more information.

Akira Matsumoto
Chairman of the Board & CEO,
Representative Director

Shuji Ito
President & COO,
Representative Director

RELENTLESS INNOVATION:

Expanding our presence in the international marketplace to develop as a highly competitive global brand.

FY2012—Record Results in a Tough Market

In our first full year as a publicly listed company, Calbee Group set new records for both sales and profit, surpassing our management targets for the year. We achieved this in a domestic economy battered by the massive Great East Japan Earthquake and struggling with a historically high yen, amid very real concerns about economic contraction in overseas markets such as the US and Europe.

Four of Calbee's domestic production facilities sustained damage in the Japan earthquake—thankfully with no loss of life—and within the wider domestic economy demand contracted significantly in some sectors for up to six months after the disaster before recovering to previous levels.

The fact that we achieved record sales and earnings during such a difficult year is a very positive outcome, but I view this result as simply one more step in the right direction. Our overriding focus is on the strategic long game that we are playing: turning Calbee into a highly competitive global brand with strong growth and stable earnings.

The Twin Pillars of Calbee's Approach

Targeting Sustained Growth and High Profitability

Cost Reduction	Innovation (Growth Strategies)	
Rigorously review costs from production through to head office	Expand Overseas Business	Boost New Product Development
	Expand Domestic Market Share	Strengthen Alliance with PepsiCo, Inc.
	Pursue Licensing and Acquisition Opportunities	Develop New Businesses

Building a Lean Business with Profitability on a Par with Global Peers

As I have outlined in previous reports, we have been making significant structural changes within Calbee so that we can support long-term growth with lean, low-cost operations. Our profitability has been too low for too long, so from 2009 we began a concerted effort to drive costs out of our business. The result over the three years to date is that we have expanded our operating income at a compound annual growth rate of 40.6%, and improved our operating margin from 3.2% to 7.5%, based on key initiatives to centralize procurement and improve capacity utilization.

Our short-term goal is to lift our operating margin to 10%, as a milestone on the road to a longer term sustainable level of around 15%. This is the margin we need to achieve if we want to be compared favorably with our global industry peers, and we are exploring every possible means of reducing costs further, including through possible consolidation of our domestic plants.

Six Strategies for Growth

Although it is vital that we strengthen our bottom line by continuing to reduce costs and increase efficiency, our fundamental aim is to grow the Company. We need to sell more of our products in more markets around the world to achieve a substantial and sustainable increase in our top line.

In 2009 we adopted six core strategies to make this happen, and these strategies again drove our initiatives in the year under review. I will briefly review the six strategies before devoting the majority of my report to details of our core initiatives in overseas markets.

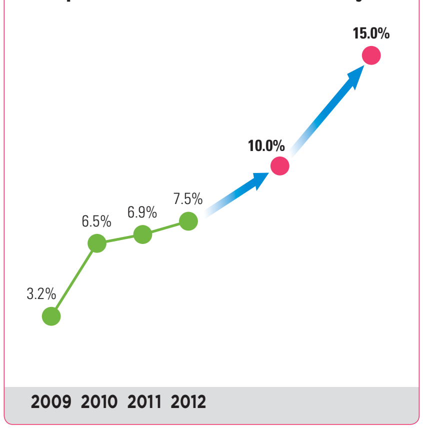
Strategy 1: Expand Overseas Business

There is tremendous potential for Calbee to expand in overseas markets, enabling us to continue growing even as Japan's consumer base gradually declines. We currently have about 50% of the Japanese snack food market, and when we look abroad, particularly to emerging economies where Calbee has yet to establish any operations, we see opportunities to use expertise developed in our home market to establish substantial sales volumes elsewhere. In fiscal 2012, 4.4% of Calbee's sales were generated outside Japan. In the medium-term our target is to increase this figure to 30% plus.

Strategy 2: Boost New Product Development

Calbee has an outstanding track record of developing innovative new products with lasting consumer appeal. We intend to increase the speed of our development efforts and ensure that creativity is pursued and recognized

Aiming at Operating Margin Comparable to that of Global Players



I will now turn to a more detailed look at our first, and most important, strategic initiative: our plans for overseas expansion.

within the Company. Our aim is to launch three new products a year, and to increase the number of products with annual sales of over ¥5 billion from the current 7 products to 20.

Strategy 3: Expand Domestic Market Share

We aim to establish Calbee as the top overall confectionery manufacturer in Japan, with shares of over 70% of the domestic potato chips market and over 60% of the overall snack market. We already have a powerful market position, and through a combination of launching new products and promoting existing favorites we are determined to build on this.

Strategy 4: Strengthen Alliance with PepsiCo, Inc.

Calbee has had a strategic alliance with PepsiCo, Inc. since 2009, under which we have been cooperating on a number of fronts to realize synergies. This has developed into a constructive, fruitful relationship and we intend to pursue further opportunities together as they arise.

Strategy 5: Pursue Licensing and Acquisition Opportunities

Calbee is constantly seeking licensing and acquisition (L&A) opportunities across the globe as one means of expanding the breadth and depth of our business.

Strategy 6: Develop New Businesses

We are actively exploring new business in areas that allow us to leverage our expertise, infrastructure and customer network in new ways. One such promising area is health and wellness. Another is our new "Calbee Plus" pilot stores in Japan that serve freshly fried potato chips in a wide variety of flavors. This is a unique proposition that, while in its early days, has so far shown an encouraging start.

Turning to Overseas Markets for Sustainable Growth

I will now turn to a more detailed look at our first, and most important, strategic initiative: our plans for overseas expansion.

In **the first phase** of our overseas development strategy we have been focusing on the strategic markets of China, North America, South Korea, Thailand, Taiwan and Hong Kong. As part of this, we formed a joint venture subsidiary in China, announced in April 2012, with Master Kong Instant Foods Investment (China) Co., Ltd. and ITOCHU Corporation.

➡ Please see page 13, China Strategy

In **the second phase**, we will target markets in Western Europe, Russia, Australia, Indonesia, Malaysia and Vietnam. During the past year we completed market research in these countries, with outcomes that indicate strong interest in Calbee products and promising business opportunities.

In **the third phase**, we will target the markets of India and Brazil, among others. We expect to begin planning this phase in April 2014.

As Calbee expands into new markets, we are striving to make full use of our proven ability to develop and introduce new products that appeal to local tastes. At the strategic planning level, in each market we are also being guided by four key factors that are fundamental to success. The first is cost control. It is essential to keep costs at a level that allows us to offer products at a reasonable price while maintaining strong profitability (an operating margin of 10% or higher). The second is selecting strong local partners who can help Calbee to establish a market presence rapidly. The third factor is localization. We believe it is important to use local ingredients and production facilities to match the preferences of local consumers. The fourth factor is speed. To make the most of opportunities we must execute our business expansion swiftly, especially in emerging markets such as China and India.

China Strategy

In the key growth market of China our local joint venture, Calbee (Tianjin) Foods Co., Ltd., will spearhead a vigorous effort to expand our business.

China is the most promising market in Asia, and the three-way partnership from July 2012 in Tianjin is the vehicle that will drive our Chinese business forward. By teaming up with Tingyi Group subsidiary Master Kong Instant Foods Investment (China) Co., Ltd., which has strong marketing capabilities throughout China, and Japanese general trading company ITOCHU Corporation, we have created a solid platform for success.

The Master Kong Group is one of the leaders in China's rapidly growing food products industry, with annual sales of US$7,870 million. With the support of ITOCHU Corporation and the Master Kong Group, we will achieve a fully localized operation, with local Chinese suppliers of ingredients and production facilities, local employees, and a local management team to facilitate the earliest possible success in the Chinese market.

We plan to steadily expand operations, starting from Tianjin in the north of China and then moving into the eastern, southern and western regions of the country. Our aim for fiscal 2018 is to reach sales of around ¥50 billion, with an operating margin of over 10%.

Expanding in North America

North America is the world's largest snack food market, and Calbee has been active in the region for some 40 years, with products like *Kappa Ebisen* prawn crackers and *Snapea Crisps*, made from peas. In 2011, the major US retail chains Wal-Mart Stores, Inc. and Costco Wholesale Corporation began carrying *Snapea Crisps*, in an effort to appeal to more health-conscious consumers. The response has been excellent.

We plan to launch other Calbee products, including *Jagabee* and *Jagarico*—two brands of potato snacks made using the company's unique production technology. Calbee North America, LLC, which produces potato dough for *Jagabee*, already has a production facility in North America, so we are building a new fryer facility for *Jagabee* next to the existing plant, at a cost of US$26 million. We plan to begin selling products from this plant in April 2013, and will be announcing more details about our local partner and the product specifications over the coming few months.

Growing Our Business in Asia

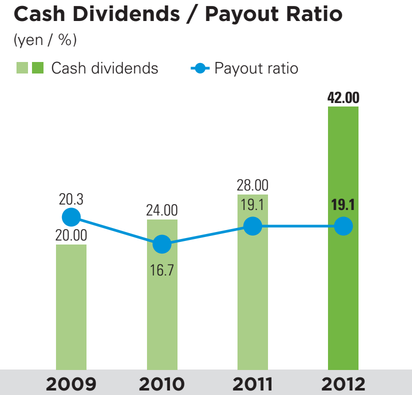
In **South Korea**, our joint venture with HAITAI Confectionery & Foods Co., Ltd. generated ¥1,225 million in sales for the year under review, achieving the targets we set on establishment in July 2011. There has been a fabulous consumer response to *Jagabee* potato snacks, which we began producing and selling locally in January 2012. *Jagabee* is one of our most popular products in Japan, and as it grows in South Korea we are enhancing its market positioning and improving the efficiency of local procurement to ensure maximum profitability.

In **Hong Kong**, Calbee has captured a leading share of the snack food market through a joint venture we established in 1994 with Four Seas Mercantile Holdings Ltd. We are currently pursuing further opportunities for growth by expanding the product lineup.

In **Thailand**, the flooding in 2012 did not affect Calbee's local operations. Our business in Thailand has been growing rapidly, and sales of our locally developed product *Jaxx* have soared, contributing to a 19% year-on-year increase in net sales. We are looking to build on this momentum with our planned launch of *Jagabee*.

In **Taiwan**, a sales licensing agreement that we formed in 2002 with Lian Hwa Foods Corporation ended in June 2011. We have now reached an agreement with Wei Chuan Foods Corporation, which has a strong sales network in Taiwan, to establish a joint venture company in August 2012, through which we will work to increase our product sales and market share in the Taiwan market.

Cash Dividends / Payout Ratio



Building a Trusted Global Brand with Global Standards of Corporate Governance

As we launch and expand Calbee in more countries and regions, we are forming relationships with an increasingly diverse range of consumers, business partners and other stakeholders that need to know they can trust our brand. In the same way, when we listed on the Tokyo Stock Exchange in March 2011 we committed to increased scrutiny from investors, potentially anywhere in the world, who need to know they can trust our business.

Strong corporate governance is essential to meeting both these needs for trust. Our policy is to operate a management structure that meets global standards of excellence in terms of transparency and clarity, with the responsibilities of all directors and executive officers clearly defined. To ensure a high degree of independence and an appropriate level of supervision, outside directors account for five out of the seven members on our Board.

We recognize that one of the primary objectives of management should be to provide shareholders with an appropriate return on their investment. Therefore, while striving to maintain steady earnings growth and a solid financial position as a newly listed company, we have chosen a policy from the outset that channels regular return of profits to investors and reflects improvements in our performance. Over the course of fiscal 2012 Calbee was able to generate healthy profits, and we therefore lifted the year-end dividend to ¥42 per share, ¥10 more than our initial projection (¥32 per share) and ¥14 per share more than the year-end dividend for fiscal 2011.

We appreciate the trust investors have shown us in our first full public year, and look forward to your support over many exciting years ahead.

Bringing Calbee to Communities and Consumers Worldwide

In parallel to our shareholder returns policy, we operate a variety of corporate citizenship programs, including activities promoted by the Social Contribution Committee, regional dietary education programs, and measures that help increase employment opportunities for people with disabilities. We took an active role in the establishment of the Great East Japan Earthquake Orphans' Fund, which was set up to ensure that children affected by the Great East Japan Earthquake are able to continue their education and realize their future aspirations. We value diversity in the workplace, and in both our domestic and overseas operations are trying to develop a workforce that includes a stimulating variety of backgrounds and experiences.

Since being founded in 1949, Calbee's unique, high-quality food products and many industry innovations have made us a leader in the Japanese snack food market. Now, we are intensively engaged in bringing the Calbee brand to more consumers in more parts of the world. We appreciate the trust investors have shown us in our first full public year, and look forward to your support over many exciting years ahead.

Akira Matsumoto
Chairman of the Board & CEO, Representative Director

RELENTLESS INNOVATION:

Sales and income reached record highs. Calbee will work swiftly to promote its growth strategies to achieve further earnings growth.

Renewed Records for Sales and Income

In fiscal 2012, the year ended March 2012, earnings were affected by the Great East Japan Earthquake that damaged four of Calbee's production facilities. Despite this difficult start, company-wide cooperation to try to revive operations proved successful, boosting sales and income to record highs.

Sales were supported by growth in sales of potato-based snacks and the new product *Vegips*, as well as expansion in overseas markets such as North America and South Korea. Total revenues increased 5.0% year on year, to ¥163,269 million. While the domestic market for snack food remained basically flat, we achieved sales growth far exceeding the market average.

At the profit level, we spent aggressively on sales promotion to further expand our domestic market share. This led to an increase in sales and increased capacity utilization at factories, which, along with the effect of centralized procurement, helped reduce procurement costs and the manufacturing cost ratio. These measures supported 14.3% year-on-year growth in operating income, to ¥12,247 million, and a 0.6 percentage point improvement in the operating margin, to 7.5%. Net income increased 66.8% year on year, to ¥7,097 million, partly due to booking an extraordinary loss of ¥2,163 million in the previous period on damage caused by the Great East Japan Earthquake.

Performance in Fiscal 2012
(Millions of yen)

	Fiscal 2010	Fiscal 2011	**Fiscal 2012**
Net Sales	¥146,453	¥155,529	**¥163,269**
Operating Income	9,534	10,717	**12,247**
Net Income	4,017	4,253	**7,097**

Market Share Expanded Steadily Against Modest Growth in the Domestic Snack Food Market

In 2011, the domestic snack food market grew by a modest 0.9% year on year, to ¥406.5 billion. Although growth has averaged around 2% in recent years, the March 11 earthquake had a notable impact, keeping demand at almost the same level as the previous year. The domestic confectionery market is worth an estimated ¥3.2 trillion, but it also faces weak growth prospects due to deflation, low birth rates and a decline in disposable income. Annual growth is unlikely to pick up in the foreseeable future.

Under these conditions, Calbee's best prospect for strengthening the domestic business is to capture a dominant market share. Thanks to aggressive promotion efforts, we increased our share of the domestic potato chip market by 0.7 percentage points, to 63.2% in fiscal 2012 from 62.5% in the previous year. Competitors had managed to erode Calbee's market share with a low price strategy, but since bottoming out in the fiscal year ended March 2010, it has been on a recovery track. We will continue our efforts to expand market share, targeting 70% of the potato chip market by the end of March 2013. Moreover, by reviving market share in the potato chips segment and launching new products, we boosted our overall share of the domestic snack food market by 0.4 percentage points, to 48.9%. We aim to continue this trend of market share growth, and to capture around 60% of the domestic market in the medium term.

➡ Please see page 43 for details

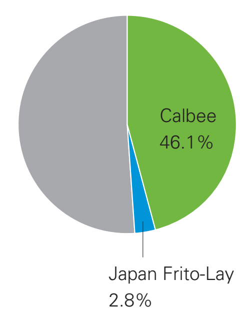
Sales Growth Supported by New and Limited-time Products, as well as Rapid Overseas Expansion

Sales in the first quarter of fiscal 2012 declined year on year due to the impact of the Great East Japan Earthquake. From the second quarter onward, however, sales rebounded to achieve a ¥7.7 billion year-on-year increase for the full fiscal year.

In potato-based snacks, Calbee scored a notable hit with a limited-time offer of *Jagarico Tarako Butter* (Cod Roe and Butter flavor). This item generated the highest sales ever for a limited-edition product, and greatly contributed to overall sales growth.

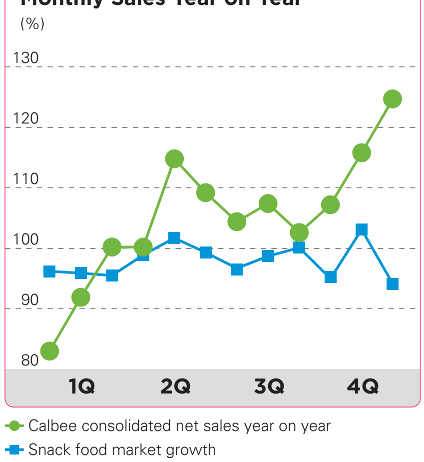
Sales of another new product—*Vegips*—reached ¥1.3 billion. *Vegips* is a new type of vegetable chip product that brings out the unique savory and sweet flavor and texture of vegetables such as onions and pumpkin. It was first launched in the Kinki and Chubu regions in February 2011, and has enjoyed a positive reception from consumers. We introduced *Vegips* in Kyushu in April 2012 and are now building additional production lines to expand our sales area even further. We intend to launch the product in Kanto in July 2012, and will offer *Vegips* nationwide during fiscal 2013. In the category of flour-based snacks, we have revamped our popular *Kappa Ebisen* brand, and continue to generate steady sales with items like *Osatsu Snack* and *Cheese Bit*. Sales of cereals were supported by the success of the *Fruits Granola* brand.

Share of Domestic Snack Food Market



Source: Intage SRI (nationwide, all retail formats)
Base: sales value, April 2011–March 2012

Monthly Sales Year on Year



Snack food market growth source: Intage SRI (nationwide, all retail formats)
Base: Sales value

Sales Contribution by Product in Fiscal 2012
(Millions of yen)

Net sales	**+7,740**
Potato-based snacks total	+1,600
(including *Jagarico*	+1,556)
Flour- and corn-based snacks	+ 990
Vegips and other new snacks	+1,176
Overseas	+2,081
Processed bread, cereals	+1,175
Others	+ 718

Calbee's overseas operations received a boost in July 2011 with the establishment of a Korean joint venture, HAITAI-CALBEE Co., Ltd., in partnership with a large Korean confectionery manufacturer HAITAI Confectionery & Foods Co., Ltd. In North America, leading retail chains Wal-Mart Stores, Inc. and Costco Wholesale Corporation began carrying Calbee's *Snapea Crisps*, while sales in Thailand were similarly brisk. As a result, total overseas sales grew 41% year on year, to ¥7,155 million.

Sales Growth and Cost Cutting Efforts Drove Earnings Growth

Cost reduction efforts made strong headway in fiscal 2012, as in the previous year. Calbee made further progress in centralized procurement efforts, and reviewed production items at each factory to improve efficiency. Closer coordination between production and marketing helped to standardize production activity. As a result, the cost of sales ratio for the period improved by 0.5 percentage points to 57.7% despite a rise in raw materials costs. This was 1 percentage point better than the initial target.

At the start of the fiscal year, Calbee forecast a ¥2,500 million increase in raw materials prices, but in actuality prices rose by ¥1,290 million year on year. Most of this rise was successfully offset by cost reductions of ¥1,001

New Product Development

We aim to launch three new products a year, and to cultivate strong brands.

During fiscal 2012, Calbee launched three new products—*Okome Bore*, the Company's first rice-based snack, *Hitokuchi Bizen*, a nutritional product containing cereals and fruit, and *Vegips*. As we noted earlier, *Vegips* has received a very favorable response. In fiscal 2012, Calbee invested ¥750 million at the Konan factory (western Japan) to develop production capacity for *Vegips*. This year the company will invest ¥1.2 billion to establish a production line in eastern Japan, to support the nationwide launch of *Vegips*. We expect this to add some ¥2.0 billion to annual sales. By contrast, *Okome Bore*, and *Hitokuchi Bizen* did not achieve the anticipated sales levels so we are reconsidering our strategy for these products.

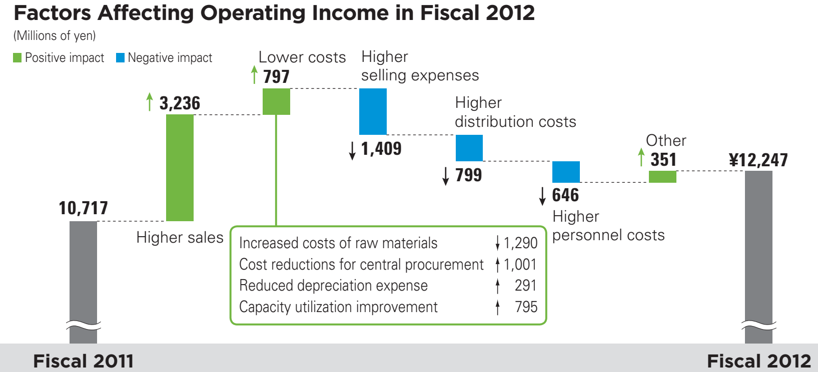
In the future, Calbee plans to continue introducing three new products per year. Our aim is to increase the number of products that generate over ¥5 billion in annual sales from 7 items currently to around 20 items. We believe that on average, at least one of the three products launched each year will become a hit. By strengthening its management of the new product pipeline, Calbee hopes to accelerate the pace of new product development, and is likely to increase spending on research and development over the long term.

In the current fiscal year ending March 31, 2013, we plan to continue developing snack food products based on ingredients such as beans and fruit, and employing new production technologies.

New products for fiscal year ended March 2012 million stemming from the promotion of centralized procurement. Concerted efforts to control capital investment reduced total depreciation expenses by ¥291 million, while improvements in capacity utilization had a ¥795 million impact on total cost of sales.

Looking to the future, rising raw material prices and continued deflation in Japan are lingering concerns. We will address these risks by continuing to seek ways to reduce costs across the entire Group. By steadily improving its profit structure, Calbee aims to build a solid business foundation that can remain highly competitive both in the domestic market and globally.

Factors Affecting Operating Income in Fiscal 2012



By steadily improving its profit structure, Calbee aims to build a solid business foundation that can remain highly competitive both in the domestic market and globally.

Further Steps to Enhance Earnings

Calbee's management is based on two pillars for promoting business vitality: continued cost reduction and innovation (six strategies for growth). We aim to cultivate a simple, transparent and decentralized corporate structure in which employees are motivated and act with initiative. Guided by these aims, Calbee will work swiftly to deliver steady earnings growth and high profitability.

Thank you for your continued interest and support in Calbee.

Shuji Ito

President & COO, Representative Director

Special Feature

CALBEE INNOVATION DRI

Calbee has led the Japanese snack market by creating innovative products and pursuing various innovations. We aim to expand overseas to drive further growth, pursuing swift innovation in the global marketplace and increasing overseas sales to more than 30% of net sales. This special feature explains the status of our overseas business and our first phase strategies in China, North America, and Asia outside of China.

VES GLOBAL EXPANSION

- **Phase I:**
  China, North America, South Korea, Thailand, Taiwan, Hong Kong
- **Phase II** (April 2012, Begin formulating strategies)**:**
  Western Europe, Russia, Australia, Indonesia, Malaysia, Vietnam
- **Phase III** (April 2014, Begin formulating strategies)**:**
  India and Brazil, among others

North America

Year of Market Entry: 1970
Sales in fiscal 2012: ¥1,650 million

Hong Kong

Year of Market Entry: 1994
Sales in fiscal 2012: ¥1,661 million

China

Strategies for the Fast-Growing Chinese Market

China is one of Asia's most promising markets, offering considerable expansion potential. Management has positioned China as a strategically important region for Calbee's growth in the years ahead.

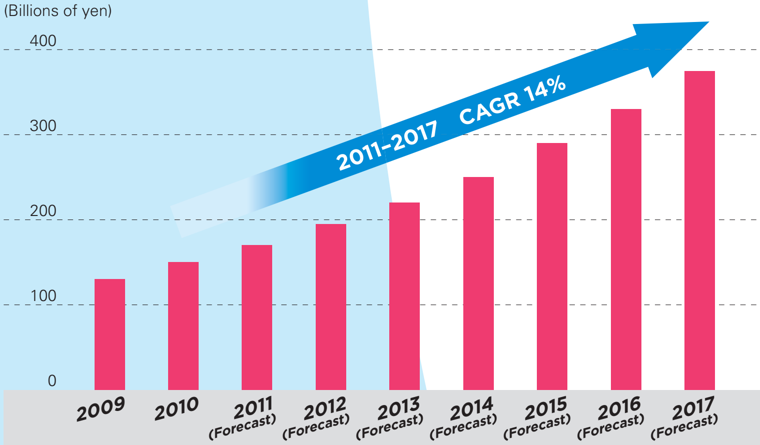
Growth Potential of China's Snack Market

China's snack market is worth around ¥140 billion, and should expand an average of 14% every year through 2017. Per capita annual snack consumption in China is 23.6 g, far lower than the 3,200.0 g average in developed countries. We thus believe that China offers tremendous market potential as lifestyles change with economic growth. The local market leader is Taiwan's Want Want Group, followed by PepsiCo, a strategic partner for Calbee, and Liwayway Marketing Corporation of the Philippines. Foreign producers are active in China, competing intensely for market share.

Establishing Calbee (Tianjin) Foods, a Joint Venture with Master Kong Instant Foods and ITOCHU

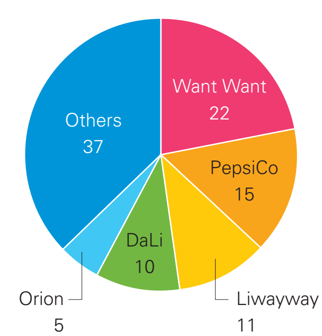
In July 2012, Calbee (Tianjin) Foods, Co., Ltd. was established in Tianjin, China. Calbee holds a 51% stake in this joint venture, with 45% coming from Master Kong Instant

China's Growing Snack Market
(Billions of yen)



Source: Nielsen

Snack Companies' Market Share in China
(%)



Foods Investment (China) Co., Ltd., a part of the Tingyi (Cayman Islands) Holding Corp.; and 4% from ITOCHU Corporation. Calbee (Tianjin) Foods will start operations in December 2012.

Master Kong has the dominant share in China's noodle and beverage sectors and is a fast-growing leader in the nation's food industry. Calbee aims to swiftly establish a strong competitive position and brands in the Chinese market by leveraging Master Kong's strong local sales networks.

We will start with products that incorporate flour-based dough from our Qingdao factory. Initial offerings will be *Kappa Ebisen* (prawn crackers) and *Sapporo Potato*. Thereafter, we plan to introduce *Jagarico*, *Jagabee*, and *Potato Chips*. It is vital to ensure stable procurement of high quality potatoes at low cost for producing *Potato Chips*. We will therefore seek support from Master Kong and ITOCHU in building a structure for stable procurement.

Targeting 10% of China's Snack Market

We are targeting ¥10 billion in sales at Calbee (Tianjin) Foods by fiscal 2018, and plan to use ¥4.4 billion in capital expenditures for that company over the next five years. Our overall fiscal 2018 targets for our Chinese operations are ¥50 billion in sales and a over 10% operating margin. We aim to capture a 10% share of the Chinese snack food market.

We aim to reach these goals by establishing companies in the east, south, and west of China to drive revenue and earnings growth.

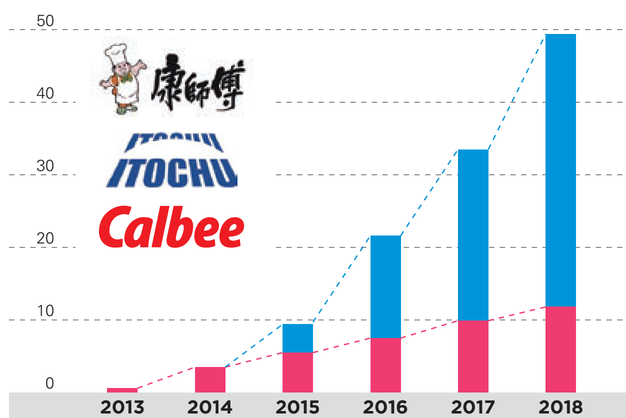
Business Partnership in China

Establish JV company with
Master Kong Instant Foods and ITOCHU in July 2012

Targeting net sales of ¥50 billion and an operating margin of over 10% by March 2018

Sales Target in China

(Billions of yen)



■ Sales target for Calbee (Tianjin) Foods
■ Sales target for the planned companies to be established in China

North America

Pursuing New Challenges in North America, the World's Largest Snack Market

As the world's biggest snack market, North America is as important as China for Calbee's future growth. We aim to develop this market aggressively with competitive offerings such as *Jagabee*.

Initiatives in the World's Largest Snack Market

The North American snack market was worth US$31.2 billion in 2009, making it the world's largest. There is still considerable growth potential. Strategic partner PepsiCo is far larger than even the second-ranked player in that market.

In 1970, Calbee established an American subsidiary that has offered such products as *Kappa Ebisen* (prawn crackers) and *Snapea Crisps*. We have sold *Snapea Crisps* in North America for more than a decade. In fiscal 2012, we started doing business with such major supermarket chains as Wal-Mart Stores, Inc. and Costco Wholesale Corporation, and expect sales to increase.

Other Countries in Asia

Building the Asian Market

We will continue efforts in South Korea, Thailand, Taiwan, and Hong Kong to further expand our market shares and profitability.

Asian Snack Food Market 2011
(Millions of US$)

South Korea	864.8
Thailand	775.3
Taiwan	729.0
Hong Kong	109.9

Source: Euromonitor Sweet and Savoury Snacks

Initiatives in South Korea

South Korea ranks after Japan and China in promising Asian markets. In July 2011, we jointly established HAITAI-CALBEE Co., Ltd. with HAITAI Confectionery & Foods Co., Ltd. This partner ranks alongside NONGSHIM CO., LTD, ORION CORP., and Lotte Co., Ltd. as a leading South Korean confectionery maker. Together with its parent company CROWN Confectionery Co., Ltd., HAITAI Confectionery & Foods accounts for about 21% of South Korea's snack food market. In 2003, Calbee concluded a licensing agreement with HAITAI Confectionery & Foods, mainly for flour-based snacks, which had helped to increase the market share of Calbee products in South Korea to 5%. On forming the joint venture in 2011, Calbee decided to end the licensing

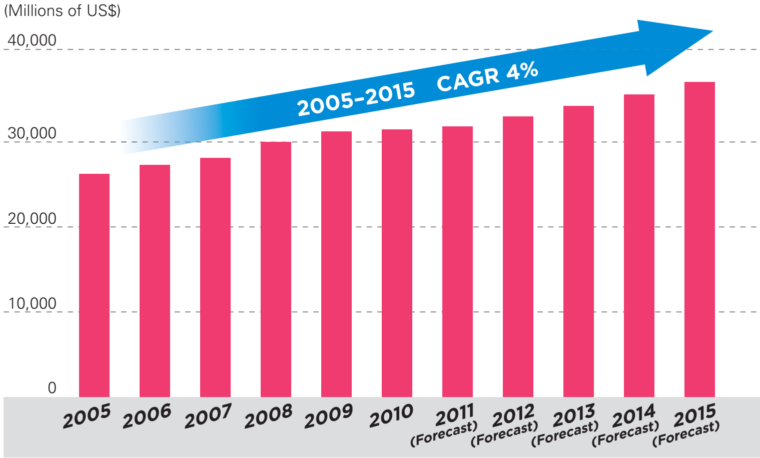
Setting the Stage for *Jagabee* Sales

Our growth in North America will depend heavily on our ability to cultivate markets for *Jagabee*, *Jagarico*, and other products.

North American subsidiary Calbee North America, LLC makes the potato dough for *Jagabee*. We plan to add a US$26 million fryer facility next to the factory, with *Jagabee* sales to start in April 2013. Our market studies concluded that there is ample receptivity for *Jagabee* in North America. Other preparations include extensively reducing costs to attain acceptable prices and profitability and rigorously localizing the package design and flavor. We are in the final stages of discussions about sales approaches.

Snack Market Trend in the US

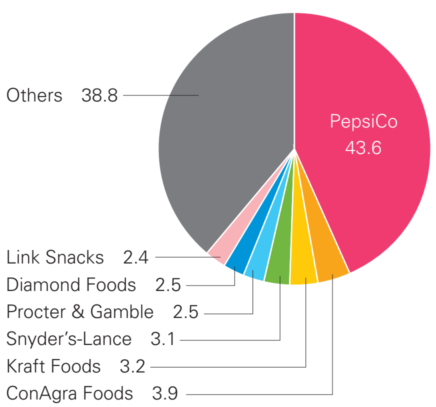
(Millions of US$)



Source: Euromonitor Sweet and Savoury Snacks

Snack Companies' Market Share in North America

(%)



agreement to improve its market position in South Korea and expand profitability.

HAITAI-CALBEE's fiscal 2012 sales were ¥1,225 million. *Jagabee* has proved popular since its launch locally in January 2012. We are expecting ¥3,000 million in sales and a 10% operating margin at the joint venture within five years from its establishment.

A Top Market Share in Hong Kong

In 1994, we entered the Hong Kong market by establishing a joint venture with Four Seas Mercantile Holdings Ltd., a company with a strong local marketing capabilities, involved in manufacturing, importing, and selling food products. The joint venture sells *Potato Chips*, *Jagabee* and flour-based snacks such as *Kappa Ebisen* (prawn crackers), and dominates the Hong Kong snack market, with a 25% share that ranks ahead of PepsiCo, the world's largest snack foods company. The joint venture also has 40% of the local potato chips market. We will continue to focus on injecting new products and broadening the product lineup to increase sales and profits.

Initiatives in Thailand

In 1970, Calbee established a Thai joint venture with a local company. The flour-based product *Jaxx* has been very popular in this market. The joint venture suffered no damage from flooding last year, and has continued to see sales expand. With production at full capacity, we plan to carry out capital expenditures in fiscal 2013. We also intend to deploy a new strategy to further expand sales.

New Challenges in Taiwan

In Taiwan, we finished a licensing agreement with Lian Hwa Foods Corporation from 2002 in June 2011. We have decided to establish a joint venture with Wei Chuan Foods Corporation which has strong marketing and sales capabilities in Taiwan, a part of Tingyi (Cayman Islands) Holding Corp. We aim to achieve 2.0 billion yen of annual net sales and 10% of market share within five years of business commencement.

At a Glance

In the food production and sales business, the Calbee Group mainly produces and sells potato-based snacks, flour-based snacks, corn-based snacks, processed bread and cereals.

In the fiscal 2012 (ended March 31, 2012), net sales in the food production and sales business totaled ¥160,773 million, an increase of 4.7% year on year. In other businesses, sales climbed 23.4% year on year to ¥2,496 million.

Snack Foods
86.5%

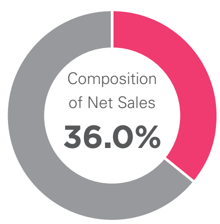
Other Food Products
12.0%

Other Businesses
1.5%

SNACK FOODS

Potato-based Snacks

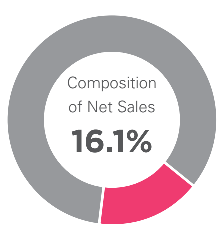
Potato Chips (launched 1975)



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, promoting *Potato Chips* as the top brand in the Japanese market. In addition to our range of conventional thin-style potato chips fried in cooking oil, we offer a variety of other products that help us to stand out from other companies. These include *Kata-Age Potato*, a range of thickly sliced potatoes fried slowly in a kettle using a traditional method, and *Pizza Potato Chips*, which are made with our unique "melt flake" technology that gives them an authentic cheese taste, as well as a wide range of flavors to match different seasons, local tastes and other factors.

In fiscal 2012, *Potato Chips* sales were heavily impacted by the Great East Japan Earthquake. However, thanks to vigorous marketing activities and an "extra-volume" sales campaign, *Potato Chips* sales recovered to around the previous year's level, finishing at ¥58,751 million, down 0.4% year on year.

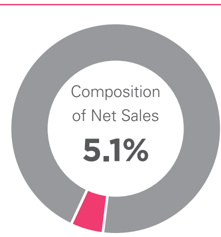
Jagarico (launched 1995)



Jagarico is our second megabrand after *Potato Chips*. Three years after launch, annual sales reached ¥10 billion, growing to ¥20 billion eight years later. Annual sales have remained stable, and today stand at more than ¥25 billion. *Jagarico* was Japan's first snack-in-a-cup, and it has proven popular with a wide range of customers thanks to its unique crunchy texture and easy-to-eat style that leaves hands clean.

In fiscal 2012, *Jagarico* sales rose 6.3% year on year to ¥26,314 million, supported by the resounding success of a limited-time offer of *Jagarico Tarako Butter* (Cod Roe and Butter flavor).

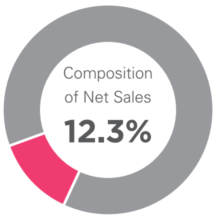
Jagabee (launched 2006)



We see *Jagabee* as a strategic product for the future. *Jagabee* is 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*.

In fiscal 2012, *Jagabee* sales rose 4.2% year on year to ¥8,395 million spurred by an enhanced product range.

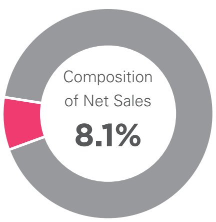
Flour-based Snacks



Launched in 1964, *Kappa Ebisen* (prawn crackers) is a long-selling snack product made from whole natural prawns. Other products in this category include vegetable snacks that accentuate the natural flavor of vegetables.

In fiscal 2012, sales of flour-based snacks increased 2.5% year on year to ¥20,092 million, reflecting steady growth driven primarily by the renewal of *Kappa Ebisen* and other factors.

Corn-based Snacks

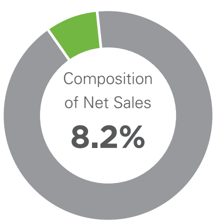


Launched in 1983, *Mike Popcorn Butter Shoyu* (butter and soy sauce) *Flavor* was Japan's first popcorn flavored using traditional Japanese ingredients. It has become a long-selling product. Our corn-based snacks also include *Doritos* and *Cheetos*, two global megabrands developed by Frito-Lay.

In fiscal 2012, sales of corn-based snacks amounted to ¥13,262 million, up 3.8% year on year. This increase was underpinned by steady growth in mainstay products.

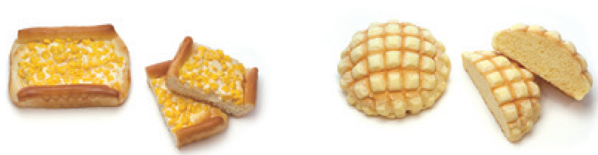
OTHER FOOD PRODUCTS

Processed Bread

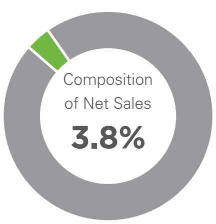


We manufacture sweet buns and bread with savory fillings for supply to retailers.

In fiscal 2012, net sales of processed bread amounted to ¥13,376 million, an increase of 2.8% year on year.



Cereals



Fruit Granola is Japan's most popular cereal brand. Containing fragrant roasted cereals mixed with dry fruit that retains its natural sweetness, *Fruit Granola* has proven popular among a broad range of customers, mainly women, who see it as a ready source of fiber, iron and vitamins.

In fiscal 2012, cereal sales rose 15.3% to ¥6,148 million.

Calbee's Strengths

Calbee is proud to have achieved the top share of Japan's snack foods market as a result of having developed unique and competitive products over the years. Its greatest strengths lie in its brand (product) development capabilities and raw material procurement capabilities. The company has honed both of these capabilities since its founding in 1949. Calbee's strengths provide solid foundations that will drive the Calbee Group's future growth in the years to come.

Brand (Product) Development Capabilities

Over the years, Calbee has achieved steady growth by launching a major innovative product every 10 years. Sales of each of these products have reached ¥10 billion shortly after launch, with sales growth continuing thereafter without cutting into the sales of existing products. Indeed, Calbee's *Potato Chips* is Japan's biggest brand with annual sales of more than ¥50 billion. Japan's second largest brand is Calbee's *Jagarico*, which is enjoyed by a broad range of consumers for its unmistakable crunchy texture.

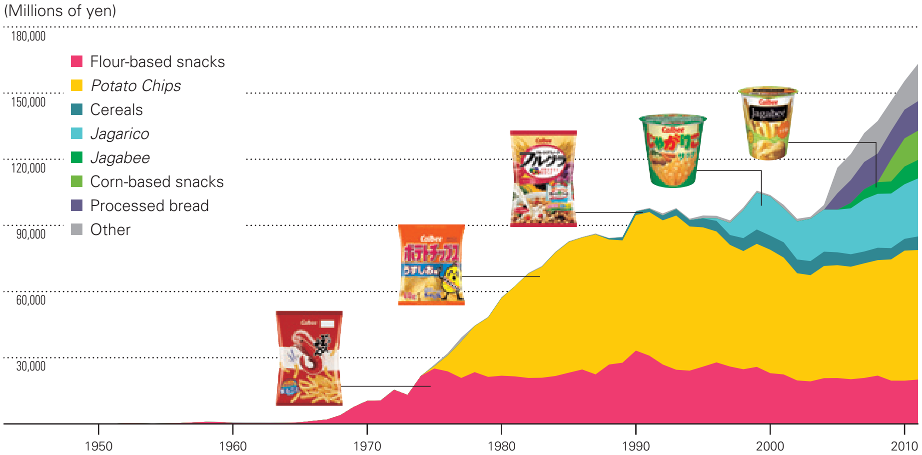
Japan's entire confectionery market, including snack foods, currently has only around a dozen or so megabrands with annual sales topping ¥10 billion. In this market, Calbee is the only company in Japan that has a portfolio of multiple megabrands. *Jagabee*, launched in 2006, is on the verge of becoming Calbee's latest megabrand. Another upcoming brand is *Vegips*, which Calbee rolled out in 2011. Sales of *Vegips* have steadily increased on the back of strong market recognition of its unique features. Calbee believes that these products can compete effectively in overseas markets.

But developing new brands is only half the story. Calbee also develops new flavors for existing products, along with products exclusively offered in certain periods and regions. Through these sorts of creative initiatives Calbee aims to get existing customers to reach for more snacks and to win new customers in a bid to lift sales even higher.

In product development, Calbee takes an integrated approach. In addition to developing products based on new ingredients, technologies, and approaches, Calbee internally develops the necessary production facilities and commercializes the products. Another distinctive feature is that Calbee installs large volume production lines alongside sample production lines. *Kappa Ebisen* (prawn crackers), Calbee's first major hit product, was developed by its founder Takashi Matsuo. The founder's innovative approaches have become an integral part of Calbee's

Net Sales by Product

(Millions of yen)



*On a consolidated basis from 2005

corporate DNA. In keeping with this spirit, employees outside the R&D Group also actively participate in product development.

In addition, Calbee is working to reinforce management of the product pipeline, while shortening the lead time for developing new products. Calbee is also stepping up efforts to develop snack ingredients other than potatoes. Within the next few years, Calbee aims to increase the number of product items with annual sales in excess of ¥5 billion to 20, compared with 7 such product items today.

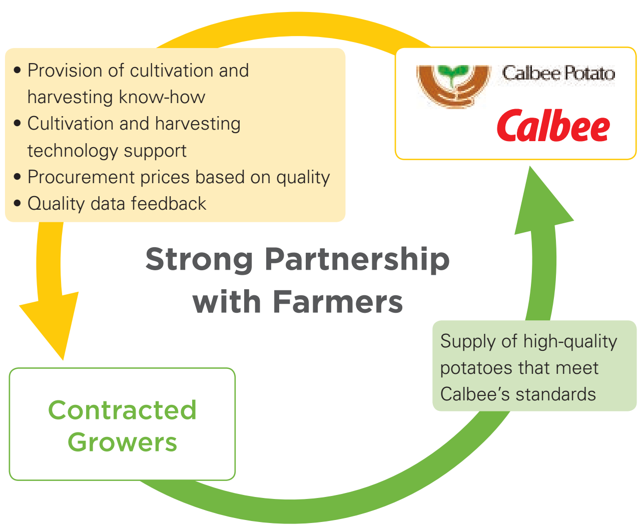
Raw Material Procurement Capabilities

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 for these ingredients and changes in the weather. Calbee has therefore worked closely with producers in the farming and fishing industries to improve the quality of raw materials.

Calbee has focused on building a stable procurement system for potatoes, the primary ingredient for its products, since before it fully entered the potato chips business. We started building this system in 1974 to ensure steady procurement of high-quality potatoes optimal for production. In 1980, we spun off our Potato Procurement Department to establish CALBEE POTATO INC. This company works to boost quality in a number of ways, such as cultivating new potato varieties, developing new growing technologies, and conducting research into stockpiling techniques. Furthermore, Calbee has stationed personnel known as "fieldmen" across Japan to support around 2,500 contracted potato growers. This support covers the cultivation techniques and process management needed to achieve a stable harvest and quality. Calbee is Japan's largest purchaser of potatoes, using around 8% of all potatoes produced in Japan (50% of all potatoes used for processing).

Calbee must prepare for fluctuations in the supply of domestic potatoes due to smaller harvests following poor weather and other factors. Accordingly, Calbee has built a system that enables imports of potatoes from overseas. Because potatoes are particularly susceptible to pests, Japan has put strict regulations on imports of raw potatoes in order to protect plants from the intrusion of harmful pests into the country. As a result, Calbee's Hiroshima and Kagoshima factories, which are located in port areas, are the only places in Japan permitted to import raw potatoes. Meanwhile, Calbee produces *Jagabee* from processed potatoes sourced from its US subsidiary Calbee North America, LLC, a joint venture with the biggest potato grower in the US, R.D. OFFUTT COMPANY. Calbee also sources raw materials from other countries based on their suitability for processing.

In this manner, Calbee's partnerships with contracted growers and access to a stable overseas source of potatoes form a crucial underpinning for the development of Calbee products.



Conditions for Potato Imports

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

*MAFF: Ministry of Agriculture, Forestry and Fisheries of Japan

Corporate Social Responsibility

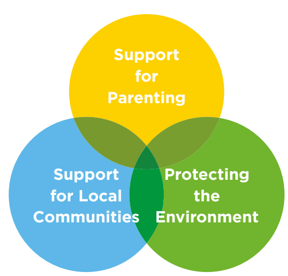
The Calbee Group strives to be respected, admired and loved as a corporate group that gives consideration to local communities where it operates and to the natural resources and environments of Japan and other countries worldwide. The Group implements a wide range of corporate social responsibility (CSR) activities with these objectives in mind. We view CSR activities not as charity or advertising efforts, but as contributions and long-term investments. We strive to have our various activities recognized by society, and to reflect them in our business too.

SOCIAL CONTRIBUTION ACTIVITIES

Basic Policy

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



Calbee has a Social Contribution Committee, whose goal is to help employees across the entire Calbee Group conduct activities that contribute to the community. The committee was first formed two years ago, and has 11 members selected via an internal application process. Today, we have organized Social Contribution Committees in each region where Calbee is active, each organizing a wide range of activities in accordance with the Group's social contribution mission statement.

Based on key themes, the committees organize activities to clean up and protect environments around the Group's factories and offices. They also support sports events and implement other initiatives as part of Calbee's efforts to fulfill its responsibility to local communities and contribute to global society.

Initiatives with Customers

The Calbee Group seeks to help children around the world by donating a portion of its sales proceeds to international NGOs and other groups dedicated to protecting children's rights and welfare.

Donation to Save the Children Japan

The Calbee Group is working to provide ongoing support for children affected by the Great East Japan Earthquake through its White Label Project. We reduced the number of colors used in our product packaging to cut printing costs, enabling us to make a donation of one yen per pack to Save the Children Japan. Our subsidiary Japan Frito-Lay Ltd. has also been donating one yen to Save the Children Japan for each product sold in its seven core product lines. Save the Children Japan is a private-sector NGO dedicated to realizing the rights of survival, protection, development and participation for all children. The NGO is currently also active in the areas affected by the earthquake and tsunami.

White Label Project products

Support for KIDS EARTH FUND

We donate a portion of sales proceeds 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 a portion of the sales proceeds from *Jagabee* products is donated to support the fund's Kids Helping Kids program.

Jagabee packaging featuring paintings by children

Dietary Education Activities

The Calbee Group aims to use its snack foods to help children learn how to lead enjoyable, healthy lives through cultivating "correct dietary habits" and "self-control." We believe this is important because children will be responsible for tomorrow's society. Our Calbee Snack School aims to achieve this by visiting elementary schools throughout Japan to provide children with a hands-on learning experience. Since its inception in 2003, over 220,000 children have participated in this activity, and in fiscal 2012, 31,217 students and 7,347 caregivers attended the programs, which were held at 496 schools.

Topics

The Great East Japan Earthquake Orphans' Fund

The Great East Japan Earthquake Orphans' Fund was jointly established by Calbee, KAGOME CO., LTD. and ROHTO Pharmaceutical Co., Ltd. in September 2011. The fund aims to support children who have been orphaned in the Great East Japan Earthquake over the next 25 years by providing an environment where they can continue to grow up with dreams and goals. At the same time, the fund has a goal of nurturing human resources who can contribute to Japan and the Tohoku region. The fund was certified as a public interest corporation in October 2011, and has received wide-ranging support from corporations and individuals alike. As a result of this support, we believe the fund is even more certain to achieve its objectives.

Press conference announcing the Great East Japan Earthquake Orphans' Fund

Social Contribution Activities in Thailand

In 2010, the Calbee Group started CSR activities in Thailand, marking the Group's 30th year of local production operations. Each year, we gather ideas from our local employees before deciding on the focus for our CSR activities.

In fiscal 2012, we renovated the dining hall and school meals room at an elementary school in Khon Kaen Province, and established a library at an elementary school in Maha Sarakham Province. Chairman & CEO Matsumoto of Calbee also pitched in by providing scholarship funds for the children of employees who had achieved excellent performance.

Scholarship award ceremony

PROMOTING DIVERSITY

"Without diversity, Calbee no growth." The Calbee Group considers diversity to be an important management strategy and is promoting employment and deployment of diverse human resources.

Diversity Promotion Committee Initiatives

We established a Diversity Promotion Committee in April 2010. The committee is guided by the idea that a diverse and enthusiastic workforce can energize a company. In fiscal 2012, the committee vigorously pursued its objectives for a second year with 28 members including employees from the production side. We also held lectures to support creation of an environment that motivates female employees and nurtures their career development. In another initiative we held Diversity Forum 2011 with the objective of providing an opportunity to deepen our recognition and understanding of diversity.

Diversity Forum 2011

Harnessing Diverse Human Resources

The Calbee Group is working to develop workplaces where a diverse array of human resources, regardless of gender, nationality or disability, can work while demonstrating their respective abilities to the fullest.

Promoting Women's Success in the Workforce

Currently, the ratio of female managers in the Calbee Group stands at 10.2%, an increase from 5.9% in 2010. The Group plans to increase this ratio to 15% over the medium term and 40% over the long term. In fiscal 2012, the Calbee Group held its first career development seminar for female employees. Women often find it difficult to plan their careers because of few role models and changes in working styles due to major life events. Therefore, the Calbee Group aims to continue providing opportunities for women to plan and advance their careers.

Promoting Employment of People with Disabilities

The Calbee Group is implementing measures directed at expanding employment of people with disabilities.

In November 2007, the Calbee Group established Calbee Eatalk Co., Ltd. with the aim of creating a workplace where anyone can unlock their full potential on the job, regardless of disability, and also to promote the employment of people with disabilities at other companies by organizing tours and lecture events focused on these companies.

Through these measures, the Calbee Group achieved an employment ratio for people with disabilities of 2.2% in the fiscal year ended March 31, 2012. This was higher than the 1.8% statutory employment ratio for people with disabilities in Japan.


Production line at Calbee Eatalk Co., Ltd.

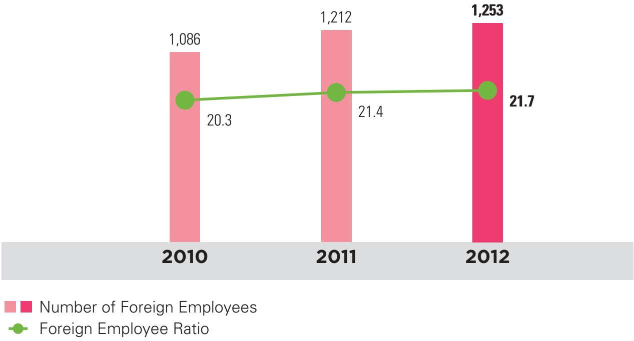
Recruitment of Foreign Nationals Expanded

Calbee seeks to energize its workplaces by embracing a diverse array of cultures and values through the recruitment of employees of various nationalities. Moreover, Calbee has expanded recruitment of foreign nationals with the view to driving future overseas business expansion. As part of this drive, in fiscal 2012, Calbee recruited 5 international students out of a total of 21 new graduate recruits.

The new foreign recruits represent a diverse spectrum of nationalities, including China, Hong Kong and Malaysia.

Number of Foreign Employees

(People / %)



Note: Includes temporary employees

ENVIRONMENTAL INITIATIVES

Basic Policy

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.

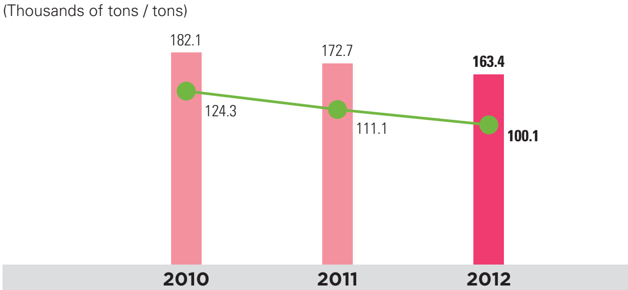
In our production activities, we compile and disclose energy consumption for each processing line, make improvements to production schedules, and with the aim of fundamentally reducing energy usage, convert energy sources to alternative fuels.

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

In fiscal 2012, the Group's CO_2 emissions totaled 163.4 thousand tons (down 5.4% year on year;), while CO_2 emissions per ¥100 million of net sales were 100.1 tons (down 9.9% year on year).

CO_2 Emissions and Emissions per ¥100 Million of Net Sales

(Thousands of tons / tons)



CO_2 Emissions
Emissions per ¥100 Million of Net Sales (Tons of CO_2 / ¥100 Million of Net Sales)
Source: 15 production sites in Japan

Using Resources Efficiently

Each Calbee factory is working to reduce waste such as vegetable matter like potato skin and unusable potato parts left over after the production process. To this end, each factory is targeting 100% recovery of waste resources by promoting zero emissions and recycling. Specific initiatives include separating waste, limiting the creation of waste, using leftover vegetable matter for animal feed, cleaning effluent using microorganisms, and recycling used oils and plastic packaging.

In fiscal 2012, the Group's factories generated a combined 42.2 thousand tons of waste, of which 40.6 thousand tons were recycled. The recycling rate at the Group's 15 main factories stood at 96.1%.

Waste Volume, Reused Waste Volume and Recycling Ratio

(Thousands of tons / %)

Waste Volume
Reused Waste Volume
Recycling Ratio
Source: 15 production sites in Japan

Topics

Power Conservation Initiatives

To utilize energy resources more effectively and address power shortages in the summer of 2011 following the Great East Japan Earthquake, Calbee implemented rotating shifts at factories and service offices from July to September 2011, along with instituting summer time working hours in sales and back office divisions from June to October 2011. As a result, Calbee reduced total peak power consumption during peak hours of electricity demand on weekdays by 25%, against a target of 15% or more.

Corporate Governance

Calbee's corporate governance system includes a majority of outside directors and outside auditors for a degree of management independence unparalleled in Japan. By adopting this system, we have strengthened management oversight functions, clearly separated business execution and supervisory functions, enhanced management transparency, clarified management responsibilities, and speeded up decision-making.

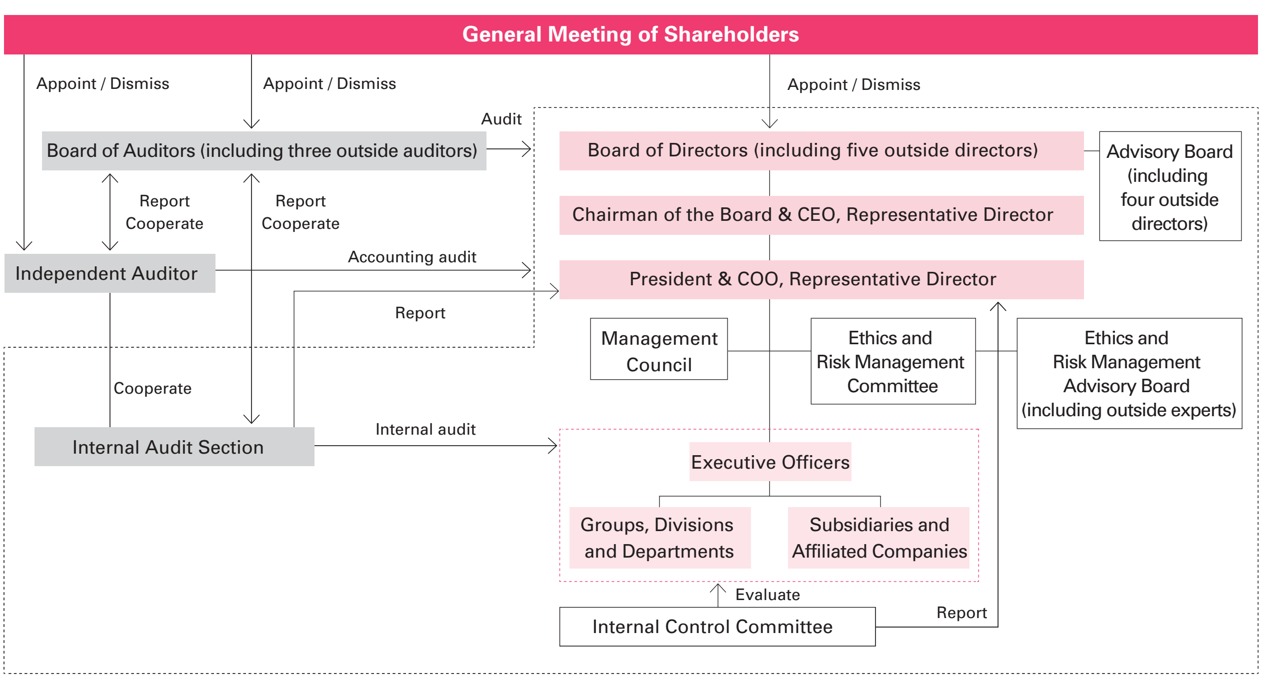
Basic Approach

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.

Matters Concerning Organizational Form and Organizational Management

Organizational form	Company with Board of Auditors
Directors	
Number of directors stipulated by the Articles of Incorporation	Up to 13
Number of directors **(of which, outside directors)**	7 **(5)**
Term of office	2 years
Statutory auditors	
Number of auditors stipulated by the Articles of Incorporation	Up to 4
Number of auditors **(of which, outside auditors)**	4 **(3)**
Term of office	4 years
Rights plan and other measures to protect against acquisition	None

Corporate Governance System



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 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 2012, average attendance at board meetings by outside directors was 85%. Business execution is carried out by 24 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 by the directors, important business matters are discussed in the Management Council by a total of ten regular members (eight senior executive officers, the general manager of the Finance and Accounting Group and the general manager of the Strategic Planning and New Business Development Group) prior to discussion by the Board of Directors.

The Advisory Board is comprised of six regular members, including four outside directors. The board meets four times a year in principle to discuss and make proposals for compensation and nominations for corporate officers.

Outside Directors

Name	Reason for appointment as outside director	Attendance in Board of Directors' meetings
Yuzaburo Mogi	Yuzaburo Mogi has expert knowledge of the food industry and overseas businesses gained during his long career as president and chairman of Kikkoman Corporation. Mr. Mogi has also served as a director and an auditor at many companies. Calbee judged that Mr. Mogi would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager.	83.3%
Koji Kioka	Koji Kioka has expert knowledge of the food industry gained during his long career as president and chairman of KAGOME CO., LTD. Calbee judged that Mr. Kioka would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager in the food industry.	91.7%
Takuma Otoshi	Takuma Otoshi has expert knowledge of global industry gained during his long career as president and chairman of IBM Japan, Ltd. Calbee judged that Mr. Otoshi would make an important contribution to the Company's management based on his experience and knowledge.	83.3%
Kazuo Ichijo	Kazuo Ichijo has high-level specialist knowledge gained during his long career in social science research, and in particular, international corporate strategies. Calbee judged that Mr. Ichijo would make an important contribution to the Company's management from a wide international and social perspective, based on his knowledge and experience.	91.7%
Ümran Beba	Ümran Beba has expert knowledge of the global food industry gained through her long involvement in the snack business at PepsiCo Group and her current position as the Asia Pacific Region President at PepsiCo. Calbee judged that Ms. Beba would make an important contribution to the Company's management based on her knowledge and experience as a multi-national corporate manager.	91.7%

Board of Auditors and Auditing System

Calbee is a "Company with a Board of Auditors." 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 auditing role. As part of this auditing role, the auditors actively participate in meetings of the Board of Directors and other management meetings, auditing and monitoring the activities of directors and executive officers to ensure no problems arise in business execution. The auditors also conduct systematic audits at group companies in coordination with auditors at each company and the Internal Audit Section. 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 accounting audits performed by the independent auditor. They also exchange information and opinions on a regular basis as part of a close working relationship.

Outside Auditors

Name	Reason for appointment as outside auditor	Attendance in Board of Directors' meetings	Attendance in Board of Corporate Auditors' meetings
Tadashi Ishida	Tadashi Ishida has high-level specialist knowledge as a certified public accountant and wide-ranging practical experience gained through appointments as a director and auditor at several companies and a Senior Research Fellow at the Japan Association for CFOs. Calbee judged that Mr. Ishida would make an important contribution to the Company's audits based on his knowledge and experience.	100.0%	100.0%
Yoji Inaba	Yoji Inaba has high-level specialist knowledge in corporate governance, financing, investment and other areas. Calbee judged that Mr. Inaba would make an important contribution to the Company's audits from a wide international and social perspective based on his knowledge and experience.	91.7%	93.8%
Tomomi Yatsu	Tomomi Yatsu has a wealth of experience in legal work and has experience as an outside auditor at other companies also. Calbee judged that Ms. Yatsu would make an important contribution to the Company's audits based on her knowledge and experience.	100.0%	100.0%

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	
Directors (excluding outside directors)	210	120	—	60	30	2
Auditors (excluding outside auditors)	31	21	—	7	3	1
Outside directors and auditors	132	121	—	7	3	8

Total Remuneration Paid to Individual Directors

Name	Total remuneration (millions of yen)	Executive classification	Total remuneration by type (millions of yen)			
			Basic remuneration	Stock options	Bonuses	Retirement benefits
Akira Matsumoto	105	Chairman of the Board & CEO, Representative Director	60	—	30	15
Shuji Ito	105	President & COO, Representative Director	60	—	30	15

(Note) Only individuals with total remuneration exceeding ¥100 million have been shown.

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.

The Board of Directors has determined a Basic Policy for Developing Internal Control Systems based on the Companies Act. In August 2011, Calbee revised part of the policy to include provisions for establishing an Ethics and Risk Management Advisory Board and a clear policy for promoting initiatives to refuse involvement with anti-social forces.

Compliance

In the area of compliance, we have formulated the Calbee Group Code of Conduct and established the Ethics and Risk Management Committee. 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.

In addition, Calbee has established the Ethics and Risk Management Advisory Board to complement activities conducted by the Ethics and Risk Management

Committee. The Ethics and Risk Management Advisory Board has three external experts including a lawyer, a former senior managing director of the Tokyo Stock Exchange and a former vice president of a non-life insurance company. They provide advice and proposals to the Board of Directors and the Ethics and Risk Management Committee from an objective standpoint.

Ethics and Risk Management Advisory Board

Chairperson	Outside expert (lawyer)
Members	President & COO, General Manager of Human Resource & General Affairs Group, General Manager of Administration Division, 3 external experts
Meeting frequency	Once every month, in principle

Ethics and Risk Management Committee

Chairperson	President & COO
Members	General managers of each group and division, presidents of subsidiaries
Meeting frequency	Once every quarter, in principle

Risk Management

In risk management, Calbee comprehensively and accurately identifies and assesses all risks that could have a major impact on the Group's operations in order to minimize any losses, by analyzing risks facing the Group, examining measures to mitigate any impact, and maintaining relevant regulations. Moreover, in October 2010 we launched a crisis management project. The objective was to formulate plans for swiftly recovering business operations in the event of crisis situations that could have a major impact on management. The project has resulted in the formulation of various action plans for responding swiftly and appropriately to a range of incidents. As of September 2011, these include an action plan for responding to misconduct incidents by taking early, appropriate action including reporting, judgment, and an emergency response and action plan for responding to the life-threatening situation of product contamination by a toxic substance. Part of the reason these two plans have been created is to minimize loss of public trust and brand image if such incidents were to occur. Following the Great East Japan Earthquake, we have also formulated an action plan to minimize damage and recover operations quickly in the confusion that would follow a major earthquake centered directly beneath Tokyo.

Internal Audits

For internal audits, we have an Internal Audit Section, which has a dedicated staff of five and is under the direct supervision of the President & COO. The section is responsible for conducting internal audits of the whole Group in accordance with annual audit plans. The Internal Audit Section regularly exchanges opinions with auditors about the results of internal audits.

IR Activities

Disclosure Policy

Calbee seeks to remain a trustworthy company and to ensure that its stakeholders, including shareholders and investors, can form a clear understanding and evaluation of the Company's activities and performance. We therefore strive to provide continuous, fair, timely disclosure of information that has a bearing on the investment decisions of shareholders and investors.

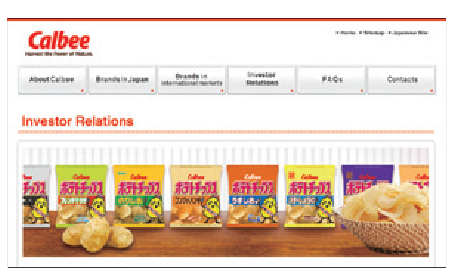
Communication with Securities Analysts and Institutional Investors

Calbee holds earnings presentations every quarter. At the presentations, senior management explains the Company's future management plan and performance. In addition, we also respond to around 200 inquiries from securities analysts and institutional investors in and outside of Japan each year.

Calbee is also proactive in communicating with overseas institutional investors and regularly conducts investor relations activities overseas. In the year ended March 2012, we held two meetings in Europe and Hong Kong, respectively.

Information Disclosure on Company Website

Calbee created a dedicated IR website in March 2011. Earnings reports, earnings presentation materials, annual reports and other IR-related materials can be accessed from this website.



Calbee IR website
http://www.calbee.co.jp/english/ir/

An Outside Director's View

By promoting a fair and transparent governance structure, we aim to further enhance corporate value.

Koji Kioka
Corporate Adviser, KAGOME CO., LTD.

The Board of Directors comprises two in-house directors and five highly independent outside directors. Calbee adopted this structure in 2009, before its shares were listed. It was unusual at the time for an unlisted company to have such a rigorous corporate governance structure. Although dramatic reforms to the corporate governance system carried some risks, I believe that Calbee has made strong progress in managing them and progressing toward fair, transparent, and innovative management. The Company faced a tough business climate in fiscal 2012, the first full fiscal year after listing, because of the impact of the Great East Japan Earthquake. I believe, however, that overall the Company has handled the challenges well, recovering from the disaster, turning business performance around, and providing support to affected areas. Some Japanese corporations have greatly damaged their corporate value because of their unsound governance systems. In contrast, Calbee is noteworthy for having increased its corporate value in the past three years.

I attribute that achievement to well-balanced leadership by the CEO, who was a senior executive at foreign companies for many years, and the COO, who has been with Calbee for his entire career and who has built strong, trust relationships internally and externally. The outside directors all deliberate and propose ideas from different perspectives based on their management experience and expertise, and the Board of Directors provides sound supervision of management. The members of the Board of Auditors are also performing their duties in full, as they use their specialist knowledge and capabilities to evaluate management transparency, decision-making processes, and other aspects of management.

I look for the Company to further enhance corporate value by continuing to progress with its sound governance structure.

PepsiCo formed its alliance with Calbee because of Calbee's powerful innovation capabilities, the prospect for international collaboration, and Calbee's leadership in the Japanese market. Effective corporate governance is vital to maximizing these strengths for the benefit of Calbee's shareholders.

Ümran Beba
Director, Asia Pacific Region President, PepsiCo, Inc.

As an outside director, my role is to help Calbee achieve growth in Japan and internationally. I strive to seek win-win propositions that increase value for Calbee's shareholders. Corporate governance is a vital part of ensuring that Calbee can realize these aspirations.

With five of the seven Calbee directors being outside directors, the Company has a good base from which to develop a strong corporate governance culture. Importantly, the board includes people from various industries, people with international business experience, and a female director. I would like to see the gender ratio improve in future.

Bringing in Akira Matsumoto as the Chairman of the Board & CEO was an important step in Calbee's progress from a family company to a public company. He has a lot of professional management experience, and is showing strong leadership in changing the dynamics of the company to suit its new status. In my experience, Mr. Matsumoto and the President & COO, Mr. Ito, are both very receptive to input from the outside directors. I would like to see the Company work on its bench-building process to ensure good continuity in management.

The next step in Calbee's journey, I believe, is building strong corporate governance into the Company culture so that everyone understands the impact of their actions. Solid corporate governance is not the function of finance or the function of committees; rather, it's the function of everybody with proportional ownership.

Board of Directors, Auditors and Executive Officers

(As of June 27, 2012)

Directors

Akira Matsumoto

Chairman of the Board & CEO,
Representative Director
64

1972	Joined ITOCHU Corporation
1993	Appointed Representative Director and General Manager of the Ethicon Endo-Surgery business division, Johnson & Johnson Medical Company
1999	Appointed President, Johnson & Johnson K.K.
2008	Appointed Senior Advisor, Johnson & Johnson K.K.
2008	Appointed Director, CALBEE, Inc.
2009	Appointed Chairman of the Board & CEO, Representative Director, CALBEE (current position)

Shuji Ito

President & COO,
Representative Director
55

1979	Joined CALBEE, Inc.
2001	Appointed Executive Officer and COO of the East Japan Company, CALBEE
2004	Appointed Director, Executive Officer and COO of the Jagarico Company, CALBEE
2005	Appointed Director, Executive Managing Officer and the Controller of the Marketing Group, CALBEE
2009	Appointed President & COO, Representative Director, CALBEE (current position)

Yuzaburo Mogi

Director (Independent Officer)
77, Elected 2009

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 (Independent Officer)
70, Elected 2009

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
2012	Corporate Adviser, KAGOME (current position)

Takuma Otoshi

Director (Independent Officer)
63, Elected 2009

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
2009	Appointed Director, CALBEE, Inc. (current position)
2012	Senior Advisor, IBM Japan (current position)

Kazuo Ichijo

Director (Independent Officer)
53, Elected 2009

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
47, Elected 2010

1994	Joined Frito-Lay Turkey
2009	Appointed South East Europe Region President, PepsiCo, Inc.
2010	Appointed Asia Pacific Region President, PepsiCo (current position)
2010	Appointed Director, CALBEE, Inc. (current position)

Auditors

Tadashi Ishida

Statutory Auditor
(Independent Officer)
68, Elected 2011

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)

Isao Hirakawa

Statutory Auditor
56, Elected 2012

1980	Joined Kanebo, Ltd.
2006	Appointed Administrative Management Director, Kanebo
2008	Appointed Executive Officer and Chief Financial Officer, CALBEE, Inc.
2010	Appointed Executive Officer and General Manager of Finance & Accounting Group, CALBEE
2012	Appointed Statutory Auditor, CALBEE (current position)

Yoji Inaba

Statutory Auditor
(Independent Officer)
63, Elected 2007

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
(Independent Officer)
52, Elected 2009

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

Haruhiko Sekiguchi

Executive Managing Officer

Masatoshi Aki
General Manager of R&D Group

Senior Executive Officers

Shoji Tobayama
General Manager of Human Resource and General Affairs Group

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

Takeshi Taniguchi
General Manager of Operation Group

Executive Officers

Naoya Iwasaki
General Manager of Hokkaido Division

Masakazu Fujii
General Manager of East Japan Division

Yoshihiko Hosokawa
General Manager of Central Japan Division

Masaru Komada
General Manager of West Japan Division

Hideki Ishibe
General Manager of Sales Group

Hiroaki Yamasaki
General Manager of Marketing Group

Hideo Abe
General Manager of Engineering Department

Akira Imoto
General Manager of Quality Assurance Group

Koichi Kikuchi
General Manager of Finance and Accounting Group

Yasuyuki Kajigano
General Manager of Information System Group

Kaoru Ishigaki
General Manager of Administration Division

Satoshi Eguchi
General Manager of Strategic Planning and New Business Development Group

Yasuhide Hayashi
General Manager of Overseas Business Division I

Seishi Ueno
General Manager of Overseas Business Division II

Yutaka Okabe
General Manager of Overseas Business Division III

Naosuke Takaoka
President & Representative Director of Oisia FOODS CO., LTD.

Financial Section

Contents

Financial Highlights

Years ended March 31, 2009, 2010, 2011 and 2012

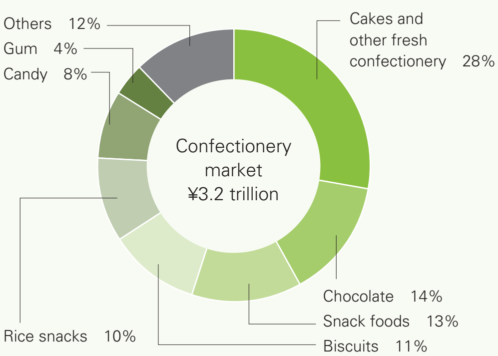
	Millions of yen				Thousands of U.S. dollars (Note 2)
	2012	2011	2010	2009	2012
FOR THE YEAR:					
Net sales	¥ 163,269	¥ 155,529	¥ 146,453	¥ 137,377	$1,986,479
Operating income	12,247	10,717	9,534	4,408	149,013
Operating margin (%)	7.5	6.9	6.5	3.2	—
Net income	7,097	4,253	4,017	2,524	86,345
Net income margin (%)	4.3	2.7	2.7	1.8	—
ROE (%)	9.6	6.5	7.1	5.0	—
Research and development costs	1,811	2,213	3,097	3,064	22,037
Capital expenditures	5,423	4,050	3,390	5,079	65,980
Depreciation and amortization	6,676	7,244	7,915	8,325	81,230
PER SHARE (¥/$) (Note 3):					
Net income	220.29	146.48	144.03	98.29	2.68
Net assets	2,386.63	2,200.55	2,117.76	2,008.93	29.04
Cash dividends	42.00	28.00	24.00	20.00	0.51
Payout ratio (%)	19.1	19.1	16.7	20.3	—
AT YEAR-END:					
Total assets	108,475	99,394	93,658	92,170	1,319,803
Net assets	80,418	72,925	63,770	53,932	978,437
Working capital	25,211	16,132	123	(5,663)	306,740
Interest-bearing debt	7	300	7,493	19,984	84
Equity ratio (%)	71.6	70.7	65.2	56.0	—
Debt to equity ratio (times)	0.0	0.0	0.1	0.4	—
Number of consolidated subsidiaries	18	18	18	17	—
Number of employees (consolidated)	3,053	2,911	2,864	2,657	—
CASH FLOWS:					
Net cash provided by operating activities	7,050	16,665	19,492	11,160	85,771
Net cash used in investing activities	(5,348)	(620)	(11,378)	(4,740)	(65,066)
Net cash used in financing activities	(411)	(2,125)	(6,954)	(6,389)	(5,007)
Cash and cash equivalents at end of year	19,449	18,238	4,469	3,365	236,634

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 ¥82.19 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2012.
3. A 50-to-1 stock split was conducted on January 14, 2011. Per share figures were retroactively adjusted to reflect this stock split.

Management's Discussion and Analysis

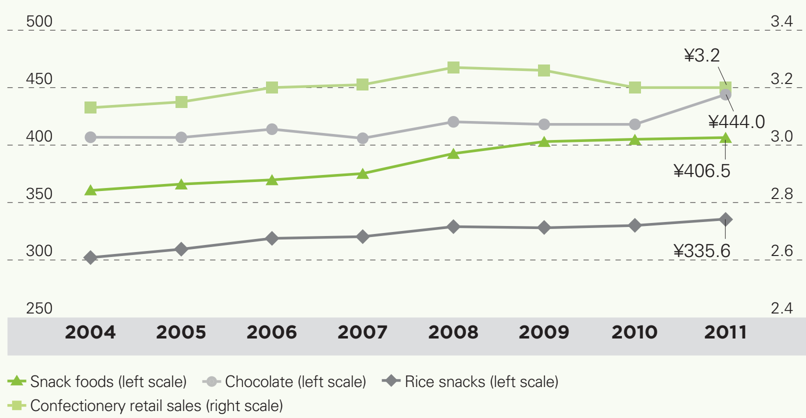
Domestic Confectionery Market

Composition by Category in 2011



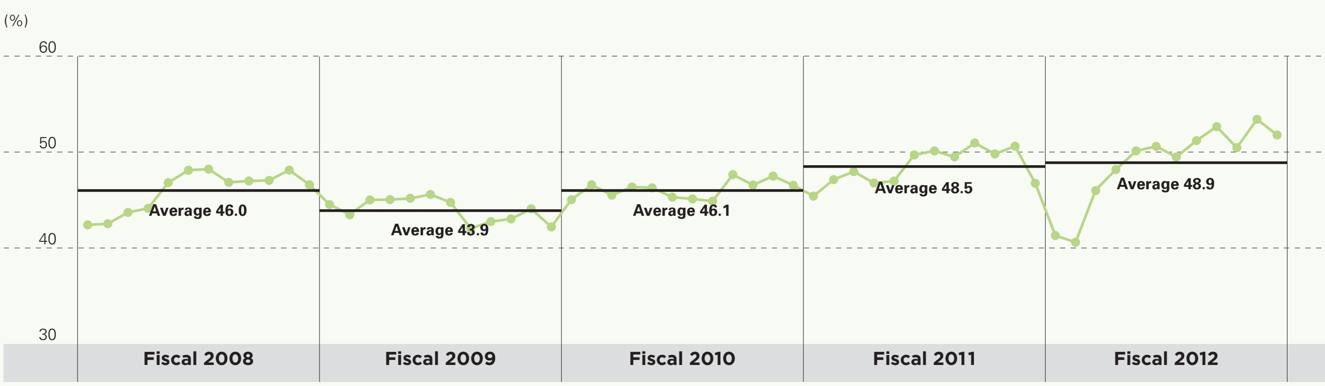
Source: All Nippon Kashi Association – Retail sales value

Confectionery Market in Japan



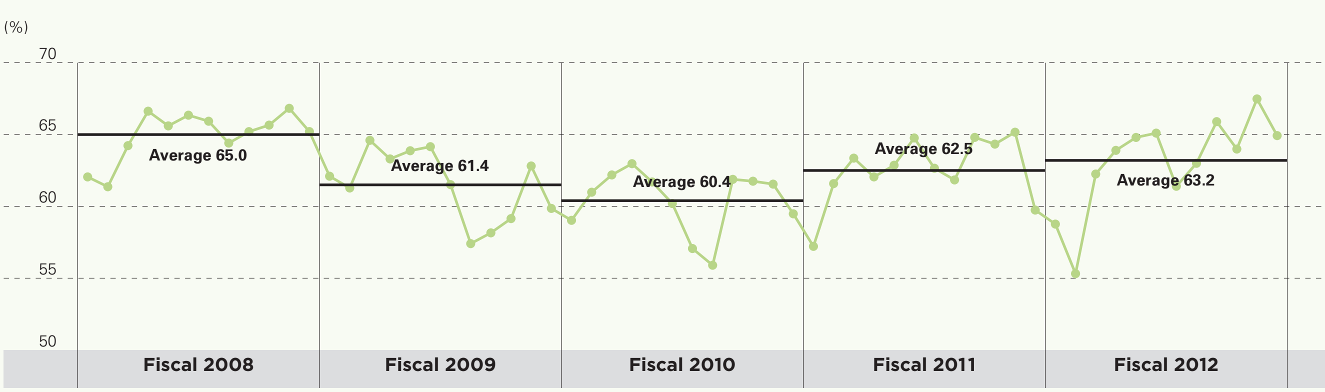
Source: All Nippon Kashi Association

Calbee's Snack Food Market Share



Notes:
1. Market share source: Intage SRI (nationwide, all retail formats) Base: sales value, April 2007–March 2012
2. Snack food market share after April 2009 is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

Calbee's Potato Chip Market Share



Note:
Market share source: Intage SRI (nationwide, all retail formats) Base: sales value, April 2007–March 2012

OPERATING RESULTS

Net Sales

In the fiscal year ended March 31, 2012 (fiscal 2012), net sales increased ¥7,740 million (5.0%) year on year to ¥163,269 million. Until production resumed at our facilities damaged in the Great East Japan Earthquake, delays in product launches and restrained advertising and promotional activities saw sales fall on a year-on-year basis; however, all production lines were back online by the end of May 2011, and sales recovered from June due to new product launches and promotional activities.

Net sales in the food production and sales business totaled ¥160,773 million, an increase of 4.7% year on year.

Snack Foods

In snack foods, sales rose 4.5% year on year to ¥141,249 million, driven by overseas business growth, mainly in South Korea and North America, and growth in potato-based snacks and *Vegips*.

1. Potato-based Snacks

Sales of potato-based snacks rose 1.7% year on year to ¥95,755 million. *Potato Chips* gained domestic market share through extra-volume sales campaigns and new TV commercials for core products (*Usushio* (lightly salted), *Consomme Punch* (consommé), and *Norishio* (salted nori laver)). Meanwhile, sales also benefitted from a popular limited-time release of *Jagarico*, and initiatives to strengthen the *Jagabee* product line.

2. Flour-based Snacks

Sales of flour-based snacks increased 2.5% year on year to ¥20,092 million, boosted by a renewal of core product *Kappa Ebisen* (prawn crackers), and strong sales of *Cheese Bit*, *Osatsu Snack*, and others.

3. Corn-based Snacks

Sales of corn-based snacks increased 3.8% year on year to ¥13,262 million, driven by strong sales of core products such as *Mike Popcorn*.

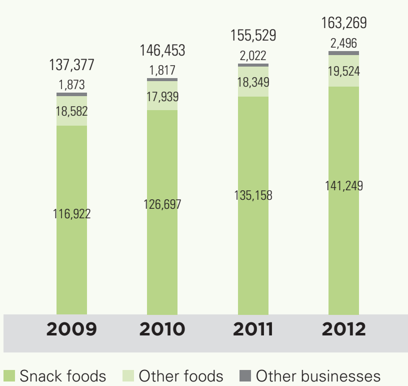
Other Food Products

In other food products (processed bread, cereals), sales rose 6.4% year on year to ¥19,524 million. Sales of processed bread grew on brisk sales of fresh-baked bread for convenience stores, while cereals also increased year on year, supported by strong sales of *Fruit Granola*.

Other Businesses

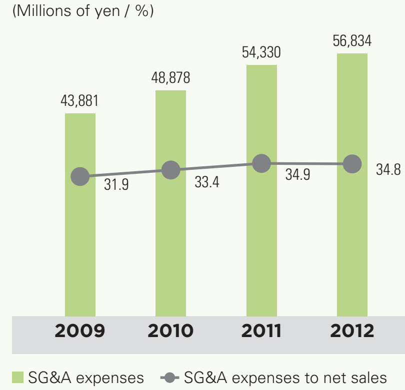
In other businesses, sales increased 23.4% year on year to ¥2,496 million, owing to higher sales in the distribution business and the sales promotion tool business.

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 ¥4,034 million year on year to ¥69,081 million, mainly reflecting the effect of cost reductions achieved through centralized procurement and better capacity utilization, as well as higher sales. The gross margin improved 0.5 of a percentage point to 42.3%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥2,504 million year on year to ¥56,834 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 ¥1,530 million (14.3%) year on year to ¥12,247 million.

Other Income (Expenses)

Other income improved by ¥3,071 million from the previous fiscal year. The Company recorded a gain on negative goodwill of ¥538 million, which partly offset a ¥706 million year-on-year decrease in gain on sale of property, plant and equipment. The improvement was attributable to the fact that the Company recorded a number of charges in the previous fiscal year, such as the loss on disaster of ¥2,163 million as a result of the Great East Japan Earthquake and ¥351 million for the effect of adopting accounting standard for asset retirement obligations.

Net Income

As a result of the above, net income rose ¥2,844 million (66.8%) year on year to ¥7,097 million.

Net income per share was ¥220.29. ROE improved 3.1 percentage points to 9.6%.

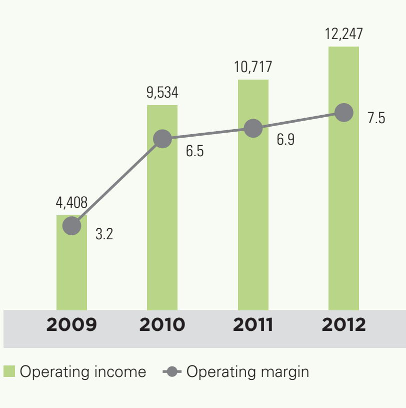
FINANCIAL POSITION

Assets, Liabilities and Net Assets

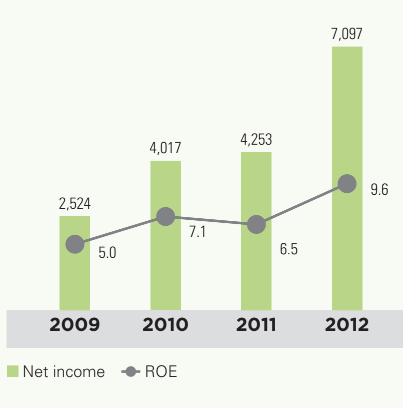
As of March 31, 2012, total assets stood at ¥108,475 million, an increase of ¥9,081 million from the end of the previous fiscal year. This mainly reflected an increase in notes and accounts receivable due to the increase in sales and the last day of the fiscal year falling on a bank holiday. On the other hand, property, plant and equipment, net declined year on year as depreciation and amortization exceeded the amount of acquisitions.

Current liabilities increased ¥1,349 million from the end of the previous fiscal year to ¥22,637 million. The main factors in this result were increases in notes and accounts payable and income taxes payable, and a decrease in allowance for loss on disaster.

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



Net Income / ROE
(Millions of yen / %)



Cash Flows
(Millions of yen)

Non-current liabilities increased ¥239 million to ¥5,420 million, mainly because of an increase in allowance for employees' retirement benefits.

Net assets increased ¥7,493 million to ¥80,418 million, mainly as a result of recording net income.

As a result, the equity ratio rose 0.9 of a percentage point to 71.6%. Net assets per share was ¥2,386.63.

CASH FLOWS

As of March 31, 2012, cash and cash equivalents were ¥19,449 million, up ¥1,211 million compared with the end of the previous fiscal year.

Cash flows and the main factors behind them during fiscal 2012 were as follows.

1. Cash Flows from Operating Activities

Operating activities provided net cash of ¥7,050 million, compared with net cash provided of ¥16,665 million in the previous fiscal year. The main positive factors were income before income taxes and minority interests of ¥12,935 million and depreciation and amortization of ¥6,676 million. Factors having a negative effect on cash included an increase in accounts receivables of ¥7,627 million due to higher sales and the last day of the fiscal year falling on a bank holiday, payments related to loss on disaster of ¥1,311 million, and income taxes paid of ¥4,267 million.

2. Cash Flows from Investing Activities

Investing activities used net cash of ¥5,348 million, compared with net cash used of ¥620 million in the previous fiscal year. Acquisitions of property, plant and equipment used cash of ¥5,102 million, mainly for production facilities for snack foods such as *Jagabee* and *Vegips*.

3. Cash Flows from Financing Activities

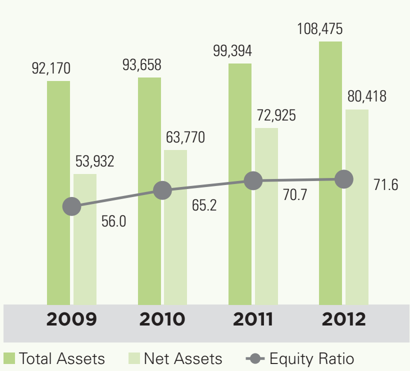
Financing activities used net cash of ¥411 million, compared with net cash used of ¥2,125 million in the previous fiscal year. There was an inflow from exercise of stock options of ¥998 million, while cash outflows included cash dividends paid of ¥1,012 million.

CAPITAL EXPENDITURES

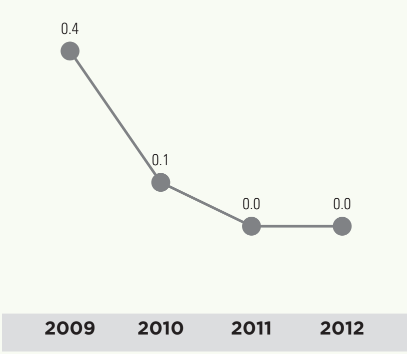
In fiscal 2012, capital expenditures totaled ¥5,423 million. This mainly comprised ¥1,527 million for building *Jagabee* manufacturing facilities, and ¥754 million for building *Vegips* manufacturing facilities as part of a program to build new and additional production capacity aimed at increasing sales and market share. Other capital expenditures were made for renewing existing manufacturing facilities in the food production and sales business to improve environmental performance, quality, and production efficiency.

The Company did not sell or dispose of any major facilities during fiscal 2012.

Total Assets / Net Assets / Equity Ratio
(Millions of yen / %)



Debt to Equity Ratio
(Times)



Capital Expenditures / Depreciation and Amortization
(Millions of yen)

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 have been deemed important to facilitate a better understanding of the Group's business activities.

Recognizing the possibility that such risks may materialize, the Group's policy is to avoid these risks where possible and to mitigate any impact in the event that they materialize. The 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. Meanwhile, there is considerable change underway in the Group's operating environment owing to diversifying customer tastes, growing health awareness, and Japan's low birthrate and 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 result in the successful launch of new products, 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 into 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 ongoing grower contracts concluded since launching its first potato 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 increased costs due to emergency procurement that could have an impact on the Group's operating results and financial position.

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

3. PRODUCT SAFETY

Consumer demands for greater food safety have increased 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 the US, China, Hong Kong, Thailand, and South Korea 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, the Group 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, 2012 , 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 any 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 her 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 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 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 NON-CURRENT 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 cash flows. Recording of such losses 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
March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	**2012**	2011	**2012**
Current assets:			
Cash and deposits (Notes 5 and 14)	**¥ 19,449**	¥ 18,238	**$ 236,634**
Notes and accounts receivable (Note 5)	**18,764**	11,139	**228,296**
Marketable securities (Notes 5 and 6)	**14**	—	**164**
Inventories (Note 7)	**4,921**	4,277	**59,868**
Deferred tax assets (Note 9)	**2,163**	2,003	**26,316**
Others	**2,540**	1,777	**30,905**
Allowance for doubtful accounts	**(2)**	(14)	**(25)**
Total current assets	**47,848**	37,420	**582,158**
Property, plant and equipment:			
Land	**10,722**	10,707	**130,451**
Buildings and structures (Note 18)	**52,247**	53,064	**635,681**
Machinery and vehicles	**72,183**	69,831	**878,249**
Lease assets	**473**	462	**5,759**
Construction in progress	**1,370**	619	**16,670**
Others (Note 18)	**3,409**	3,303	**41,473**
	140,404	137,986	**1,708,283**
Accumulated depreciation	**(92,862)**	(89,508)	**(1,129,848)**
Property, plant and equipment, net	**47,542**	48,478	**578,435**
Investments and other assets:			
Investment securities (Notes 5 and 6)	**1,253**	1,139	**15,246**
Investments in affiliates (Notes 5 and 6)	**12**	12	**142**
Long-term loans	**175**	160	**2,132**
Prepaid pension cost (Note 11)	**2,421**	2,537	**29,455**
Deferred tax assets (Note 9)	**362**	377	**4,404**
Goodwill (Notes 13 and 24)	**4,539**	4,823	**55,222**
Others	**4,418**	4,543	**53,752**
Allowance for doubtful accounts	**(94)**	(95)	**(1,144)**
Total investments and other assets	**13,085**	13,495	**159,210**
Total assets	**¥108,475**	¥ 99,394	**$ 1,319,803**

Liabilities	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 4) 2012
Current liabilities:			
Notes and accounts payable (Note 5)	¥ 6,595	¥ 5,656	$ 80,245
Short-term borrowings and current portion of long-term debt (Note 8)	—	290	—
Lease obligations (Note 8)	118	105	1,434
Other payables	3,142	3,914	38,228
Income taxes payable	3,886	2,444	47,278
Deferred tax liabilities (Note 9)	85	93	1,034
Allowance for bonuses	3,287	3,096	39,996
Allowance for directors' bonuses	211	182	2,571
Allowance for loss on disaster	57	1,379	697
Others	5,255	4,130	63,934
Total current liabilities	22,637	21,288	275,418
Non-current liabilities:			
Long-term debt (Note 8)	7	10	84
Lease obligations (Note 8)	196	259	2,383
Deferred tax liabilities (Note 9)	370	350	4,507
Allowance for employees' retirement benefits (Note 11)	3,611	3,335	43,940
Allowance for directors' retirement benefits	498	425	6,057
Asset retirement obligations	623	658	7,582
Others	115	144	1,395
Total non-current liabilities	5,420	5,181	65,949
Net assets (Note 10):			
Shareholders' equity:			
Common stock:			
Authorized 2011 and 2012—44,000,000 shares			
Issued 2011—31,917,450 shares	—	10,744	—
Issued 2012—32,540,950 shares	11,252	—	136,903
Additional paid-in capital	10,820	10,313	131,648
Retained earnings	56,142	49,939	683,073
Total shareholders' equity	78,214	70,996	951,624
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities	10	(62)	119
Foreign currency translation adjustments	(560)	(697)	(6,819)
Total accumulated other comprehensive income (loss)	(551)	(760)	(6,700)
Subscription rights	85	103	1,035
Minority interests	2,669	2,586	32,478
Total net assets	80,418	72,925	978,437
Total liabilities and net assets	¥108,475	¥99,394	$1,319,803

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Net sales	¥163,269	¥155,529	$1,986,479
Cost of sales (Notes 7 and 16)	94,188	90,482	1,145,974
Gross profit	69,081	65,047	840,504
Selling, general and administrative expenses (Notes 15 and 16)	56,834	54,330	691,492
Operating income	12,247	10,717	149,013
Other income (expenses):			
Interest and dividend income	78	69	954
Interest expense	(6)	(59)	(72)
Foreign exchange losses	(103)	(237)	(1,259)
Gain on sale of property, plant and equipment (Note 17)	261	967	3,174
Gain on receipt of subsidy	231	172	2,806
Gain on negative goodwill (Note 24)	538	—	6,542
Reversal of provision for loss on disaster	163	—	1,989
Loss on disposal of property, plant and equipment (Note 17)	(166)	(494)	(2,018)
Impairment loss (Note 18)	(34)	(101)	(409)
Loss on disaster (Note 19)	(259)	(2,163)	(3,146)
Loss on liquidation of subsidiary (Note 20)	(130)	—	(1,579)
Effect of adopting accounting standard for asset retirement obligations	—	(351)	—
Loss on sale of investment securities (Note 6)	—	(164)	—
Other	113	(25)	1,378
Income before income taxes and minority interests	12,935	8,332	157,373
Income taxes (Note 9):			
Current	(5,705)	(4,016)	(69,417)
Deferred	171	324	2,083
	(5,534)	(3,692)	(67,335)
Income before minority interests	7,400	4,640	90,039
Minority interests	(304)	(386)	(3,694)
Net income	¥ 7,097	¥ 4,253	$ 86,345

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Income before minority interests	¥7,400	¥4,640	$90,039
Other comprehensive income (Note 21)			
Unrealized holding gain (loss) on securities	72	(98)	876
Foreign currency translation adjustments	99	(461)	1,206
Total other comprehensive income	171	(559)	2,082
Comprehensive income	¥7,571	¥4,081	$92,120
Comprehensive income attributable to the owners of the Company	¥7,306	¥3,860	$88,888
Comprehensive income attributable to minority interests	¥ 266	¥ 220	$ 3,233

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Shareholders' equity			
Common stock:			
Balance at beginning of the year	¥10,744	¥ 7,757	$130,727
Issuance of stock	—	2,784	—
Issuance of stock (exercise of subscription rights)	508	204	6,177
Balance at end of the year	¥11,252	¥10,744	$136,903
Additional paid-in capital:			
Balance at beginning of the year	¥10,313	¥ 7,325	$125,472
Issuance of stock	—	2,784	—
Issuance of stock (exercise of subscription rights)	508	204	6,177
Disposition of treasury stock	—	1	—
Balance at end of the year	¥10,820	¥10,313	$131,648
Retained earnings:			
Balance at beginning of the year	¥49,939	¥46,395	$607,601
Cash dividends paid	(894)	(692)	(10,873)
Net income	7,097	4,253	86,345
Changes in scope of consolidation	—	(18)	—
Balance at end of the year	¥56,142	¥49,939	$683,073
Treasury stock:			
Balance at beginning of the year	¥ —	¥ (14)	$ —
Disposition of treasury stock	—	14	—
Balance at end of the year	¥ —	¥ —	$ —
Total shareholders' equity:			
Balance at beginning of the year	¥70,996	¥61,463	$863,799
Net changes during the year	7,218	9,533	87,825
Balance at end of the year	¥78,214	¥70,996	$951,624
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities:			
Balance at beginning of the year	¥ (62)	¥ 36	$ (757)
Net changes during the year	72	(98)	875
Balance at end of the year	¥ 10	¥ (62)	$ 119
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (697)	¥ (403)	$ (8,486)
Net changes during the year	137	(295)	1,667
Balance at end of the year	¥ (560)	¥ (697)	$ (6,819)
Total accumulated other comprehensive income:			
Balance at beginning of the year	¥ (760)	¥ (367)	$ (9,243)
Net changes during the year	209	(393)	2,543
Balance at end of the year	¥ (551)	¥ (760)	$ (6,700)
Subscription rights:			
Balance at beginning of the year	¥ 103	¥ 119	$ 1,250
Net changes during the year	(18)	(16)	(215)
Balance at end of the year	¥ 85	¥ 103	$ 1,035
Minority interests:			
Balance at beginning of the year	¥ 2,586	¥ 2,555	$ 31,462
Net changes during the year	84	30	1,017
Balance at end of the year	¥ 2,669	¥ 2,586	$ 32,478
Total net assets:			
Balance at beginning of the year	¥72,925	¥63,770	$887,268
Net changes during the year	7,493	9,154	91,169
Balance at end of the year	¥80,418	¥72,925	$978,437

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Cash flows from operating activities			
Income before income taxes and minority interests	¥12,935	¥ 8,332	$157,373
Depreciation and amortization	6,676	7,244	81,230
Impairment loss	34	101	409
Goodwill amortization	596	570	7,258
Gain on negative goodwill	(538)	—	(6,542)
Effect of adopting accounting standard for asset retirement obligations	—	351	—
Increase (decrease) in allowance for doubtful accounts	(13)	(344)	(154)
Increase (decrease) in allowance for bonuses	193	738	2,352
Increase (decrease) in allowance for employees’ retirement benefits	277	26	3,369
Interest and dividend income	(78)	(69)	(954)
Interest expenses	6	59	72
Gain on receipt of subsidy	(231)	(172)	(2,806)
Gain on sale of property, plant and equipment	(231)	(871)	(2,815)
Loss on disposal of property, plant and equipment	166	494	2,018
Loss on liquidation of subsidiary	130	—	1,579
Loss on disaster	95	2,163	1,158
Decrease (increase) in accounts receivables	(7,627)	706	(92,797)
Decrease (increase) in inventories	(645)	174	(7,849)
Increase (decrease) in notes and account payable	932	(159)	11,336
Increase (decrease) in other payables	(538)	491	(6,551)
Others	184	825	2,235
Subtotal	12,322	20,657	149,921
Interest and dividends received	82	112	1,003
Interest paid	(7)	(67)	(83)
Subsidy received	231	172	2,806
Payment related to loss on disaster	(1,311)	(87)	(15,954)
Income taxes paid	(4,267)	(4,123)	(51,922)
Net cash provided by operating activities	7,050	16,665	85,771
Cash flows from investing activities			
Acquisition of property, plant and equipment	(5,102)	(3,551)	(62,078)
Proceeds from sale of property, plant and equipment	426	3,125	5,179
Acquisition of intangible fixed assets	(321)	(499)	(3,902)
Proceeds from sale of investment securities	7	209	84
Acquisition of shares in affiliates	(400)	(93)	(4,862)
Collection of loans receivable	109	9	1,326
Payment of security deposit	(147)	(68)	(1,792)
Collection of security deposit	313	282	3,812
Others	(233)	(34)	(2,833)
Net cash used in investing activities	(5,348)	(620)	(65,066)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(102)	(2,600)	(1,245)
Proceeds from long-term debt	—	3	—
Repayment of long-term debt	(185)	(4,569)	(2,248)
Inflow from stock issuance	—	5,541	—
Inflow from exercise of stock options	998	392	12,138
Repayment for lease obligations	(110)	(97)	(1,344)
Cash dividends paid	(894)	(692)	(10,873)
Cash dividends paid to minority shareholders	(118)	(117)	(1,434)
Others	—	14	—
Net cash used in financing activities	(411)	(2,125)	(5,007)
Effect of exchange rate changes on cash and cash equivalents	(80)	(178)	(971)
Net increase (decrease) in cash and cash equivalents	1,210	13,741	14,728
Cash and cash equivalents at beginning of year	18,238	4,469	221,906
Increase in cash and cash equivalents from changes in scope of consolidation	—	28	—
Cash and cash equivalents at end of year (Note 14)	¥19,449	¥18,238	$236,634

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

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 (18 in 2011) 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.
- Calbee America, Inc. (Note 3)
- Calbee Tanawat Co., Ltd. (Note 3)
- Calbee Four Seas Co., Ltd.
- CALBEE FOUR SEAS (SHANTOU) CO., LTD. (Note 3)
- QINGDAO CALBEE FOODS CO., LTD. (Note 3)
- YANTAI CALBEE CO., LTD. (Note 3)
- RDO-CALBEE FOODS, LLC (Note 3)
- HAITAI-CALBEE Co., Ltd. (Notes 1 and 3)

Notes: 1. On July 1, 2011, the Company established a joint venture company HAITAI-CALBEE Co., Ltd. with a major Korean snack foods manufacture, HAITAI Confectionery & Foods Co., Ltd., to expand the market share of Calbee products in Korean, which is the third biggest snack food market in Asia after Japan and China. HAITAI-CALBEE Co., Ltd. is included in the scope of consolidation from the year ended March 31, 2012.

2. CIL COMPANY LIMITED was liquidated on September, 2011 and it is included only in the consolidated statements of income for the year ended March 31, 2012.

3. The fiscal year-end of these subsidiaries is December 31.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

For the year ended March 31, 2012 and 2011, all subsidiaries are consolidated and there is no affiliate which is accounted for by equity method.

For the years ended March 31, 2012 and 2011, three affiliates, 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.

3. Changes in Significant Accounting Policies

Accounting standard for accounting changes and correction of errors

Effective April 1, 2011, the Company adopted ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Correction of Errors" issued on December 4, 2009 and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Correction of Errors" issued on December 4, 2009.

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 ¥82.19 = $1, the approximate rate in effect on March 31, 2012. 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

(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 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 notes and accounts payable and borrowings 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.

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 23 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, 2012 and 2011 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Notes 2 below).

	Millions of yen		
(As of March 31, 2012)	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	¥19,449	¥19,449	—
(2) Notes and accounts receivable	18,764	18,764	—
(3) Marketable securities			
Available-for-sale	14	14	—
(4) Investment securities			
Available-for-sale	1,223	1,223	—
Total assets	39,449	39,449	—
Notes and accounts payable	(6,595)	(6,595)	—
Total liabilities	(6,595)	(6,595)	—
Derivative transactions			
Hedge accounting not applied	99	99	—
Total derivative transactions	99	99	—

	Thousands of U.S. dollars		
(As of March 31, 2012)	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	$236,634	$236,634	—
(2) Notes and accounts receivable	228,296	228,296	—
(3) Marketable securities			
Available-for-sale	164	164	—
(4) Investment securities			
Available-for-sale	14,880	14,880	—
Total assets	479,974	479,974	—
Notes and accounts payable	(80,245)	(80,245)	—
Total liabilities	(80,245)	(80,245)	—
Derivative transactions			
Hedge accounting not applied	1,208	1,208	—
Total derivative transactions	1,208	1,208	—

(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)	—

*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) Marketable securities and (4) 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

Notes and accounts payable

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

Derivative transactions

Refer to Note 23 Derivative Financial Instruments.

2. Unlisted shares with carrying value of ¥30 million ($366 thousand) and ¥30 million at March 31, 2012 and 2011, respectively, are not included in "(4) 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 ($142 thousand) and ¥12 million at March 31, 2012 and 2011, 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, 2012.

(As of March 31, 2012)	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	¥19,429	—	—	—
Notes and accounts receivable, trade	18,764	—	—	—
Investment securities				
Available-for-sale securities with maturity				
Foreign debt securities	14	—	—	—
Total	¥38,206	—	—	—

(As of March 31, 2012)	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	$236,386	—	—	—
Notes and accounts receivable, trade	228,296	—	—	—
Investment securities				
Available-for-sale securities with maturity				
Foreign debt securities	164	—	—	—
Total	$464,846	—	—	—

6. Marketable and Investment Securities

(1) The summary of acquisition cost and carrying value of available-for-sale securities as of March 31, 2012 and 2011 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
Description	Carrying value	Acquisition cost	Unrealized gains (losses)	Carrying value	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	**¥ 553**	**¥ 354**	**¥ 199**	**$ 6,729**	**$ 4,311**	**$ 2,418**
Debt securities	**14**	**13**	**0**	**164**	**160**	**4**
Subtotal	**¥ 567**	**¥ 367**	**¥ 199**	**$ 6,893**	**$ 4,471**	**$ 2,422**
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	**¥ 670**	**¥ 847**	**¥(177)**	**$ 8,151**	**$10,304**	**$(2,153)**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**¥ 670**	**¥ 847**	**¥(177)**	**$ 8,151**	**$10,304**	**$(2,153)**
Total	**¥1,236**	**¥1,214**	**¥ 22**	**$15,044**	**$14,775**	**$ 270**

	Millions of yen		
	2011		
Description	Carrying value	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥ 416	¥ 299	¥ 117
Debt securities	14	13	1
Subtotal	¥ 430	¥ 312	¥ 118
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	¥ 679	¥ 928	¥(248)
Debt securities	—	—	—
Subtotal	¥ 679	¥ 928	¥(248)
Total	¥1,109	¥1,240	¥(131)

Note: Unlisted shares with carrying values of ¥30 million ($366 thousand) and ¥30 million at March 31, 2012 and 2011, respectively, are not included in the above table as their market value is not readily available.

(2) Sales of available-for-sale securities

Information on the available-for-sale securities sold during the year ended March 31, 2012 is not disclosed as the amount was not material.

During the year ended March 31, 2011, equity securities classified as available-for-sale securities with a carrying value of ¥209 million were sold, and total gains of ¥36 million and total losses of ¥164 million were recognized.

(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, 2012 and 2011, impairment losses recognized on equity securities classified as available-for-sale securities amounted to ¥7 million ($87 thousand) and nil, respectively.

7. Inventories

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Finished goods and commercial goods	**¥1,568**	¥1,281	**$19,077**
Work in process	**1,126**	1,140	**13,706**
Raw materials and supplies	**2,226**	1,855	**27,085**
	¥4,921	¥4,277	**$59,868**

Valuation losses due to declines in profitability included in cost of sales for the years ended March 31, 2012 and 2011 were ¥19 million ($235 thousand) and ¥52 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, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2012	2011	**2012**	**2012**	2011
Short-term borrowings	**—**	¥108	**—**	**—**	—
Current portion of long-term debt	**—**	182	**—**	**—**	—
Current portion of lease obligations	**¥118**	105	**$1,434**	**—**	—
Long-term debt, excluding current portion	**7**	10	**84**	**6.5%**	6.5%
Lease obligations, excluding current portion	**196**	259	**2,383**	**—**	—
Other interest-bearing liabilities	**37**	36	**454**	**1.6**	1.9
Total	**¥358**	¥699	**$4,356**	**—**	—

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:

	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	Long-term debt		Lease obligations	
2013	—	—	¥118	$1,434
2014	¥4	$47	104	1,267
2015	3	37	66	799
2016	—	—	17	203
2017 and thereafter	—	—	9	114

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, 2012 and 2011. Overseas subsidiaries are subject to income and other taxes of the respective countries in which they operate.

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act etc. for the Purpose Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), corporation tax rates will be changed for the fiscal years beginning on or after April 1, 2012. In addition, the Special Reconstruction Corporation Tax, surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning in the period from April 1, 2012 to March 31, 2015. In line with these changes the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 40.4% to 37.8% for temporary differences expected to be utilized in the fiscal years beginning on or after April 1, 2012. The rate was also changed to 35.4% for temporary differences expected to be utilized in the fiscal years beginning on or after April 1, 2015.

As a result, total deferred tax assets (excluding the amount of deferred tax liabilities) and valuation difference on available-for-sale securities decreased by ¥154 million ($1,870 thousand), and ¥0 million ($2 thousand) respectively. The amount of tax adjustments reported in this consolidated accounting period increased by ¥154 million ($1,868 thousand).

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2012 and 2011 was as follows:

	2012	2011
Statutory tax rate	40.4%	40.4%
Adjustments:		
Entertainment and other permanently non-deductible expenses	1.7	2.9
Dividend and other permanently non-taxable income	(1.4)	(6.7)
Special tax credit for income tax	(0.5)	(1.0)
Per capita inhabitant tax	0.7	1.1
Adjustment to deferred tax assets and liabilities from changes in the statutory tax rate	1.2	—
Changes in valuation allowances	(1.3)	2.5
Tax rate differences in consolidated subsidiaries	(0.9)	(1.7)
Effect of consolidation adjustments	2.1	5.8
Others	0.8	1.0
Effective tax rates	42.8%	44.3%

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 1	¥ 9	$ 6
Allowance for bonuses	1,352	1,359	16,447
Accrued expenses	378	299	4,598
Enterprise tax payable	280	204	3,407
Allowance for employees' retirement benefits	385	360	4,680
Allowance for directors' retirement benefits	131	127	1,600
Share-based payment expense	30	42	366
Depreciation	125	143	1,526
Impairment loss	242	262	2,947
Asset retirement obligations	182	217	2,216
Unrealized holding loss on securities	1	47	8
Others	450	672	5,473
Subtotal	3,557	3,741	43,273
Less valuation allowances	(539)	(875)	(6,559)
Total deferred tax assets	3,018	2,866	36,714
Deferred tax liabilities:			
Reserve for accelerated depreciation	(628)	(637)	(7,641)
Asset retirement obligations	(76)	(102)	(919)
Others	(245)	(190)	(2,976)
Total deferred tax liabilities	(948)	(929)	(11,536)
Net deferred tax assets	¥2,069	¥1,937	$25,178

10. Net Assets

(1) Movements of number of common stock issued and outstanding during the year ended March 31, 2012 and 2011 are as follows:

	Shares	
	2012	2011
Balance at beginning of year	31,917,450	577,135
Increase	623,500	31,340,315
Decrease	—	—
Balance at end of year	32,540,950	31,917,450

Notes: 1. The increase during the year ended March 31, 2012 resulted from an exercise of subscription rights.
2. 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.

(2) Movements of number of treasury stock during the year ended March 31, 2012 and 2011 are as follows:

	Shares	
	2012	2011
Balance at beginning of year	—	146
Increase	—	7,154
Decrease	—	7,300
Balance at end of year	—	—

Notes: 1. The increase during the year ended March 31, 2011 resulted from a share split.
2. The decrease during the year ended March 31, 2011 represents disposition of treasury stock.

(3) As of March 31, 2012 and 2011, the outstanding balance of subscription rights provided for as stock options was ¥85 million ($1,035 thousand) and ¥103 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2012 and 2011 was approved at the annual meeting of the Company's shareholders held on June 27, 2012 and June 28, 2011, respectively.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash dividends	¥1,367	¥894	$16,629

Cash dividends attributable to the year ended March 31, 2011 of ¥894 million ($10,748 thousand) were paid during the year ended March 31, 2012 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 28, 2011.

11. Retirement Benefits for Employees

The Company and its 3 (4 in 2011) domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans as defined benefit pension plan. Other domestic consolidated subsidiaries and certain foreign 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, 2012 and 2011.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Retirement benefit obligations	¥(11,701)	¥(11,057)	$(142,369)
Fair value of plan assets	9,052	8,959	110,139
Unfunded retirement benefit obligations	(2,649)	(2,098)	(32,229)
Unrecognized actuarial loss	1,499	1,354	18,237
Unrecognized prior service cost	(41)	(54)	(493)
Net book value on the consolidated balance sheets	(1,191)	(798)	(14,485)
Prepaid pension cost	2,421	2,537	29,455
Allowance for employees' retirement benefits	¥ (3,611)	¥ (3,335)	$ (43,940)

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, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 693	¥ 676	$ 8,430
Interest cost	210	212	2,557
Expected return on plan assets	(89)	(87)	(1,079)
Amortization of actuarial loss	213	220	2,591
Amortization of prior service cost	(14)	(14)	(164)
Retirement benefit expense	1,014	1,008	12,334
Contributions paid to defined contribution pension plan	113	104	1,373
Additional retirement payments	88	—	1,065
Total	¥1,214	¥1,111	$14,772

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, 2012 and 2011 are as follows:

	2012	2011
Discount rate	1.5 to 2.0%	1.5 to 2.0%
Expected rate of return	1.0%	1.0%
Amortization period of prior service cost	5 years	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 ¥154 million ($1,868 thousand) and ¥192 million as of March 31, 2012 and 2011, 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
	2012	2011	2012
Goodwill	¥4,542	¥4,834	$55,256
Negative goodwill	(3)	(11)	(34)
Total goodwill	¥4,539	¥4,823	$55,222

14. Supplemental Cash Flow Information

Cash and cash equivalents presented in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 consist of cash and deposits presented in the consolidated balance sheets as of March 31, 2012 and 2011.

15. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Sales promotion expenses	¥17,936	¥16,100	$218,232
Advertisement expenses	3,589	3,984	43,670
Freight expenses	9,907	9,348	120,533
Salaries and other allowances	10,141	10,003	123,384
Provision for directors' retirement benefits	106	111	1,286
Provision for employees' bonuses	1,642	1,506	19,975
Provision for directors' bonuses	211	182	2,571
Retirement benefit expense	828	618	10,073

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, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Selling, general and administrative expenses	¥1,810	¥2,211	$22,019
Manufacturing expenses	1	3	18
Total	¥1,811	¥2,213	$22,037

17. Sale and Disposal of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	**—**	¥ 18	**—**
Machinery and vehicles	**¥ 1**	3	**$ 8**
Land	**258**	938	**3,143**
Other	**2**	8	**23**
Total	**¥261**	¥967	**$3,174**

Loss on sale of property, plant and equipment for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	**—**	¥ 3	**—**
Machinery and vehicles	**¥ 2**	64	**$ 22**
Land	**27**	29	**334**
Intangible fixed assets	**—**	0	**—**
Other	**0**	0	**3**
Total	**¥30**	¥96	**$359**

Loss on disposal of property, plant and equipment for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	**¥ 32**	¥143	**$ 394**
Machinery and vehicles	**121**	249	**1,478**
Land	**3**	—	**32**
Lease assets	**0**	—	**3**
Construction in progress	**5**	—	**59**
Intangible fixed assets	**—**	84	**—**
Other	**4**	18	**53**
Total	**¥166**	¥494	**$2,018**

18. Impairment Loss

For the years ended March 31, 2012, the Company recognized impairment losses of ¥34 million ($409 thousand) on retail stores which are determined to be closed and for which there are no plans to be sold or used for other purposes.

For the years ended March 31, 2011, the Company recognized impairment losses of ¥101 million on real estate for which there is no intended use in the future and whose market values significantly declined.

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, 2012)

			Amount	
Location	Purpose of use	Type of asset	Millions of yen	Thousands of U.S. dollars
California, USA	Retail stores	Building, etc.	**¥34**	**$409**

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 above assets can be sold or used for other purposes.

(For the year ended March 31, 2011)

				Amount
Location	Number of properties subject to impairment	Purpose of use	Type of asset	Millions of yen
Hokkaido	2	Idle assets	Building	¥101

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 above assets can be sold or used for other purposes.

19. Loss on Disaster

The Company recognized expenses incurred during the shutdown period of the factory caused by the Great East Japan Earthquake as loss on disaster. The components of loss on disaster recognized for the year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Fixed costs during the shutdown period of the factory	**¥217**	**$2,641**
Other	**42**	**505**
Total	**¥259**	**$3,146**

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
	2011
Loss on disposal of inventories	¥ 160
Loss on disposal of fixed assets	166
Removal and repair costs	1,520
Support for disaster area	101
Other	217
Total	¥2,163

The total loss on disaster of ¥2,163 million includes provision for allowance for loss on disaster of ¥1,379 million for the year ended March 31, 2011.

20. Loss on Liquidation of Subsidiary

Loss on liquidation of subsidiary arose from liquidation of CIL COMPANY LIMITED for the year ended March 31, 2012.

21. Adjustments and Income Tax in Other Comprehensive Income

Adjustments and income tax in other comprehensive income for the year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Other comprehensive income		
Unrealized holding gain (loss) on securities		
Amount during the term	¥119	$1,448
Adjustments	(1)	(6)
Prior income tax adjustment	119	1,442
Income tax	(47)	(566)
Total	¥72	$ 876
Foreign currency translation adjustments		
Amount during the term	¥ (31)	$ (372)
Adjustments	130	1,579
Prior income tax adjustment	99	1,206
Income tax	—	—
Total	¥ 99	$1,206
Total other comprehensive income	¥171	$2,082

22. Leases

Future minimum lease payments subsequent to March 31, 2012 and 2011 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due in 1 year or less	¥ 87	¥ 94	$1,055
Due over 1 year	42	129	517
Total	¥129	¥223	$1,571

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		
	2012			2012		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥342	¥295	¥47	$4,164	$3,593	$570
Other	152	138	15	1,855	1,677	178
Total	¥495	¥433	¥61	$6,019	$5,271	$748

	Millions of yen		
	2011		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥342	¥242	¥100
Other	153	116	37
Total	¥495	¥358	¥137

Future minimum lease obligations under finance lease transactions subsequent to March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due in 1 year or less	¥29	¥ 75	$350
Due over 1 year	33	61	398
Total	¥61	¥137	$748

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, 2012 and 2011 were ¥71 million ($860 thousand) and ¥104 million, respectively.

23. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2012 and 2011 is as follows:

	Millions of yen			
	2012			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
U.S. dollars	**¥4,432**	**¥1,702**	**¥101**	**¥101**
Euro	**339**	**—**	**(2)**	**(2)**
Total	**¥4,771**	**¥1,702**	**¥ 99**	**¥ 99**

	Thousands of U.S. dollars			
	2012			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
U.S. dollars	**$53,919**	**$20,706**	**$1,229**	**$1,229**
Euro	**4,124**	**—**	**(20)**	**(20)**
Total	**$58,043**	**$20,706**	**$1,208**	**$1,208**

	Millions of yen			
	2011			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
U.S. dollars	¥5,649	¥2,195	¥(43)	¥(43)
Euro	541	339	32	32
Total	¥6,190	¥2,534	¥(11)	¥(11)

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

The Company had entered into an interest rate swap 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.

24. Business Combinations

Establishment of a joint venture

On July 1, 2011, the Company established a joint venture with a major Korean snack foods manufacture, HAITAI Confectionery & Food Co., Ltd. to expand the market share of Calbee products in Korea, which is the third biggest snack food market in Asia after Japan and China.

A joint venture company, HAITAI-CALBEE Co., Ltd., was established through financial investment by the Company and investment in kind by HAITAI Confectionery & Food Co., Ltd. for the manufacture and sale of snack foods. The Company has 50% of the voting rights of HAITAI-CALBEE Co., Ltd.

Fiscal period of a combined company included the consolidated financial statements is from July 1, 2011 to March 31, 2012.

Acquisition cost of ¥873 million ($10,621 thousand) is stock consideration, and no direct expense incurred for the acquisition.

Goodwill of ¥326 million ($3,969 thousand) arose from the additional earnings capability envisaged under future business development and were amortized for 5 years.

Common control transaction

The Company held 43.6% of voting rights (inclusive of 10.6% held indirectly) of the outstanding shares of Calnac Co., Ltd., a consolidated subsidiary of the Company, but additional acquisition of shares was made on September 30, 2011 and January 31, 2012 to further strengthen inter-group alliances and enhance corporate value for entire group. As the result, the proportion of voting rights held by the Company increased to 100.0% (inclusive of 10.6% held indirectly).

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 ¥400 million ($4,862 thousand) is stock consideration, and no direct expense incurred for the acquisition.

Negative goodwill of ¥538 million ($6,542 thousand) arose from the acquisition of additional shares of Calnac Co., Ltd. as the difference between the acquisition cost and the resulting decrease in minority interests and were recognized as gain on negative goodwill.

25. Stock Options

As of March 31, 2012 and 2011, 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, 2012)

	Shares	
Date of resolution	February 15, 2005	June 24, 2009
Unvested stock options		
Outstanding as of March 31, 2011	—	—
Granted	—	—
Expired	—	—
Vested	—	—
Outstanding as of March 31, 2012	—	—
Vested stock options		
Outstanding as of March 31, 2011	**1,235,000**	**342,500**
Vested	—	—
Exercised	**564,500**	**59,000**
Expired	—	—
Outstanding as of March 31, 2012	**670,500**	**283,500**

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 (*)	**¥1,600**	**$19.47**	**¥1,600**	**$19.47**
Average stock price at exercise	**3,341**	**40.65**	**3,615**	**43.98**
Fair value at grant date	—	—	**300**	**3.65**

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

(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
	2012	2011	**2012**
Total intrinsic value at end of period	**¥741,352,500**	¥239,750,000	**$9,019,984.18**
Total intrinsic value on the exercise date of the stock options exercised during the year	**127,405,000**	28,524,500	**1,550,127.75**

26. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2012 and 2011.

(1) For the year ended March 31, 2012

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	Masahiko Matsuo	Advisor of the Company	Direct 0.09%	Exercise of subscription rights (Note 2-1)	¥24 million ($292 thousand)
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.19%	Exercise of subscription rights (Note 2-2)	¥80 million ($973 thousand)
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.06%	Exercise of subscription rights (Note 2-1)	¥12 million ($146 thousand)
Officer and his/her close family member	Takayoshi Naganuma	Executive Vice President of the Company	Direct 0.04%	Exercise of subscription rights (Note 2-1)	¥24 million ($292 thousand)
Officer and his/her close family member	Haruhiko Sekiguchi	Executive Vice President of the Company	Direct 0.03%	Exercise of subscription rights (Notes 2-1 and 2-2)	¥24 million ($292 thousand)
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.07%	Exercise of subscription rights (Note 2-1)	¥12 million ($146 thousand)

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

2-1: 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.

2-2: 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) 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 0.01%	Advisor fee (Note 2-1)	¥10 million
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.05%	Advisor fee (Note 2-1)	¥11 million
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.11%	Exercise of subscription rights (Note 2-2)	¥40 million
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-3)	¥12 million
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.05%	Exercise of subscription rights (Note 2-3)	¥12 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. 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.

27. Per Share Information

Per share information as of and for the years ended March 31, 2012 and 2011 is as follows:

	Yen		U.S. dollars
	2012	2011	**2012**
Net assets per share	**¥2,386.63**	¥2,200.55	**$29.04**
Net income per share			
Basic	**¥ 220.29**	¥ 146.48	**$ 2.68**
Diluted	**¥ 215.91**	¥ 143.97	**$ 2.63**

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.

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
	2012	2011	2012
Total net assets	¥80,418	¥72,925	$978,437
Net assets attributable to common stock	77,663	70,236	944,923
Major components of the difference			
Subscription rights	85	103	1,035
Minority interests	2,669	2,586	32,478
Number of common stock issued and outstanding	32,540,950	31,917,450	32,540,950
Treasury stock of common stock	—	—	—
Number of common shares used in calculation of net assets per share	32,540,950	31,917,450	32,540,950

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
	2012	2011	2012
Net income	¥7,097	¥4,253	$86,345
Net income attributable to common stock	7,097	4,253	86,345
Net income not attributable to common stock	—	—	—
Average number of shares outstanding during the year	32,215,557	29,037,338	32,215,557
Adjustments to net income	—	—	—
Major dilutive factors included in calculating diluted net income per share			
Subscription rights	653,326	507,046	653,326
Increase in number of common stock	653,326	507,046	653,326

28. Segment Information

For the years ended March 31, 2012 and 2011, 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, 2012)

(1) Sales by product and service

	Millions of yen			
	Snacks	Other foods	Other	Total
Sales to third parties	¥141,249	¥19,524	¥2,496	¥163,269

	Thousands of U.S. dollars			
	Snacks	Other foods	Other	Total
Sales to third parties	$1,718,566	$237,545	$30,368	$ 1,986,479

(2) Information by region

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

Property, plant and equipment by region (Millions of yen)

Japan	America	China	Other Asia	Total
¥42,471	¥2,388	¥541	¥2,141	¥47,542

Property, plant and equipment by region (Thousands of U.S. dollars)

Japan	America	China	Other Asia	Total
$516,745	$29,060	$6,579	$26,052	$578,435

(3) Sales by major customers

	Related segment	Sales: Millions of yen	Sales: Thousands of U.S. dollars
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	¥21,598	$262,784

(4) Impairment loss on fixed assets by reporting segment

Millions of yen

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Impairment loss	¥34	¥34	—	—	¥34

Thousands of U.S. dollars

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Impairment loss	$409	$409	—	—	$409

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

Millions of yen

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Amortization	¥ 596	¥ 596	—	—	¥ 596
Balance at end of year	4,539	4,539	—	—	4,539

Thousands of U.S. dollars

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Amortization	$ 7,258	$ 7,258	—	—	$ 7,258
Balance at end of year	55,222	55,222	—	—	55,222

(6) Gain on negative goodwill by reporting segment

For the year ended March 31, 2012, gain on negative goodwill is recognized ¥538 million ($6,542 thousand) in the production and sale of snacks and other foods business. The negative goodwill arose from the acquisition of additional shares of Calnac Co., Ltd., a consolidated subsidiary.

(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

(2) Information by region

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

Property, plant and equipment by region (Millions of yen)

Japan	America	China	Other Asia	Total
¥44,541	¥2,089	¥573	¥1,275	¥48,478

(3) Sales by major customers

		Millions of yen
	Related segment	Sales
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	¥19,425

(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

(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

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

29. Subsequent Events

Establishment of a joint venture company in China

At the meeting of the Board of Directors held on September 9, 2011, the strategic approach to the establishment of a joint venture company in China was approved, and the contract was concluded on April 9, 2012. In line with the global strategy of the Group, the Company has decided to establish the joint venture with ITOCHU Corporation and Master Kong Instant Foods Investment (China) Co., Ltd., a part of Tingyi (Cayman Islands) Holding Corp. which has strong marketing capabilities in Chinese market. The joint venture aims to expand the market share and grow sales of Calbee products in China, which is the snack food market with tremendous growth potential.

Details of the joint venture company are summarized below.

Name of the company	Calbee (Tianjin) Foods Co., Ltd.
Nature of business	Manufacture and sale of snack foods
Investment amount	US$20,000 thousands
Expected time of establishment	July 2012
Acquisition cost	US$10,200 thousands
Ownership ratio	CALBEE, Inc.: 51% Master Kong Instant Foods Investment (China) Co., Ltd.: 45% ITOCHU Corporation: 4%

Establishment of a joint venture company in Taiwan

At the meeting of the Board of Directors held on June 12, 2012, the strategic approach to the establishment of a joint venture company in Taiwan was approved. In line with the global strategy of the Group, the Company has decided to establish the joint venture with Wei Chuan Foods Corporation, which has strong marketing and sales capabilities in Taiwanese market. The joint venture aims to expand the market share and grow sales of Calbee products in Taiwan, which is the snack food market with growth potential.

Details of the joint venture company are summarized below.

Name of the company	Calbee (Taipei) Foods Co., Ltd.
Nature of business	Manufacture and sale of snack foods
Investment amount	NT$250,000 thousands
Expected time of establishment	August 2012
Acquisition cost	NT$127,500 thousands
Ownership ratio	CALBEE, Inc.: 51% Wei Chuan Foods Corporation.: 49%

Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
CALBEE, Inc.

We have audited the accompanying consolidated financial statements of CALBEE, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CALBEE, Inc. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young Shinnihon LLC

June 27, 2012

Tokyo, Japan

Corporate History

1940s–1970s

Apr. 1949	Company established
Jan. 1964	*Kappa Ebisen* (prawn crackers) launched
Apr. 1968	Utsunomiya Factory (Tochigi) 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) started operations
Sep. 1975	Shimotsuma Factory (Ibaraki) started operations
Sep. 1975	*Potato Chips* launched
Nov. 1976	Shiga Factory (currently Konan Factory; Shiga) started operations

1980s

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) started operations
Nov. 1986	Hiroshima-Nishi Factory (currently Hiroshima Factory, West Building; Hiroshima) started operations
Jul. 1989	Cereals launched throughout Japan. Kiyohara Factory (Tochigi) started operations

1990s

Apr. 1990	Snack Food Service Co., Ltd.* established
Jan. 1992	Calbee (International) Limited established in Hong Kong (Renamed CIL COMPANY LIMITED in July 2010, liquidated in September 2011)
Feb. 1994	Calbee Four Seas Co., Ltd.,* a joint venture with Four Seas Mercantile Holdings Ltd., 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) started operations

2000s

Apr. 2000	Calnac Co., Ltd.* established
Oct. 2002	CALBEE FOUR SEAS (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 (currently Hiroshima Factory, East Building; Hiroshima) started operations
Apr. 2006	*Jagabee* launched
Aug. 2006	YANTAI CALBEE CO., LTD.* established in China
Aug. 2006	RDO-CALBEE FOODS, LLC (currently Calbee North America, LLC*), a joint venture with R.D. OFFUTT COMPANY, established in the US
Oct. 2006	Acquired 80% of issued shares in Tower Bakery, Inc.*
Nov. 2007	Calbee Eatalk Co., Ltd.,* a company employing people with disabilities established
Jul. 2009	Capital 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)

2010s

Mar. 2011	Listed on the First Section of the Tokyo Stock Exchange
Jul. 2011	HAITAI-CALBEE Co., Ltd.* established in South Korea as a joint venture with HAITAI Confectionery & Foods Co., Ltd.
Jul. 2012	Calbee (Tianjin) Foods Co., Ltd.* established in China as a joint venture with Master Kong Instant Foods Investment (China) Co., Ltd. and ITOCHU Corporation.

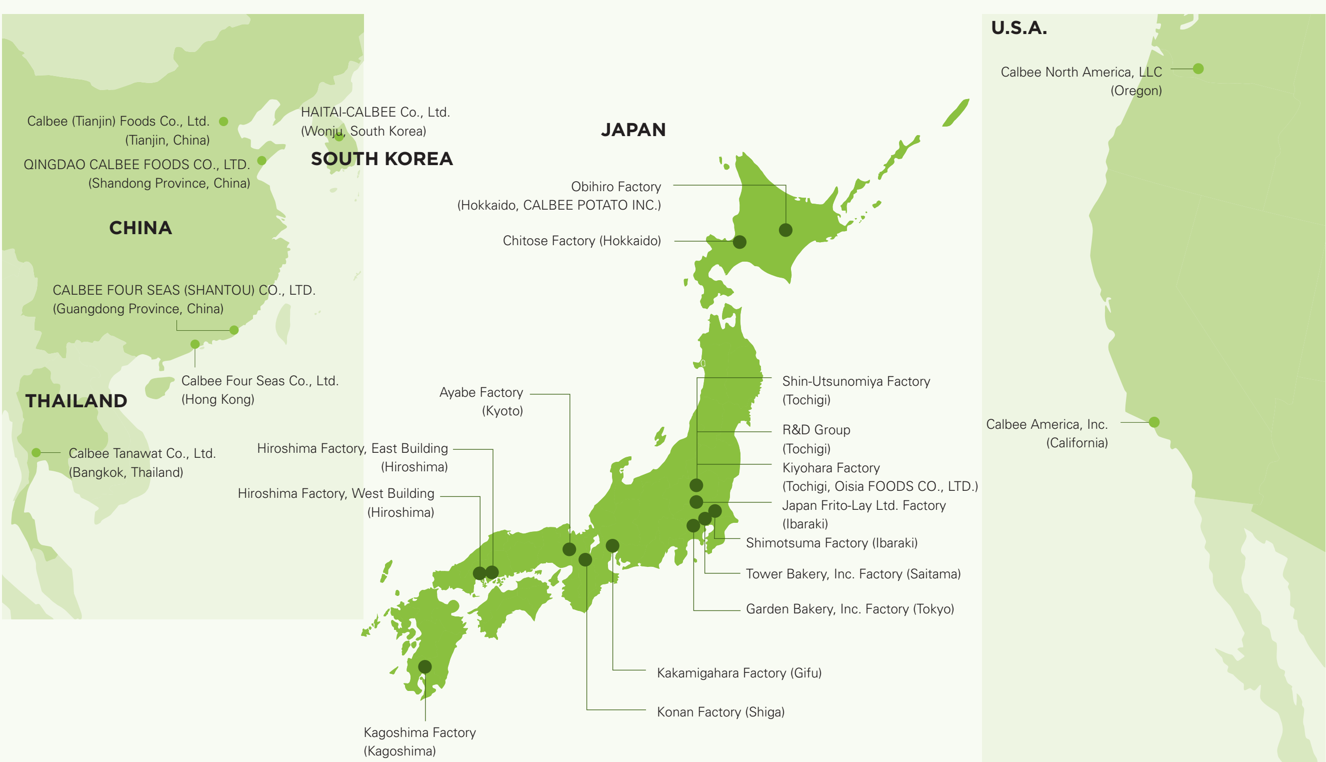
* Currently consolidated subsidiaries

Corporate Data

(As of March 31, 2012)

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 yen
Representatives	Akira Matsumoto, Chairman of the Board & CEO Shuji Ito, President & COO
Number of employees	3,053 (consolidated basis) 1,494 (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. Calbee Four Seas Co., Ltd. CALBEE FOUR SEAS (SHANTOU) CO., LTD. QINGDAO CALBEE FOODS CO., LTD. YANTAI CALBEE CO., LTD. Calbee North America, LLC (Name changed from RDO-CALBEE FOODS, LLC in June 2012) HAITAI-CALBEE Co., Ltd. Calbee (Tianjin) Foods Co., Ltd. (Established in July 2012)

Location of Factories



Investor Information

(As of March 31, 2012)

Common stock	Authorized:	44,000,000 shares
	Issued:	32,540,950 shares
Number of shareholders		4,970
Annual general meeting		June

Date of listing	March 11, 2011
Stock listing	First Section of the Tokyo Stock Exchange
TSE code	2229
Share register	Mitsubishi UFJ Trust and Banking Corporation

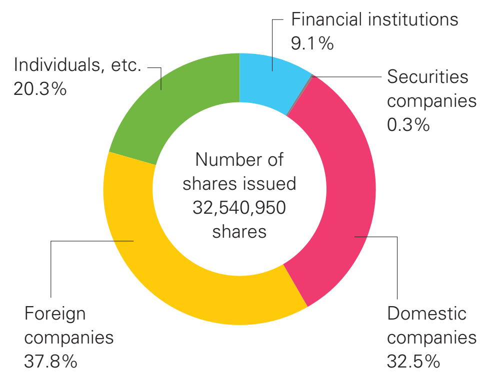
Principal shareholders

Shareholder	Number of shares (thousands)	Ownership ratio (%)
General Incorporated Association Miki-no-Kai [1]	6,850	21.05
FRITO-LAY GLOBAL INVESTMENTS B.V. [2]	6,700	20.59
THE CHASE MANHATTAN BANK 385036	1,514	4.65
Calbee Employees Shareholding Association	1,472	4.53
The Master Trust Bank of Japan, Ltd. (Trust Account)	748	2.30
NORTHERN TRUST CO. AVFC RE FIDELITY FUNDS	618	1.90
Japan Trustee Services Bank, Ltd. (Trust Account)	513	1.58
THE TORIGOE CO., LTD.	484	1.49
Sankyo Polyethylene Co., Ltd.	440	1.35
STATE STREET BANK AND TRUST COMPANY	416	1.28

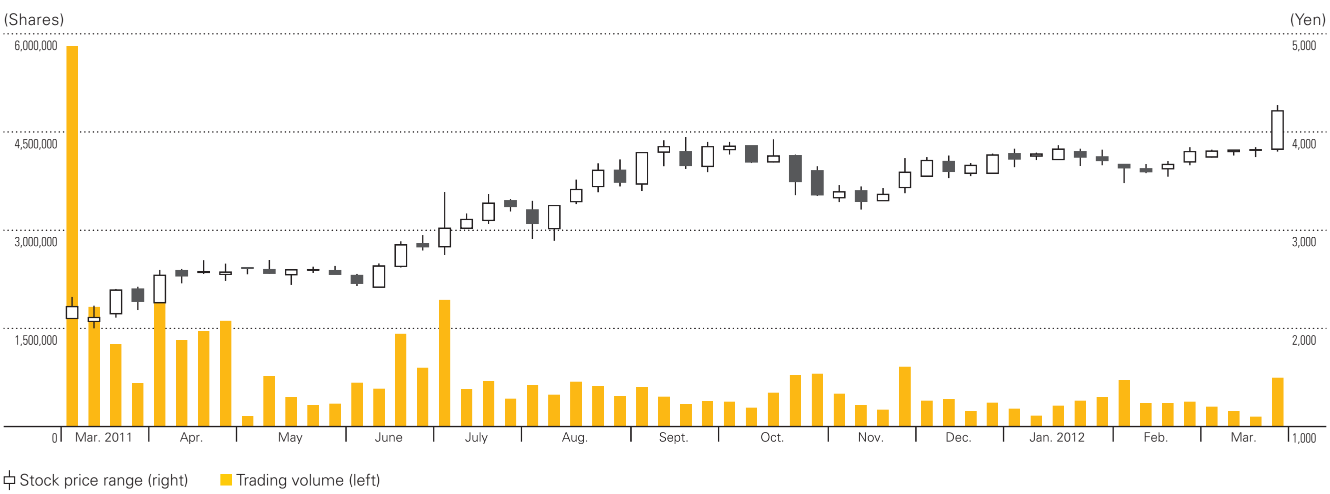
1. General Incorporated Association Miki-no-Kai is a shareholding association of the founding family of the Company.
2. FRITO-LAY GLOBAL INVESTMENTS B.V. is a wholly-owned subsidiary of PepsiCo, Inc.
3. According to the change Report Pertaining to Large Volume Shareholding Report filed by FIL Investments (Japan) Limited and joint shareholder FMR LLC on October 21, 2011, those entities held 3,122,000 shares (9.70%) as of October 14, 2011. As of March 31, 2012 Calbee had been unable to confirm the actual number of shares in the possession of the above entities, so they have not been included in the list of major shareholders. Details of the change Report Pertaining to Large Volume Shareholding Report are as follows:

Shareholder	Number of shares (thousands)	Ownership ratio (%)
FIL Investments (Japan) Limited	584	1.81
FMR LLC	2,537	7.88
Total	3,122	9.70

Share breakdown by shareholder



Stock price and trading volume



Contact

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Harvest the Power of Nature.

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

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