Calbee

Harvest the Power of Nature.

TSE code: 2229

Shaping the Future

Annual Report 2016

Fiscal year ended March 31, 2016

Corporate Message

Harvest the Power of Nature.

Calbee Group Vision

**"We must earn respect,
admiration and love firstly of our customers,
suppliers and distributors,
secondly of our employees and their families,
thirdly of the communities,
and finally of our stockholders."**

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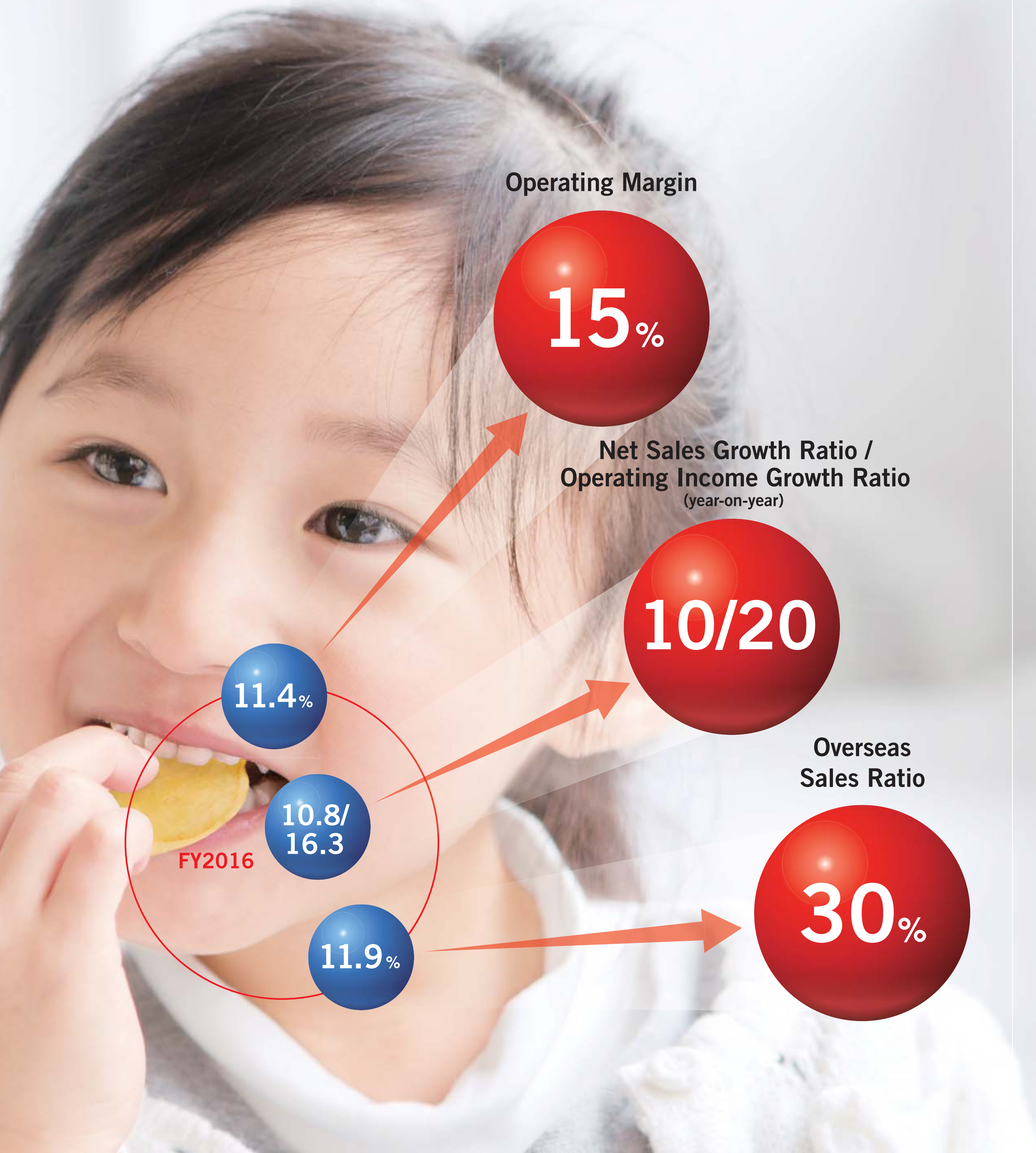
Calbee's Growth Targets



Calbee Performance Highlights

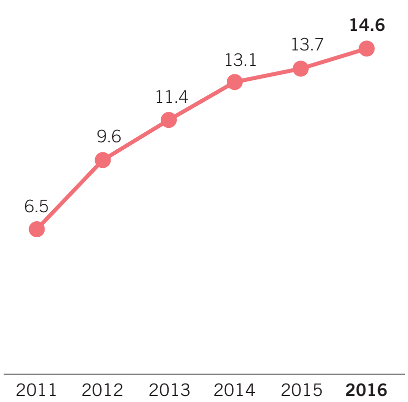
Years ended March 31

	Millions of yen							Thousands of US dollars (Note 1)
	2011	2012	2013	2014	2015	2016	2016 / 2015	2016
For the Year:								
Net sales	¥155,529	¥163,268	¥179,411	¥199,941	¥222,150	**¥246,129**	10.8%	**$2,184,319**
Operating income	10,717	12,247	15,790	19,717	24,183	**28,125**	16.3	**249,605**
Operating margin (%)	6.9	7.5	8.8	9.9	10.9	**11.4**	—	—
Net income attributable to owners of parent	4,253	7,096	9,440	12,086	14,114	**16,799**	19.0	**149,086**
Net income margin (%)	2.7	4.3	5.3	6.0	6.4	**6.8**	—	—
Return on equity (%)	6.5	9.6	11.4	13.1	13.7	**14.6**	—	—
Per Share (¥/$) (Note 2)**:**								
Net income attributable to owners of parent (Basic)	36.62	55.07	72.18	91.46	105.82	**125.88**	19.0	**1.11**
Net assets	550.14	596.66	664.55	729.93	821.97	**905.20**	10.1	**8.03**
Cash dividends	7.00	10.50	15.50	22.00	28.00	**35.00**	25.0	**0.31**
Dividend payout ratio (%)	19.1	19.1	21.5	24.1	26.5	**27.8**	—	
For the Year:								
Capital expenditures	4,049	5,422	7,298	6,392	15,290	**21,229**	38.8	**188,405**
Depreciation and amortization	7,243	6,676	6,318	5,960	6,232	**7,570**	21.5	**67,183**
Cash Flows:								
Cash flows from operating activities	16,664	7,049	17,328	23,478	22,266	**22,541**	1.2	**200,050**
Cash flows from investing activities	(620)	(5,347)	(12,999)	(17,041)	(9,422)	**(14,270)**	—	**(126,644)**
Cash flows from financing activities	(2,124)	(411)	607	(383)	(2,878)	**(2,859)**	—	**(25,376)**

Notes:
1. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥112.68 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2016.
2. A 50-to-1 stock split was conducted on January 14, 2011, and a 4-to-1 stock split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.

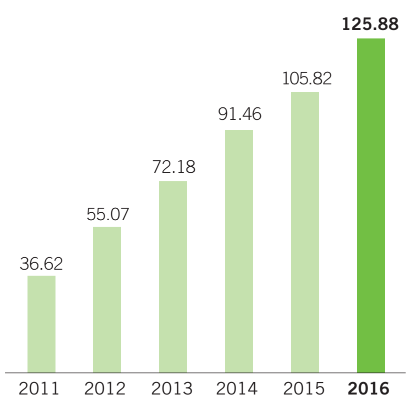
Return on Equity

(%)



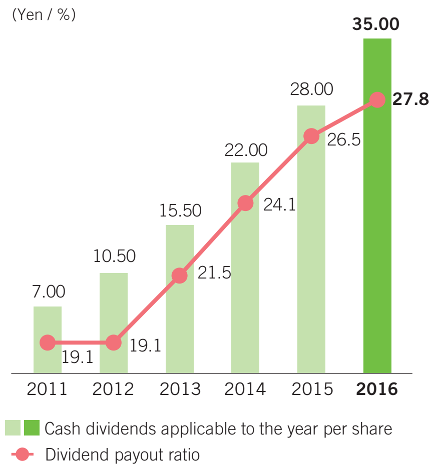
Net Income Per Share

(Yen)



Cash Dividends Applicable to the Year Per Share / Dividend Payout Ratio

(Yen / %)

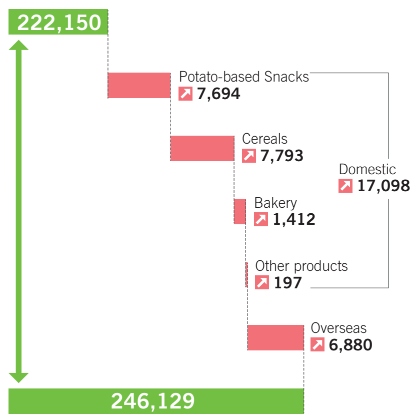


Net Sales for Fiscal 2016

¥246,129 million

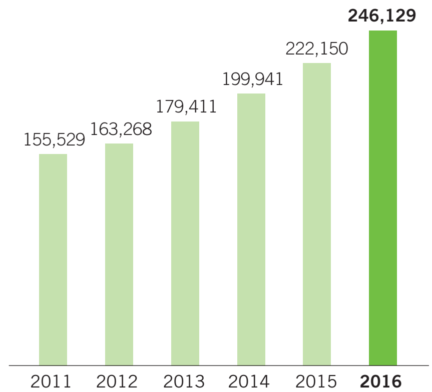
Up ¥23,978 million
10.8% year on year

- Increased sales and market share of cereal product *Frugra*
- Domestic market share expansion of potato chips
- Strong Sales of *Harvest Snaps* in North America, *Honey Butter Chips* in South Korea



Net Sales

(Millions of yen)

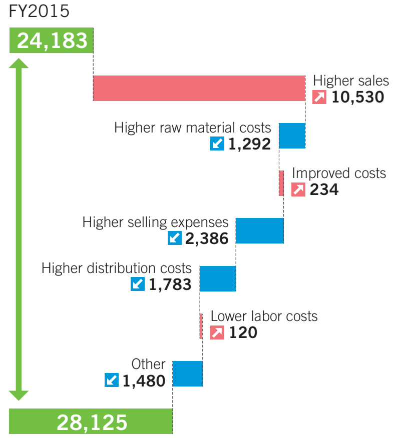


Operating Income for Fiscal 2016

¥28,125 million

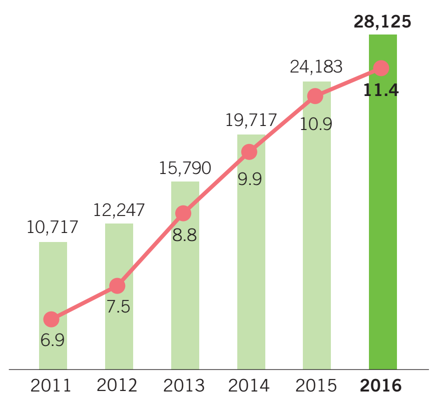
Up ¥3,942 million
16.3% year on year

- Increased operating income due to net sales growth
- Higher raw material cost mainly caused by the weak yen
- Improved costs driven by utilization ratio improvements, etc.



Operating Income / Operating Margin

(Millions of yen / %)

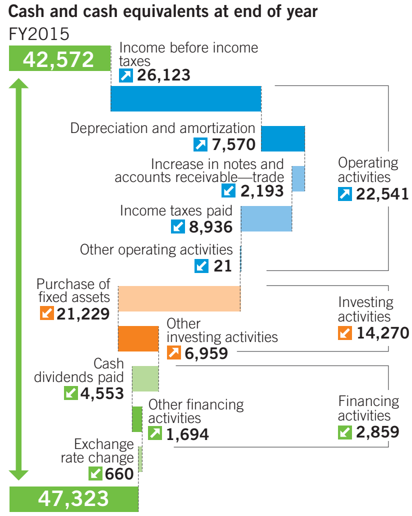


Cash and Cash Equivalents at End of Fiscal 2016

¥47,323 million

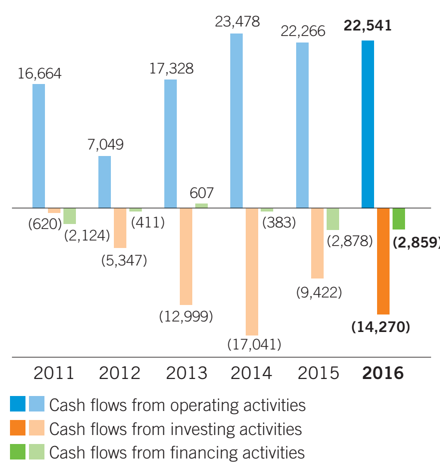
Up ¥4,751 million

- Increased income before income taxes
- Cash outflows for acquisition of production facilities for *Frugra*, new factory construction in North America
- Cash flows from operating activities sufficient to cover investment outflow



Cash Flows

(Millions of yen)



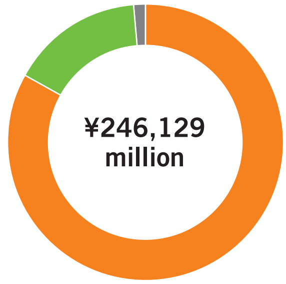
At a Glance

The Calbee Group's main business is the production and sale of snacks and other foods, including potato-based, flour-based, corn-based and other snacks as well as cereals. In fiscal 2016 (the year ended March 31, 2016), net sales from the production and sale of snacks and other foods totaled ¥242,879 million, an increase of 11.0% year on year.

In other businesses, including the distribution business, net sales were almost level with the previous year at ¥3,249 million.

A breakdown showing the principal components of consolidated net sales is presented below.

Sales Breakdown FY2016



Snack Foods: 83.2%

Domestics Sales: 71.3%

Potato-based Snacks: 51.7%

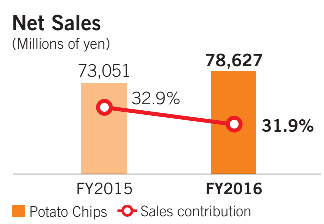
Potato Chips

(launched in 1975)

31.9%

Performance Highlights

- **Basic Potato Chips series (*Usushio*, *Consomme Punch*, and *Norishio*) enjoyed strong sales**
- ***Kata-Age Potato* saw a significant increase in sales**
- **Received growing orders for private-brand products from clients**



Product Information

Calbee boasts a variety of products in its potato chips lineup that distinguish it from the competition and that have allowed it to secure top brand recognition in the Japanese market. Our basic potato chips, a series of simple but tasty thin-style potato chips fried in cooking oil, comprises *Usushio* (lightly salted), *Consomme Punch* (consommé), and *Norishio* (laver salt) variations. Among other product series are *Kata-Age Potato*, a line of thickly sliced potato chips that are fried slowly in a kettle using a traditional low-temperature method, and *Pizza Potato Chips*, which are made using our unique "melt flake" technology for an authentic cheese taste. Moreover, we produce potato chips in a wide range of flavors to match different seasons, local tastes and other factors.

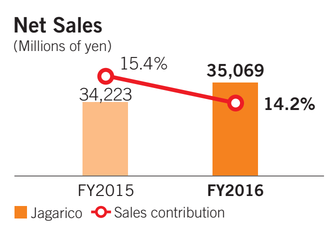
Jagarico

(launched in 1995)

14.2%

Performance Highlights

- **Increased sales of *Tarako Butter* flavor and launch of 20-year anniversary campaign products**



Product Information

Jagarico is our second megabrand. Within three years of its launch, the brand's annual sales had reached ¥10 billion and by its 11th year, ¥20 billion. By its 19th year, fiscal 2014, *Jagarico* had grown into a brand with net sales of ¥30 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.

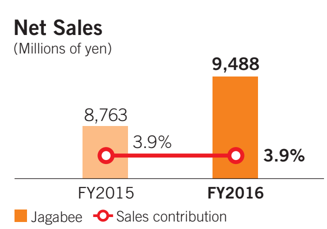
Jagabee

(launched in 2006)

3.9%

Performance Highlights

- **Showed sales increase through strengthening lineup of time-limited and region-limited products**



Product Information

Made from unpeeled potatoes processed into sticks, the *Jagabee* lineup features authentic potato flavor and a unique texture that sets it apart from *Jagarico*.

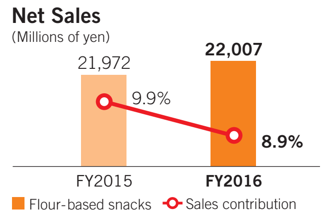
Flour-based Snacks: 8.9%

Performance Highlights

- **Strong sales of sweet potato snack *Osatsu Snack* and *Cheese Bit***

Product Information

Kappa Ebisen (prawn crackers) made from whole natural prawns is a long-selling snack product that embarked on its second half century of pleasing palates in fiscal 2015.



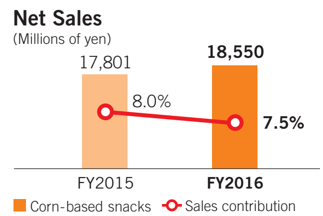
Corn-based Snacks: 7.5%

Performance Highlights

- **Expanded due to new *Garrett Popcorn Shops*® store openings and other factors**

Product Information

Having enjoyed steady sales for many years, *Mike Popcorn Butter Shoyu* (butter and soy sauce) flavor was launched in 1983. Our corn-based snack business produces and markets *Doritos* and *Cheetos*, two global megabrands developed by Frito-Lay.



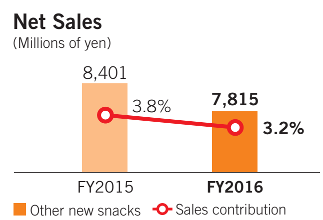
Other New Snacks: 3.2%

Performance Highlights

- **Decreased sales of *Vegips* and other factors**

Product Information

Vegips are whole vegetable chips seasoned only with salt, launched in 2010. In 2016, Calbee entered the fabricated potato chip market employing its technologies, know-how and brand capability to launch *Potato Chips Crisps,* which boast distinguishing crispness and tasty flavors and are sold in easy-to-carry packages.



Overseas Sales: 11.9%

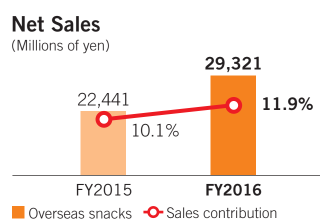
Overseas Snack Business: 11.9%

Performance Highlights

- ***Harvest Snaps* (*Snapea Crisps*) and *Honey Butter Chips* enjoyed strong sales in North America and South Korea, respectively**

Product Information

In addition to undertaking product development in Japan, we market snack foods tailored to local tastes in North America, South Korea and other Asian as well as European countries.



Other Food Products: 15.5%

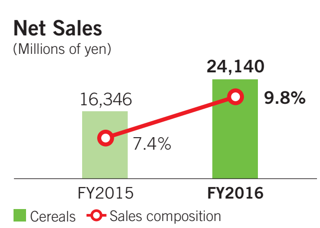
Cereals: 9.8%

Performance Highlights

- ***Frugra* saw sales expand even further and its runaway success continuing to drive the growth of the entire cereal market**

Product Information

Frugra (fruit granola) is the single best-selling cereal product in Japan and its sales are continuing to rise. *Frugra* has proven popular among a broad range of customers, particularly women, who appreciate the ready source of fiber, iron and vitamins it offers.



CEO Message

Akira Matsumoto

Chairman of the Board & CEO,
Representative Director

Our Business is People Business

Raising Our Global Presence After Seven Consecutive Years of Sales and Profit Growth

Calbee's operating results for the fiscal year ended March 31, 2016 were solid, marking our seventh consecutive year of increased sales and profit, with net sales and operating income increasing 10.8% and 16.3%, respectively, year on year. Since I became CEO in 2009, Calbee has focused its management efforts on the twin pillars of innovation and cost reduction. Thanks to these initiatives, the pace of sales and profit growth has substantially exceeded that of the Japanese domestic snack food market, while our operating margin has steadily improved.

(Millions of yen)

FY2016	Actual	Target
Net Sales	¥246,129	¥240,000
Growth ratio	+10.8%	+8.0%
Operating Income	¥ 28,125	¥ 28,800
Operating income ratio	11.4%	12.0%
Growth ratio	+16.3%	+19.1%

The Twin Pillars of Calbee's Approach

Targeting Continued Growth and High Profitability

Cost Reductions | **Innovation**

Growth Strategies

Expand Overseas Business
- Overseas sales ratio to over 30%

Boost New Product Development
Develop Megabrands
- Continuously launch new products

Expand Domestic Market Share
- Snack food market: over 67%
- Potato chips market: over 75%
- Cereal market: over 50%

Strengthen Alliance with PepsiCo Group

Pursue Licensing and Acquisition Opportunities

Develop New Business

Progress in Innovation

Expand Overseas Business
- Overseas sales ratio: 11.9%
- Expand business in North America and South Korea
- Began operations in U.K. and Singapore

Boost New Product Development
Develop Megabrands
- *Frugra* became Japan's dominant leading cereal brand
- Growth in *Potato Chips* and *Jagarico*

Expand Domestic Market Share
- Snack food market: Av. 53.2%*
- Potato chips market: Av. 73.1%*
- Cereal market: Av. 34.5%*

Develop New Business
- Launched a cross-border e-commerce business for Chinese consumers

* Snack food market share is the total for Calbee, Inc. and Japan Frito-Lay Ltd.
Snack food & potato chips market share source: INTAGE SRI (nationwide, all retail formats), sales value basis, April 2015 - March 2016
Potato chips market share includes that of private-brand products.

Although sales exceeded forecast, operating income was somewhat lower than expected. Our operating margin improved from 10.9% to 11.4%, a little lower than the one percentage point increase initially forecast and indicative of an easing in our previously rapid pace of growth.

We are determined not to let our pace of growth decline further, and are maintaining our medium- to long-term operating margin target of 15%. We will also implement "10/20" once again, a structure aiming for a 10% increase in sales and 20% increase in profit every year, as soon as possible. To maintain growth, we are implementing initiatives to improve our manufacturing cost ratio, and will also endeavor to better control selling, general and administrative (SG&A) expenses. By standing our ground, we will continue to challenge ourselves to become a genuinely leading company in the global market.

Pursuing Sustainable Expansion on Organic Growth in Domestic Market

Japan's snack food market has not grown in more than 15 years and, given the country's declining birthrate, future market shrinkage seems inevitable. Against this backdrop, Calbee has been striving to expand its share of the existing domestic snack food market. During fiscal 2016, we released a constant stream of new competitive products aimed at creating and meeting customer needs, with *Potato Chips* being particularly successful and contributing to a larger market share and to overall business performance. Although *Potato Chips* commands a very strong 73% market share, there is still room for further growth.

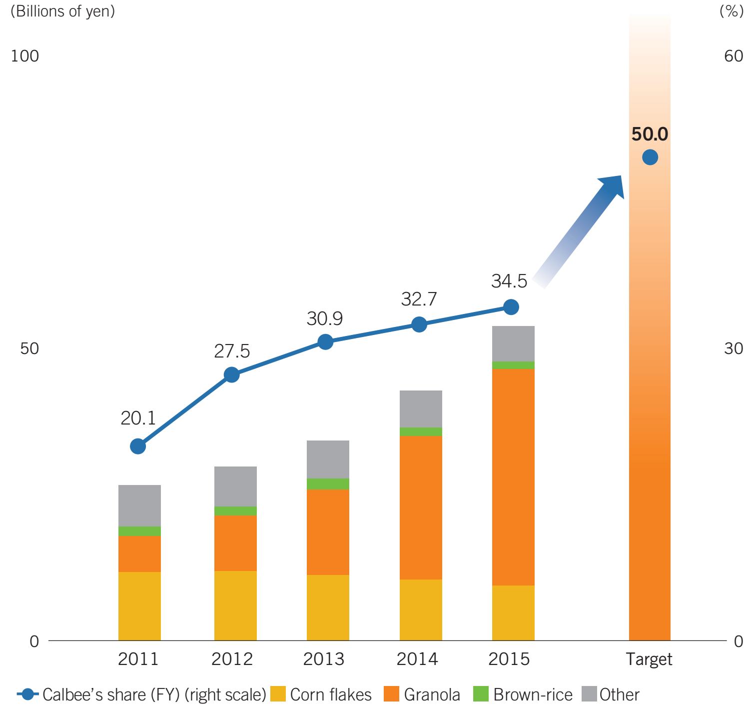
Progress toward Calbee's Earnings Model

	FY2010	FY2016	Target
Net Sales	100%	100%	**100%**
Cost of Sales	60.1%	56.5%	**50%**
Gross Profit	39.9%	43.5%	**50%**
SG&A Expenses	33.4%	32.1%	**30%**
R&D Expenses			**5%**
Operating Income	6.5%	11.4%	**15%**

In August 2016 we launched a new line of fabricated potato chip products after a year's postponement, under the strong leadership of president and COO Shuji Ito. This is a market valued at around ¥27 billion annually, and we have an ambitious aim of capturing a 50% market share within several years while stimulating further demand.

We also see domestic market growth opportunities in areas other than snack foods. For example, *Frugra*, a cereal targeting the breakfast food business, contributed significantly to sales growth in fiscal 2016. The market for cereals, including *Frugra*, is expected to maintain its current growth rate for several years. We also aim to develop a new business in food products to establish a third pillar of operations alongside snack foods and cereals.

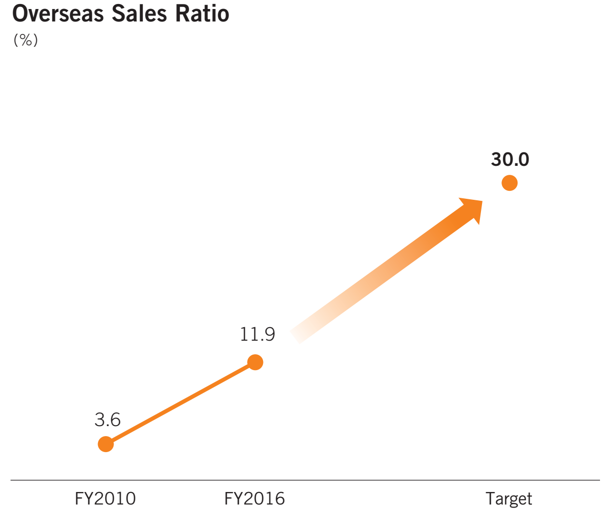
Cereal Market and Calbee's Share



Source
Share: INTAGE SRI based on sales (nationwide, all retail formats)
Market: Japan Snack Cereal Foods Association

Given the stability of our mainstay business in Japan, we are confident that we can meet our target of achieving an annual growth rate of 5% in the snack business and that our cereals business, in particular, will see strong growth going forward. However, the results of our recent initiatives to realize innovation through new product development have been less than successful we hoped. So although it has become increasingly difficult to create mega hits in the confectionery market, we are actively pursuing operational reforms and genuine innovation in our products to achieve our target of a 67% share of the domestic snack foods market.

Overseas Sales Ratio



Realigning Our Strategy for Overseas Expansion

There are a number of overseas market regions with robust demand for snack foods. In North America, we smoothly established a new factory in Senatobia, Mississippi in June 2015. However, due to operational issues at our existing factory in Fairfield, California, which had been playing a key role in supporting our sales expansion, revenues from our North American operations fell short of forecasts. We are currently working to overhaul the facilities in question and resolve some organizational issues.

Despite these difficulties, North America remains a large and very appealing market for snack foods. *Harvest Snaps*, one of our core product lines marketed in the "better-for-you" food category in the region, has earned pleasing recognition among the growing number of health-conscious customers. Our aim is to create new hit products through development involving both Japanese and local R&D bases.

In China, despite having decided to dissolve our joint venture, we intend to reformulate our basic regional strategy by the second half of fiscal 2017 and then restart local operations within one year. Also in China, we have launched a cross-border e-commerce business on a trial basis. There is tremendous potential in China with its large population, and still we recognize that local operation in China is the key of our Chinese business growth.

Taken as a whole, we see the restructuring of our North American business as the highest priority issue for fiscal 2017 in overseas business. At the same time, we will strive to expand our existing overseas businesses and improve their profitability by streamlining operations in every market, such as in South Korea where we have already opened a new factory and increased production capacity this year. We entered the UK and the Philippine markets in 2015 and Indonesia in 2016, and are working swiftly to get operations in these countries on track and profitable within the next few years. In these ways, we are solidifying our business foundation to become an even stronger global player and achieve our goal of raising the overseas sales ratio to 30% over the medium- to long-term.

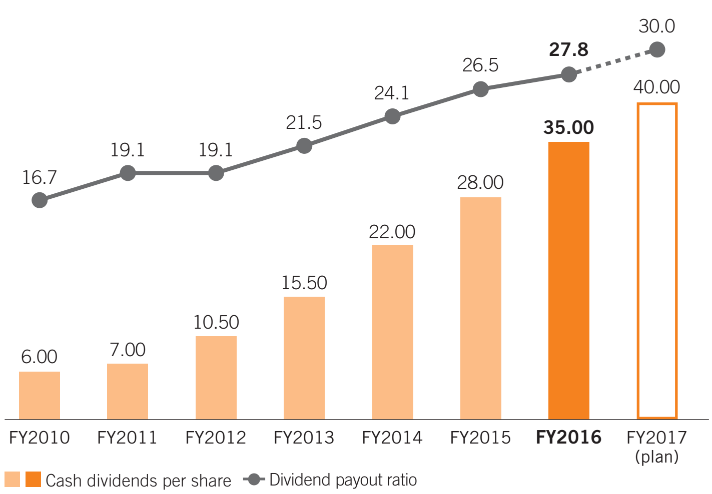
Our People Drive Our Growth

It is absolutely clear to me that Calbee's future success depends on the quality of its people. In providing snacks to consumers, our employees are the key players behind the production and marketing of these offerings. To put it simply, "Our Business is People Business." This is why we consider it essential to have an environment in which every worker can realize their full potential and achieve success, regardless of gender, nationality or race, in order to ensure further corporate growth and achieve genuine innovation.

With this in mind, Calbee will continue to do its utmost to promote workforce diversity. As of April 2016, our overall ratio of female managers had risen considerably to 22.1%. However, we understand that diversity should not be narrowly defined as the promotion of women. Looking ahead, we will build on our current diversity initiatives and create an even better workplace as a company where everyone can exert his/her full potential to achieve results and get rewarded fairly for based on their performance.

Cash Dividends per Share / Dividend Payout Ratio

(Yen / %)



A 50-to-1 stock split was conducted on January 14, 2011, and a 4-to-1 stock split was implemented on October 1, 2013.
Per share figures were retroactively adjusted to reflect these stock splits.

Achieving Calbee's Vision

We recognize that returning profits to shareholders is one of our key responsibilities. For fiscal 2016, we increased our year-end dividend by ¥7 per share to ¥35 per share, achieving a consolidated payout ratio of 27.8%. We intend to continue to raise the annual dividend and dividend payout ratio.

The Calbee Group's vision is 'We must earn respect, admiration and love firstly of our customers, suppliers and distributors, secondly of our employees and their families, thirdly of the communities, and finally of our stockholders.' To realize our vision, we have a number of challenges to overcome. However, "No trouble makes no business," to achieve this vision, we must tackle a number of challenges. We are committed to satisfying the expectations of all our stakeholders, ensuring sustainable corporate growth and enhancing corporate value over the long-term.

In closing, I want to recognize the valued support and feedback of our stakeholders. We look forward to your ongoing support.

Akira Matsumoto
Chairman of the Board & CEO,
Representative Director

COO Message

Shuji Ito
President & COO,
Representative Director

Focusing on innovation and cost reductions, we will become a globally competitive food company

Despite Record-High Fiscal 2016 Results for Sales and Profit, WE ARE NOT SATISFIED

In fiscal 2016, our business activities continued to be centered on the twin pillars of strategy: innovation and cost reductions.

Sales of domestic snack foods, our main business, grew steadily while market growth leveled off. In the cereal business, *Frugra* continued to grow strongly and lead market expansion. Overseas business also expanded as revenues from the markets we already entered increased while entering into new markets successfully. Meanwhile, we have undertaken a variety of initiatives aimed at domestic factory capacity utilization improvement and cost reduction.

Consequently, net sales for fiscal 2016 rose 10.8% year on year to ¥246,129 million (US$2,184 million), while operating income climbed 16.3% to ¥28,125 million (US$249 million) for an operating margin of 11.4%. Consolidated net income attributable to owners of parent increased 19.0% to ¥16,799 million (US$149 million). With the domestic business serving as a main contributor, Calbee thus posted record-high sales and profit.

FY2016 Performance Highlights (Millions of yen)

	FY2014	FY2015	FY2016	2015/2016 % change
Net sales	¥199,941	¥222,150	**¥246,129**	10.8%
Operating income	19,717	24,183	**28,125**	16.3
Net income*	12,086	14,114	**16,799**	19.0

*Net income attributable to owners of parent

Domestic and Overseas Sales in Fiscal 2016 (Millions of yen)

	Fiscal 2015		Fiscal 2016			
	Amount	Composition	Amount	Composition	% change	% change on local currency basis
Domestic sales	¥199,709	89.9%	**¥216,807**	**88.1%**	+8.6%	+8.6%
Overseas sales	22,441	10.1	**29,321**	**11.9**	+30.7	+25.0
Total	¥222,150	100.0%	**¥246,129**	**100.0%**	+10.8%	+10.2%

Despite record-high sales and profit, we are not satisfied with this performance. Annual growth in net sales exceeded the targeted 8.0%, but the growth in operating income fell short of the targeted 19.1% and the operating margin was below the target of 12.0%. These fell short of the financial targets I committed to for stakeholders.

Potato-Based Snacks, *Frugra* and Overseas Business Drove Sales Growth

Net sales consisted of domestic sales of ¥216,807 million (US$1,924 million; 88.1% of the total), up 8.6% year on year, and overseas sales of ¥29,321 million (US$260 million; 11.9% of the total), up 30.7% year on year.

The ¥23,978 million increase in net sales consisted of a rise of ¥17,098 million in Japan (71.3% of the total) and ¥6,880 million overseas (28.7%).

Domestic Sales Contribution by Product Category in Fiscal 2016

(Millions of yen)

Net sales change	+23,978
Domestic	**+17,098**
Potato-based snacks	+7,694
Potato chips	+5,575
Jagarico	+846
Jagabee	+725
Cereals	+7,793
Bakery	+1,412
Others	+197

Overseas Sales Contribution by Country in Fiscal 2016

(Millions of yen)

	FY2015	FY2016	YoY
Overseas	22,441	**29,321**	+6,880
North America	9,668	**12,517**	+2,849
China	2,227	**1,909**	-318
South Korea	4,075	**6,072**	+1,996
Thailand	2,896	**3,055**	+159
Hong Kong	2,930	**3,239**	+309
Taiwan	570	**261**	-308
Philippines	72	**593**	+521
UK	—	**294**	+294
Singapore	—	**1,376**	+1,376

Japan

Sales of potato-based snacks contributed ¥7,694 million (up 6.4% year on year) to the ¥17,098 million increase in domestic sales.

Potato Chips contributed to a ¥5,575 million increase in sales, with our share of the potato chips market increasing to 73.1%, an improvement of 1.0 percentage point, reflecting ongoing efforts to increase our share of the potato chips market. Sales of *Jagarico* and *Jagabee* also increased with lineup expansion and the introduction of time-limited offerings and local exclusives.

Meanwhile, we postponed the planned August 2015 release of *Potato Chips Crisps,* fabricated potato chips, when we encountered the technological challenge of meeting potential demand, which far outstripped expectation. We already managed to secure sufficient capacity and rescheduled the release to August 2016 in the Hokkaido area. We will move on to successive rollouts in regions around the nation.

Sales of our cereals rose ¥7,793 million, or 47.7%, compared with the previous fiscal year. Sales of our mainstay *Frugra* grew continuously to ¥22,337 million, up 54.6% year on year. We consecutively expanded *Frugra* production capacity in May 2015 and in April 2016. With "hassle free," "high-fiber content," and "low-sodium content" as key advertising messages, *Frugra* is gaining popularity as a practical and health-conscious breakfast. As a leading brand, *Frugra* is increasing market share while driving market expansion. In fiscal 2016, our share of the domestic cereal market rose 1.8 percentage points to 34.5%.

Overseas

Overseas sales totaled ¥29,321 million and accounted for 11.9% of net sales.

We continued to expand overseas business. In North America, we launched a new factory in Senatobia, Mississippi which contributed to the sales growth of our mainstay *Harvest Snaps.* In South Korea, the boom of *Honey Butter Chips* continued. In addition, a sales distributor in Singapore joined Calbee group, and U.K. operations commenced.

On the other hand, we revisited business strategies in some countries. In China, we dissolved the joint venture agreement related to Calbee (Hangzhou) Foods Co., Ltd. due to its persistently stagnant performance. In Taiwan, we decided to liquidate a local joint venture in March 2016. We are re-establishing the strategies to re-enter these markets.

Contributors to Profit Growth

The overall ¥3,942 million rise in operating income was mainly attributable to the following factors. The expansion in net sales contributed to a ¥10,530 million increase in operating income. This was partially offset by such negative factors as a rise in raw material costs totaling ¥1,292 million due to the depreciation of the yen along with increases in selling expenses of ¥2,386 million and distribution costs of ¥1,783 million. As a result, operating income rose 16.3% year on year.

Although our fiscal 2016 profit was a record high, our operating income target was not met due to the following challenges.

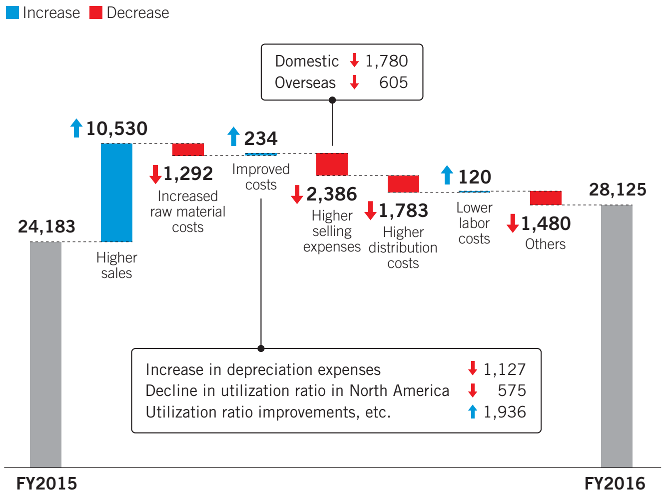
The first challenge was balancing between supply and demand in our domestic supply chain operations during the first quarter. The fact that our average factory utilization ratio is now more than 90% made it difficult to meticulously adjust production volume of each stock keeping unit (SKU). This resulted in an increase in inventory, sales discounts, losses on inventory disposal and storage costs while, at the same time, being hampered by inventory back order, marketing opportunity losses and irregular transportation expenses. We already addressed these problems in the second quarter by strengthening control over the number of SKUs and inventory while aligning our supply with demand.

Another challenge we faced during the year was the sluggish performance of Japan Frito-Lay Ltd., which supplies corn-based snacks. Despite the strong showings of premium popcorns in the previous fiscal year, Japan Frito-Lay saw overall sales fall quite short of forecasts. We strive to streamline Japan Frito-Lay's operations and reduce costs in order to improve profitability.

Another, even greater challenge is our pursuit of profitable global expansion. Business in North America, a key contributor to profitable global expansion, has lost its previous growth momentum due to the decrease in capacity utilization that resulted from facility-related problems at the existing factory in Fairfield, California.

Breakdown of Increase in Operating Income in Fiscal 2016

(Millions of yen)



Fiscal 2017 Initiatives: Achieving Improved Operating Income Ratio

In fiscal 2017, we expect net sales of ¥262,000 million, up 6.4% year on year. This estimate includes a rise in domestic sales of ¥9,884 million, or 4.6%, as well as annual growth of 20.4%, or ¥5,986 million, in overseas sales. We also set the target of boosting operating income 10.2% to ¥31,000 million.

In Japan, we will strive to secure even higher sales of *Frugra*. Also, we will be promoting *Kata-Age Potato* and *Jagarico* as key products in potato-based snacks for further expansion, with a planned increase in production capacity by the end of fiscal 2017. For further expansion of our potato-based snack business, we are aware of the urgent need to secure potato supply from domestic farmers. We will continue to constantly seek out stable sources of quality potatoes for safe, reliable and delicious snack products available to our customers.

Overseas, we will make the business launch successful in markets, such as Spain and Indonesia, where we have recently entered. We will also strive to expand business further in North America, South Korea and other markets where we already have footholds. Specifically, in North America where business growth has been slowing down since the second half of fiscal 2016, we are determined to strengthen local management, enhance the supply chain system and re-establish the trust of product supply among sales channels. Moreover, we will release new *Harvest Snaps* offerings with the aim of getting the North American business back on a growth path.

To secure greater profit, we will pursue both sales growth and cost improvement through enhancing production efficiency. In Japan, we continuously promote cost containment initiatives to minimize production loss and improve manufacturing efficiency. In addition, we will enhance control over selling, general and administrative expenses (SG&A). We will strive to improve efficiency with selling expenses in Japan while accelerating overseas investment, and thus we will keep our current SG&A ratio unchanged from previous year. Lastly, we plan to raise the operating margin to 11.8%, up 0.4 of a percentage point year on year.

We ask for your continued support of our business operations.

Shuji Ito

President & COO, Representative Director

Our Domestic Operations

The Secret of Calbee's Strength

Calbee's domestic business enjoys continuously robust sales growth that exceeds market growth. In addition to expanding sales, the Company improved domestic profitability by increasing capacity utilization and production efficiency and stepping up cost reduction efforts. In sum, the domestic business is a core operation bolstering Calbee's organic growth. To discover the secrets of the Company's strength, we hear from Calbee's Executive Vice President, Makoto Ehara, as well as three key product managers.

Snacks

Cereals

Compound Annual Growth Rates (CAGR) FY2011- FY2016 in Domestic Market

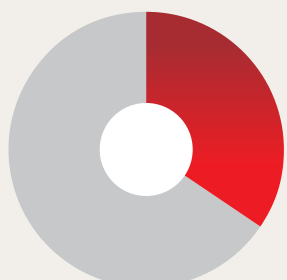
	Calbee	Market
Snacks	6%	Snack market* 1%
Cereals	35%	Cereal market** 16%

* Source: All Nippon Kashi Association 2010-2015

** Source: Japan Snack Cereal Food Association 2010-2015

Calbee's Share of the Domestic Snack Food and Cereal Market

No.1
53.2%



No.1
34.5%

Source: Intage SRI based on sales (nationwide, all retail formats) April 2015 - March 2016
Comparison period: April 2014 - March 2016
Snack market share: Total of Calbee and Japan Frito-Lay

Makoto Ehara
Executive Vice President

We have built a solid product safety track record that now constitutes a distinguishing brand strength of Calbee. However, because snack foods tend to be discretionary purchases, we must keep being particular about deliciousness and quality. In 2015, we decided to recall some products that were somewhat inferior in texture despite meeting our product quality standards. The recall demonstrated our **endless pursuit of product quality**, even for such a subtle factor as texture. The decision was considered critical to protect the Calbee brand.

Compared with overseas markets, there are more snack flavor variations available in Japan. Some critics regard so many variations as disadvantageous to profitability. But we believe our customers would not enjoy seeing shelves filled only with regular items. Accordingly, we pursue the optimal balance between securing profitability as a manufacturer and providing customers with the **sheer fun of choosing their snacks from a broad lineup**.

Every 10 years or so, Calbee releases a novel product featuring ingredients that set it apart. This is backed by our product development, which **centers on utilizing the benefits of natural ingredients**. Calbee's long-sellers are the result of persistent development with an eye to customer benefit, even those that were not an immediate hit. We continue to develop products in line with our aspiration to deliver delicious food to customers while maintaining **an optimal balance between agility and tenaciousness**.

Yumiko Aboshi
Manager, *FRUGRA* Division,
Marketing Group

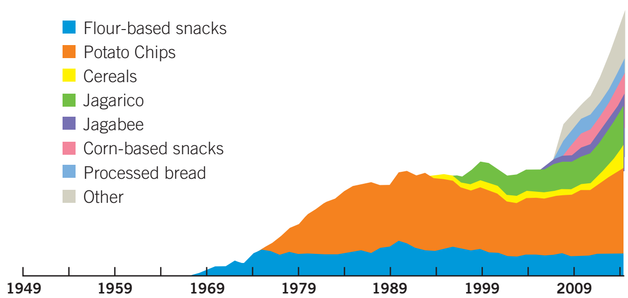
Variety Selection → **Cultivation** → **Storage** → **Manufacturing** → **Marketing**

Thoroughly Pursuing Technological Advancement and Quality Control in Every Process

Calbee boasts a **variety of key brands** that bolster its strength. Snack culture in Japan is uniquely refined, with snacks often presented as exquisite foods to be enjoyed not only for their taste but also for texture, appearance and package design. Although snacks are generally thought of as teatime treats, in fact consumers eat snacks at all sorts of hours in widely varying circumstances. Accordingly, our brands are meticulously segmented to best satisfy customer needs. Going forward, our domestic snack business can **continue to grow by astutely probing and addressing customer needs**.

Yuko Kawase
Manager, Snack Division,
Marketing Group

Sales by Product Group



Our distinguishing strength is our **robust lineup of long sellers**. We maintain a constant stream of new products and continually work to further harness the blessings of nature. The variety of flavors we offer is also impressive. Three to four flavor variations are available for every regular item on store shelves. Our time-limited products feature seasonally evocative flavors such as plums in spring. It is characteristically Japanese to acknowledge the seasonal cycle through specific flavors. We continually **introduce new flavors to increase brand recognition**.

Naoko Tsuchiya
Manager, Potato Chips Division,
Marketing Group

Initiatives in Japan

Upholding the twin pillars of innovation and cost reduction, Calbee aims to secure an unequalled domestic market share. Having positioned sales expansion in the snack food and cereal categories as a growth driver, we will continuously strive to reap greater profits from the domestic market, setting the operating margin target at 15%.

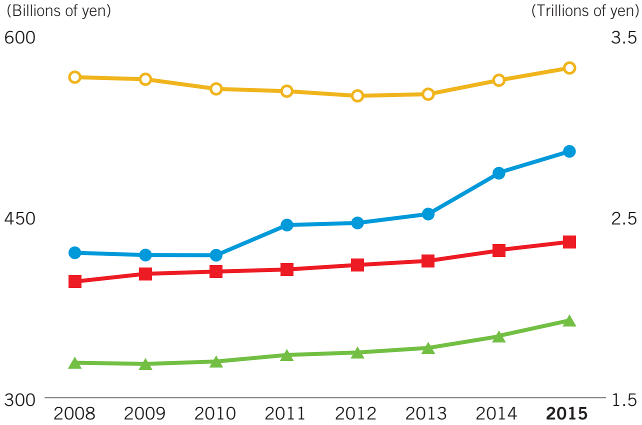
Market Conditions

- Growth of the domestic snack food market is stagnant
- The domestic cereal market boasts significant potential for future growth

In calendar 2015, the domestic confectionery market saw 2.3% year-on-year overall growth in value to ¥3.3 trillion. The snack food market, our main field of operations, grew 1.7% to ¥429 billion. Although considerable market growth is not expected going forward, we are striving to increase our presence by discovering unmet needs and introducing new products.

Meanwhile, the cereal market continued to see robust growth in value, rising 25.8% year on year to ¥53.7 billion, with *Frugra* serving as the chief growth driver. On the back of rising consumer preferences for health-conscious products, we anticipate significant growth in this category.

Confectionery Market in Japan



Snack foods (left scale) Chocolate (left scale) Rice Foods (left scale)
Confectionery retail sales (right scale)
Source: All Nippon Kashi association

TARGET

Share of the Japanese
cereal market

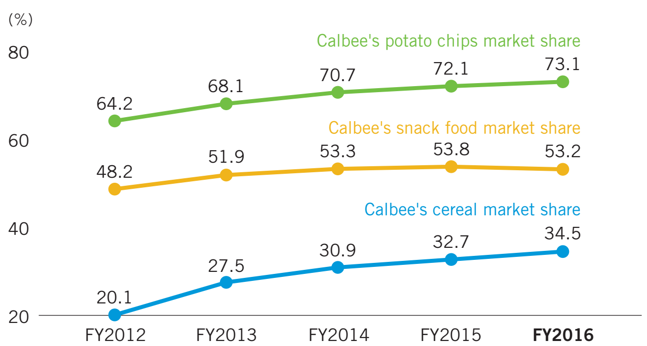
50%

Calbee's Presence

- Further solidify Calbee's advantageous position in the potato chips market
- *Frugra* has been increasing its share in the growing cereal market in Japan.

In fiscal 2016, Calbee captured a 53.2% share of the domestic snack food market, securing its position as the market leader. In particular, we captured a dominating 73.1% share of the potato chips market, our key area of business. Moreover, we command 57.0% and 20.6% shares of the flour-based and corn-based snack markets, respectively, as well as a 34.5% share of the domestic cereal market. In sum, Calbee boasts the top shares in the aforementioned multiple market categories.

Calbee's Market Position



Notes:
1. Source: INTAGE SRI (nationwide, all retail formats), Base: sales value, April 2011 – March 2016
2. Snack food market share is the total for Calbee, Inc. and Japan Frito-Lay Ltd.
3. In 2015, the scope of the snack food market was redefined. Accordingly, figures for preceding years have been recalculated.
4. "Year" notation is fiscal years (April to March) for Calbee, Inc.

Securing a Greater Domestic Market Share

Snacks

- **Constantly introducing new products and flavors**
- **Strengthening the marketing of hit products by improving production capacity and implementing effective promotional activities**

We will further expand the domestic business by increasing production capacity for hit products, introducing new products and optimizing production lines.

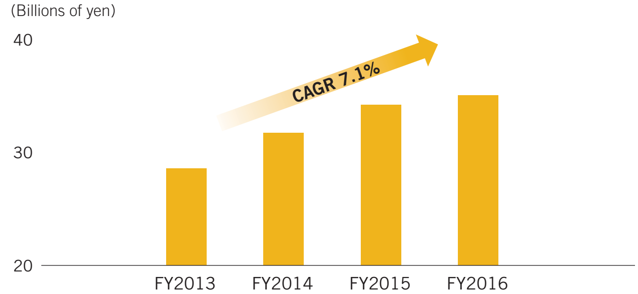
In August 2016, we began marketing fabricated potato chips under the brand name *Potato Chips Crisps*. Looking ahead, we will constantly introduce new products to stimulate market demand.

In the face of an ongoing, nationwide supply shortage of *Jagarico*, we decided to commission its manufacture to the Japan Agricultural Cooperatives (JA) from September 2016, with the aim of boosting production volume. On the other hand, we will streamline our current two-factory potato chips production system in Hokkaido Prefecture, which consists of our own factory and a JA-run factory, as it has excess production capacity. We will consolidate all potato chips production into our own factory, thereby optimizing our supply structure.

***Jagarico* Production Reform**

***Jagarico* Sales**

(Billions of yen)



Securing Greater Profits in Japan

- **Undertaking an ongoing and exhaustive reduction in the manufacturing cost ratio**
- **Optimizing sales promotion expenses**

In fiscal 2016, we posted a record-high operating margin of 11.4%. Previously, our focus was on increasing sales and profit by improving domestic factory utilization and production efficiency. This policy helped us lower the ratio of fixed costs. At the same time, we actively invested in promotional campaigns while leveraging the improved capacity utilization ratio to reduce sales prices. Thanks to these efforts, our already large share of the domestic market grew even larger. However, since we have little room for improvement in domestic factory utilization, we will strive to expand our production capacity and

Cereals

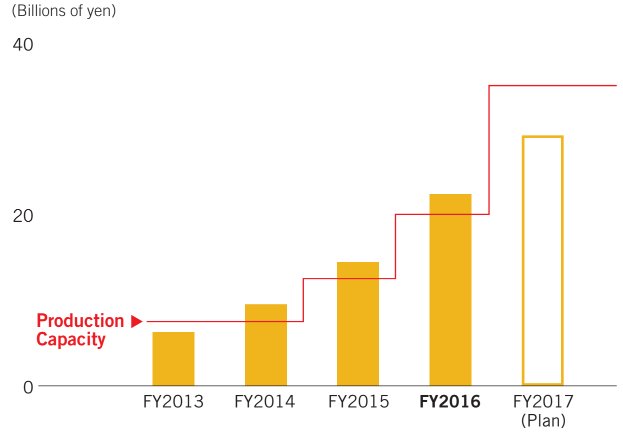
- **Expanding recognition that *Frugra* is "hassle free," "high fiber" and " low-sodium"**
- **Enhanced product lineup**

In 2016, *Frugra* marks the 25th anniversary of its release. Over the past six years, the CAGR for our cereal products, including *Frugra,* averaged 35% thanks to burgeoning sales growth at more than twice the pace of the domestic cereal market.

One of our hit products, *Frugra* is seeing sustained growth due to its ability to satisfy consumer needs for health-conscious breakfast staples. Going forward, we will work to increase market recognition of *Frugra* as a health conscious breakfast, thereby boosting its sales.

Due to a high capacity utilization ratio, *Frugra* production was at first limited to a few regular products. With the launch of a new factory in April 2016, however, we significantly expanded our production capacity, facilitating the manufacture of ¥35 billion in *Frugra* products per year. In addition to increasing the production volume of regular offerings, we will enhance *Frugra* product lineup to capture an even broader customer base.

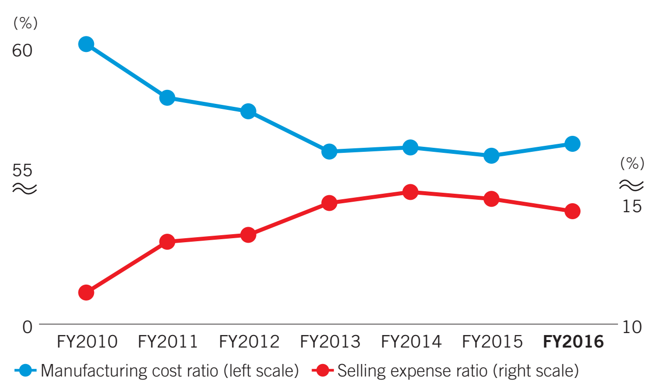
Calbee's *Frugra* Sales and Production Capacity



enhance the efficiency of existing production lines while stepping up cost reduction efforts. In these ways, we will decrease our manufacturing cost ratio.

Although we have been abstaining from cutting selling, general and administrative (SG&A) expenses, we will endeavor to enhance the efficiency of selling expenses, which constitute a major SG&A expense component. In these ways, we will raise our operating margin to 15% in the next several years.

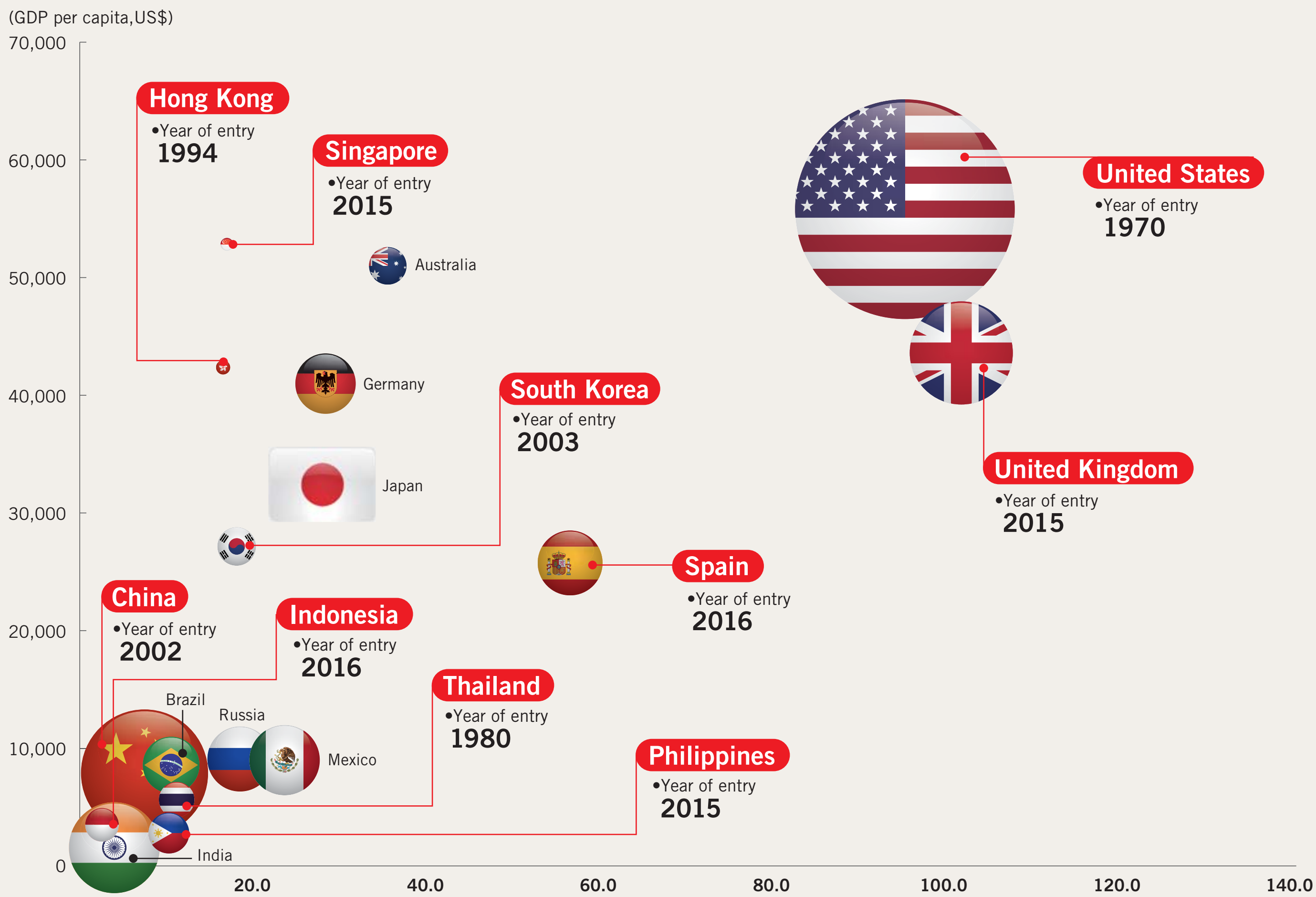
Manufacturing Cost Ratio and Selling Expense Ratio



Our Overseas Operations

Calbee's Most Important Growth Pillar

Overseas operations are Calbee's primary growth driver. We are expanding our operations with unique products of world-leading quality in the key regions of North America, China, Southeast Asia, and Western Europe. In this special feature, we hear from Keiei Sho, an Executive Officer and the General Manager of the Overseas Business Division, about Calbee's current strategies for and the outlook of global expansion.



*Snack: Savory snacks
Source: IMF, Canadian, All Nippon Kashi Association

Global Expansion Strategy – What Makes Us Outstanding

Nothing more perfectly describes Calbee's current global expansion strategy than the phrase "swift attack." Our global business has expanded rapidly since 2009. In 1970 we entered the North American market, following this with entry into Thailand and Hong Kong, but our pace of growth was slower until 2008. In 2009, a new management team decided to position global expansion as a priority issue, initiating a three-phase global expansion plan.

Strategic Markets

Phase I	North America, China, South Korea, Thailand, Taiwan, Hong Kong
Phase II	Western Europe (U.K., Spain), Indonesia, Russia, Australia, Malaysia, Vietnam, etc.
Phase III	India, Brazil

Note: Red text indicates countries / regions where Calbee has secured footholds.

We determine our priority targets based on market size, growth potential, and receptiveness to Calbee products. In line with our strong emphasis on "swiftness," we choose to form partnerships as our primary modus operandi for expansion in Asia, while in Europe and the United States, where a sales channel infrastructure is already established, we follow a direct expansion model like that used for our entry into the U.K. market.

Overseas Expansion Best Practices

Our North American and South Korean businesses showcase best practices for our overseas business operations.

In North America, *Harvest Snaps*, now a best-selling series, was first marketed around 15 years ago. Favorably accepted, the product was placed in the "Better-for-You" category, which lies between regular snacks and health foods. To spur popularity, we placed the product amid fresh produce displays while adopting a new package design featuring large images of the primary vegetable content. A recent surge in health-consciousness is serving as a tailwind.

In South Korea, for a long time the snack food market was a rather conventional array of products undifferentiated with regard to flavor. We found this an opportunity and decided to strive to stimulate potential demand by providing consumers the sheer fun of choosing a snack from a wide variety of options, which is a key competency of Calbee, which offers nearly 200 flavor variations every year. Thus, *Honey Butter Chips* was introduced. In spite of our spending the least possible amount on advertising, it became a mega hit social phenomenon, in large part due to favorable mentions on social media by a number of Korean celebrities. The astonishing potential of social networks as an advertising medium was one of the best lessons we took away from our South Korean experience.

In North America, we launched a new factory in 2015, the existing factory having decreased its capacity utilization after prolonged over-utilization and a decline in overall supply chain management. We have dispatched a senior management team to North America to address related issues. Aiming for ¥20 billion in sales, we are committed to strengthening organizational governance and supply chain management.

Our domestic business operations maintain high quality backed up by phenomenally excellent and seasoned engineers. With the support of these engineers, we are rolling out Japanese quality standards overseas. However, since such engineering resources are limited, we need to balance geographical expansion and quality maintenance. Looking ahead, we will shift our focus to strengthening the technological capabilities of existing overseas facilities.

Toward an Overseas Sales Ratio of 30%

In North America, we will begin developing new products in the "Better-for-You" snack food category in the next three years. As for China, we are currently formulating revitalization plans covering the selection of products, production costs, target regions, and local partners. Given the stable business results of the e-commerce business started in 2015, we believe that the Calbee brand has the potential to become popular in China. Elsewhere in Asia, we entered the Indonesian market in 2016, taking on the major challenge of reaching the broadest possible local consumer base. In Europe, our U.K. operations have made a smooth start. We have also launched operations in Spain and are endeavoring to expand local business.

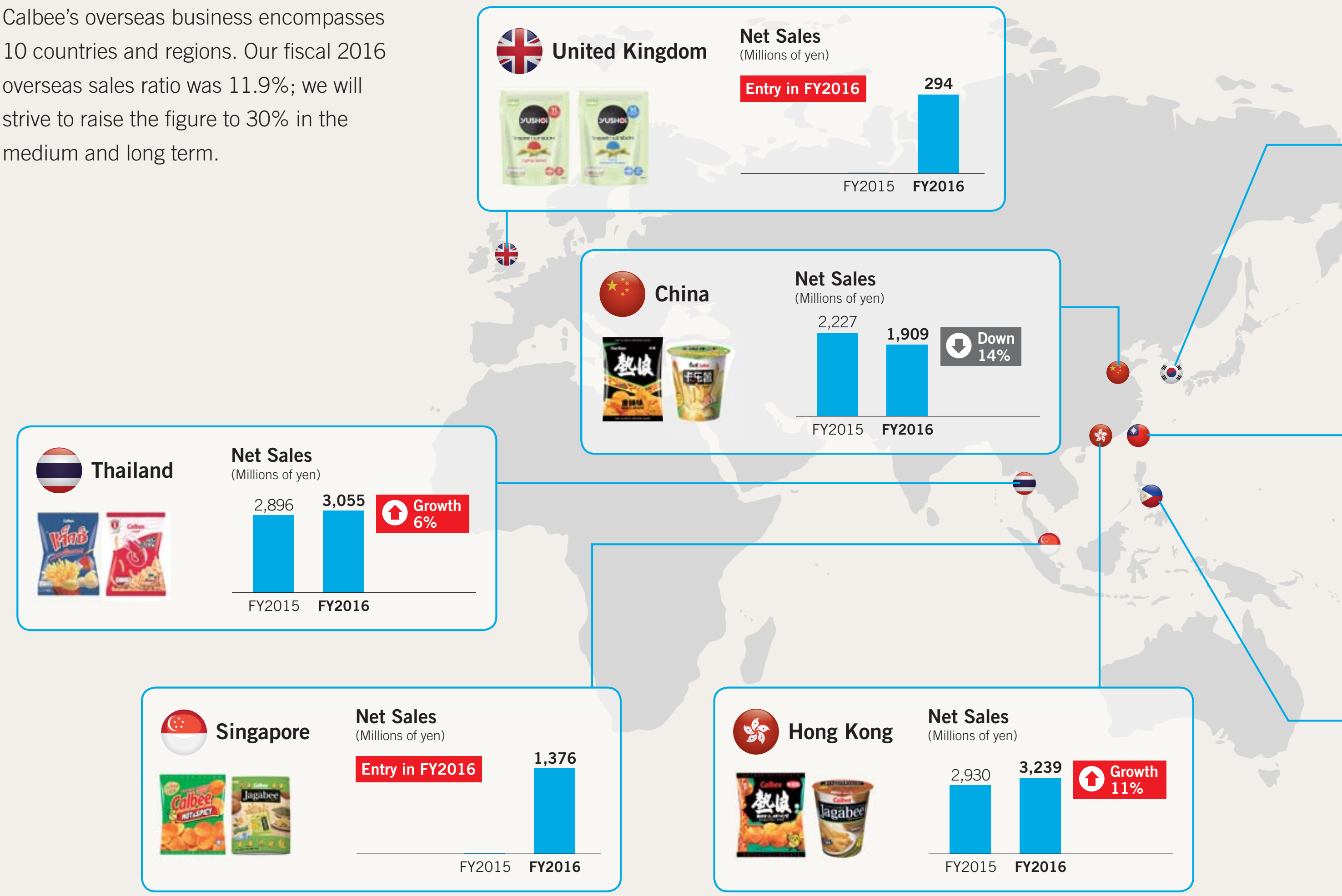
My foremost mission is to find a way to raise our overseas sales ratio to 30% in five years. As we move forward, the efforts I have described here can be equated with establishing a solid base camp preparatory to attacking the summit. Over the next two years, we will draw on our experience to build the next camp and map out the best route to the heights.

Keiei Sho
Executive Officer,
General Manager,
Overseas Business Division

Overseas Initiatives

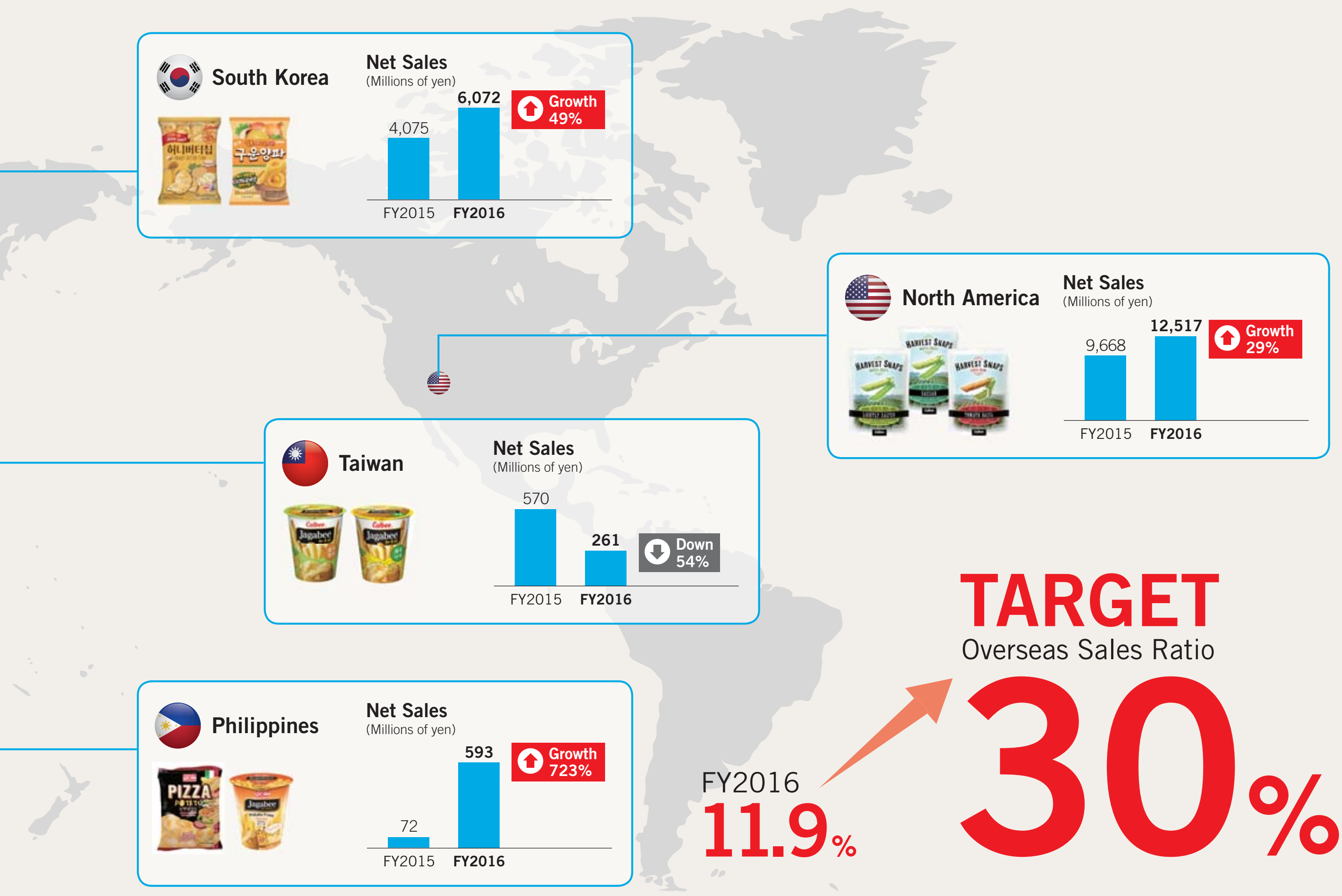
FY2016 Performance Highlights

Calbee's overseas business encompasses 10 countries and regions. Our fiscal 2016 overseas sales ratio was 11.9%; we will strive to raise the figure to 30% in the medium and long term.

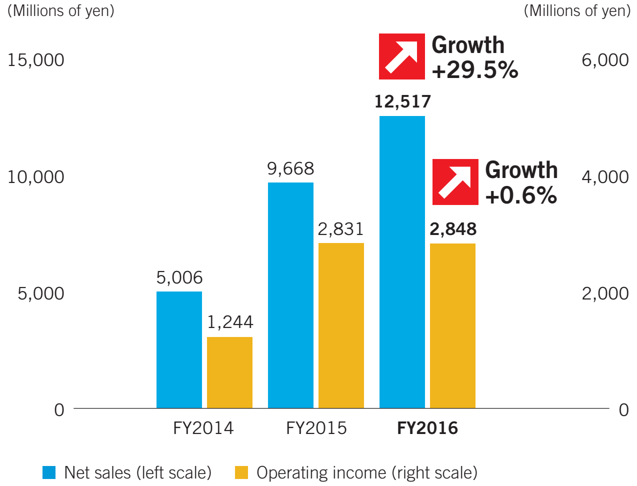


North America

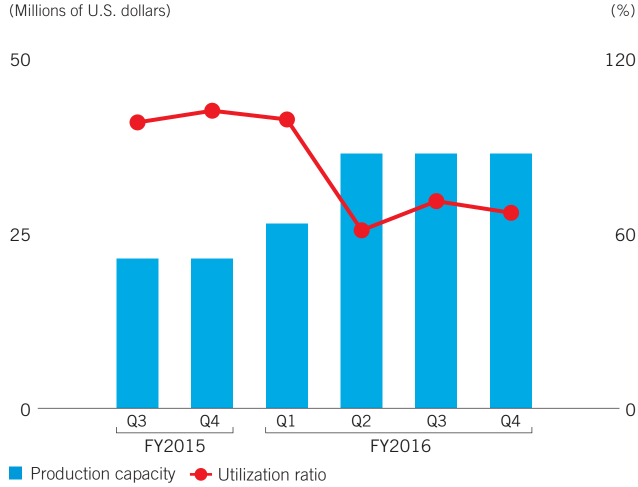
In calendar 2015, the value of the North American snack food market, the world's largest market, amounted to US$30 billion. Calbee's net sales in North America in fiscal 2016 totaled ¥12,517 million, a year-on-year increase of 29.5%. Over the past eight years, the U.S. snack food market has seen a CAGR of 3.3%. On the back of ongoing market growth, *Harvest Snaps*, sold under the Calbee brand, are the current growth driver for our North American business. Launched in 1999, this long-selling product line has become especially popular with health-conscious consumers. In June 2015, we established a new factory in Senatobia, Mississippi, thereby boosting our *Harvest Snaps* production capacity 1.6 times. However, our two-factory operation was not very effective, resulting in a fall in the capacity utilization ratio that has led to the slowdown of growth in operating income. Efforts are steadily under way to reform the management structure and supply chain. In fiscal 2017, we will introduce new products in the *Harvest Snaps* series while implementing active promotional campaigns, thereby getting the North American business back on the growth path.



Net Sales / Operating Income



Harvest Snaps Production Capacity and Utilization Ratio

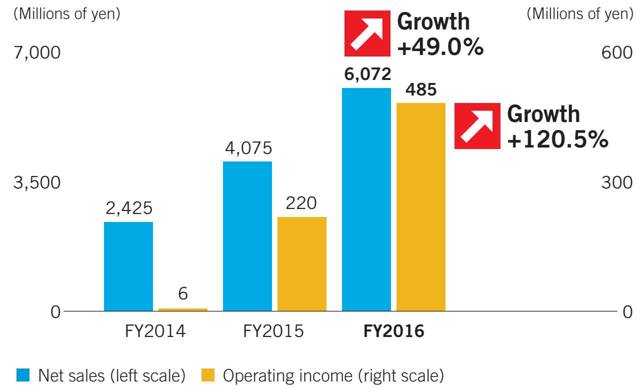


Overseas Initiatives

South Korea

In 2011, Calbee and HAITAI Confectionery & Foods Co., Ltd. entered into a joint venture agreement, renewing their previous licensing agreement with the aim of reinforcing the joint Calbee and HAITAI brand. *Honey Butter Chips*, launched in September 2014, became a blockbuster and contributed to substantial increases in sales and profits. Regional sales for fiscal 2016 grew 49.0% year on year to ¥6,072 million, while operating income rose 120.4% year on year to ¥485 million. In South Korea, it is anticipated that the market for potato-based snacks will grow due to the abolition of part of customs duties imposed on imported potato products. As we launched a new factory in May 2016, our production capacity in this region saw a twofold increase. Harnessing the expanded production capacity, plans call for releasing four to five new potato chips flavors from August to December 2016. With *Honey Butter Chips* serving as the key product line, we will solidify the position of our potato chips while stepping up initiatives to drive the growth of the South Korean market.

Net Sales / Operating Income



China

Having dissolved a joint venture agreement with Master Kong Instant Foods Investment (China) Co., Ltd., the Company excluded Calbee (Hangzhou) Foods Co., Ltd., whose performance has been sluggish, from the scope of its consolidation in October 2015. On the other hand, CFSS Co., Ltd., a joint venture with Four Seas Mercantile Holdings Ltd., in Hong Kong, continues to operate, mainly in Guangdong Province. Efforts are now under way to formulate strategies for re-entering the entire Chinese market.

Taiwan

In Taiwan, we decided to dissolve Calbee (Taipei) Foods Co., Ltd., a joint venture with Wei Chuan Foods Corporation in March 2016, due to the former's ongoing decline in sales and profit. This decision is part of our effort to overhaul our production and sales structure for this country as we prepare for a re-entry in the Taiwanese market.

Entries into New Markets

United Kingdom

In June 2015, Calbee (UK) Ltd., a wholly owned subsidiary of the Company, initiated operations at its factory in the United Kingdom, the largest snack food market in Europe. The subsidiary started out with the marketing of *YUSHOi* (sold under the name *Harvest Snaps* in North America). We are striving to secure key outlets through major retailers, with plans calling for implementing active promotional campaigns to boost sales in fiscal 2017 and beyond. To realize profitability at the earliest possible date, efforts are now under way to improve production efficiency while pursuing cost reductions.

Spain

Following our entry into the United Kingdom, we entered into the Spanish market, with a local subsidiary commencing its operations in April 2016. We initiated sales of *Snapea Crisps* (*Harvest Snaps*), a bean-based snack manufactured in the U.K.

Indonesia

PT. Calbee-Wings Food, a joint venture between Calbee, PT. Mitrajaya Ekaprana—a subsidiary of the Wings Group that boasts brand strength and sales capability in Indonesia—and ITOCHU Corporation, brought its factory online in August 2016. In Indonesia, where traditional trade through small shops and marketplaces constitutes a key retail outlet, this joint venture will manufacture products that will be marketed by the Wing Group through its local sales network. In fiscal 2017, this joint venture will release five products under two brand names.

Corporate Governance System

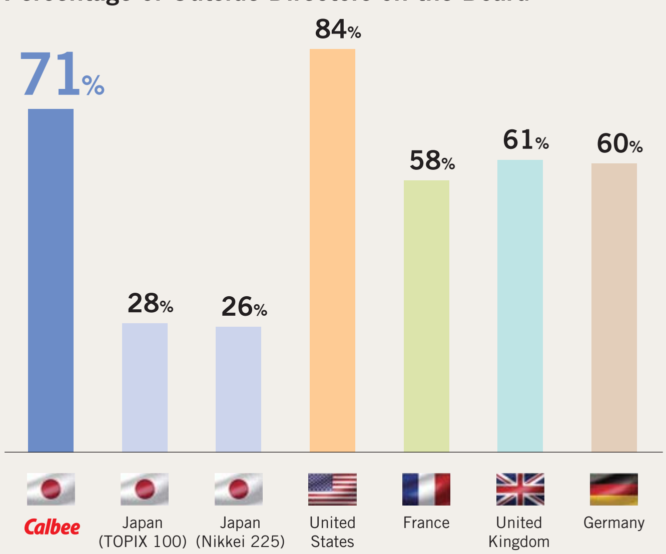
Basic Approach

Calbee has a vision of itself as a corporate group that is respected, admired and loved by its customers, suppliers and distributors, its employees and their families, communities, and its shareholders. This vision reflects a belief that the interests of our shareholders are best served by focusing on our valued customers and business partners. We also believe that reinforcing and enhancing corporate governance is a key to building and maintaining favorable relationships with all stakeholders, while increasing corporate value. In line with this vision, we have enhanced management transparency and strengthened internal control and compliance system.

Strong Corporate Discipline

Since launching the new management framework in 2009, we have enforced a corporate governance structure predicated on superior transparency, independence and diversity. Specifically, this move was intended to further strengthen the functions of the Board of Directors, so that it may more effectively promote innovation and new value creation.
We decreased the number of directors from 11 to seven while appointing five highly independent outside directors, who thus make up the majority. Moreover, the Board members have been chosen from diverse backgrounds and a variety of industries, including two female directors and one non-Japanese director, attesting to our intention to ensure a solid management structure informed by a broader range of perspectives and independent standpoints in its decision making.

Percentage of Outside Directors on the Board



Source: 2015 Japan Board Index, Spencer Stuart
*Figures for countries other than Japan represent average percentages of independent outside directors.

Calbee's Corporate Governance at a Glance

Board of Directors	
Number of directors*	Up to 13
Chairman of the Board of Directors	CEO
Number of directors (of which, outside directors)	7 (5)
Term of office for directors*	1 year
Audit & Supervisory Board members	
Number of Audit & Supervisory Board members*	Up to 4
Number of Audit & Supervisory Board members (of which, outside Audit & Supervisory Board members)	3 (2)
Term of office for Audit & Supervisory Board members*	4 years
Rights plan and other measures to protect against acquisition	None

*Stipulated by the Articles of Incorporation

Calbee's Changing Corporate Governance System

2001 Separation

- Introduced the executive officer system
- Appointed outside directors
- Separated execution and supervision functions

2009 Supervision / Diversity

- Highly independent outside directors comprise the majority
- Reduced in-house directors from nine to two
- Increased outside directors from two to five
- Appointed first non-Japanese director

2011 Ethics and Risk Management

- Established Ethics and Risk Management Advisory Board including external experts

2012 Transparency

- Established the Advisory Board for nominations and remuneration including outside directors

2013 Accountability / Diversity

- The term for director appointments was changed from 2 years to 1 year
- Appointed 3 female Executive Officers (As of June 2016, two female directors and six female executive officers were appointed.)

2015 Disclosure

- Incorporated Calbee's corporate governance system, policy and procedures into "Calbee's Corporate Governance Code" for disclosure

A Message from an Outside Director

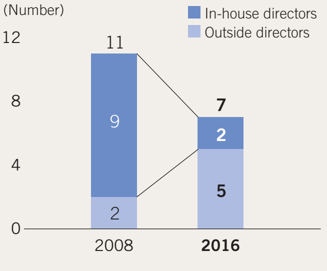
Takashi Kawamura
Outside Director

To Further Strengthen Calbee's Corporate Governance

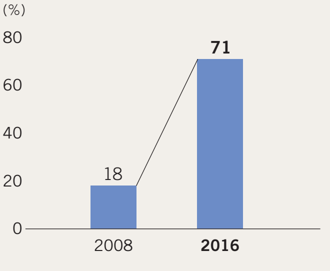
I believe that the evaluation of corporate governance must be based on the corporation's business results and corporate value, not the structure of its governance system. The primary objective of corporate governance is to monitor the corporation and thereby ensure that the value created through its business activities is returned to all stakeholders. Applying this scale of evaluation, I conclude that because Calbee has been enjoying stable growth in its operating results while increasing annual cash dividends, the Company's governance system is worthy of praise.

Looking ahead, the Company's Board of Directors will focus on such issues as overarching management strategies, including those for global expansion, to secure greater corporate value. At the same time, we will exhaustively review our succession plans, human resource development, health management and environmental management. Drawing on my experience as a corporate manager at a global company, I will help Calbee's management, breaking down unnecessary internal restraints and taking a look at things from an outside perspective. By doing so, I will facilitate active discussion at Board of Directors meetings.

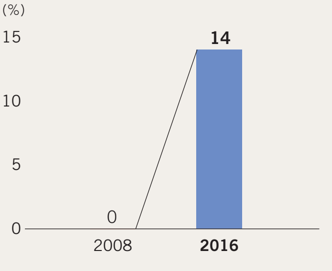
Number of Directors



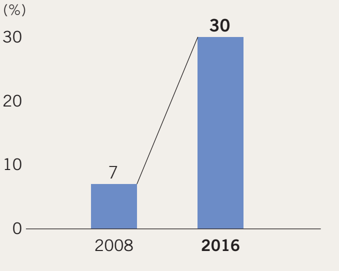
Percentage of Outside Directors



Percentage of Non-Japanese Directors



Ratio of Female Directors and Audit & Supervisory Board Members



Calbee's Corporate Governance Code

In conjunction with the enactment of Japan's Corporate Governance Code, which applies to all domestic listed companies, Calbee has established its own Corporate Governance Code to systematically lay out its concepts of corporate governance in a governance system that best reflects its vision The abstract principles of Calbee's Corporate Governance Code are shown below. For details, please visit the following website.
https://www.calbee.com/ir/governance.php

Principle 1 Securing the Rights and Equal Treatment of Shareholders
The Company will take appropriate measures to secure shareholder rights and equality among said shareholders, thereby building and maintaining favorable relationships with its shareholders.

Principle 2 Appropriate Cooperation with Stakeholders Other Than Shareholders
In line with the Calbee Group's vision, the Company endeavors to maintain an appropriate cooperative relationship with all stakeholders. To establish a corporate culture consistent with this vision, top management pays annual visits to every business offices and engages in dialogue with employees through town hall meetings aimed at instilling a commitment to realizing said vision.

Principle 3 Ensuring Appropriate Information Disclosure and Transparency
The Company seeks to remain a trustworthy company and to ensure that its stakeholders are provided with straightforward, unbiased data on which to base their understanding and evaluation of its activities and performance. Accordingly, the Company maintains information disclosure in compliance with laws and regulations as well as its IR policies. Furthermore, the Company discloses, as proactively and on as continual a basis as possible, information that is not subject to laws and regulations whenever it is deemed that said information may have a bearing on the investment decisions of shareholders and investors.

Principle 4 Responsibilities of the Board
To fulfill the Company's stewardship responsibilities and ensure its accountability to shareholders, the Board of Directors strives to drive sustainable business growth and seeks to enhance corporate value while maintaining a disciplined management structure through the monitoring and supervision of directors' business execution. In addition to the Board of Directors, the Company has established the Audit & Supervisory Board, every member of which is responsible for auditing directors' business execution. A solid and effective auditing structure is supported by the Audit & Supervisory Board, which operates in a highly independent manner in collaboration with the external accounting auditors.

Principle 5 Dialogue with Shareholders
The Company values maintaining dialogue with its shareholders and investors who seek to fulfill their stewardship responsibilities from the medium- and long-term perspectives. Accordingly, the Company actively engages in dialogue with them within reasonable limits.

Corporate Governance System

Calbee has a corporate governance system supported by the Board of Directors, with a membership that consists mainly of outside directors with a high degree of independence, as well as the Audit & Supervisory Board, with a membership that engages in the monitoring and supervision of management. Moreover, having introduced an executive officer system, the Company has ensured the separation of business execution and supervisory functions, with the aim of enhancing management transparency, clarifying the responsibilities of management, accelerating decision making and strengthening management oversight.

Board of Directors

The Board of Directors is comprised of two in-house directors and five highly independent outside directors for a total of seven directors. One of the Company's seven directors is non-Japanese, and two of the directors are women, thus ensuring diversity.

As a general rule, the Board meets once every month. In addition to discussing resolutions on matters stipulated by law, the Board formulates and makes decisions on key management policies and strategies while supervising business execution. In doing so, it leverages members' diverse standpoints and objective perspectives to ensure business growth and greater corporate value over the long term. In particular, outside directors have been chosen from a variety of fields, including foodstuffs, industrial manufacturing, consumer goods, academia and journalism, in order to maintain a balanced composition and help ensure a solid management structure.

FY2016 Outside Directors' Board of Directors Attendance Record

Outside Directors	Attendance ratio
Yuzaburo Mogi	92%
Takashi Kawamura	100%
Takahisa Takahara	90%
Atsuko Fukushima	90%

Note: Ms. Anindita Mukherjee, who retired from the position of director on October 1, 2015, attended three of the four Board of Directors meetings held during her term of office.

Advisory Board

Discussions and proposals concerning nominations and remuneration of directors and senior executive officers are the responsibility of the Advisory Board. The board, with outside directors constituting the majority of members, meets four times a year in principle.

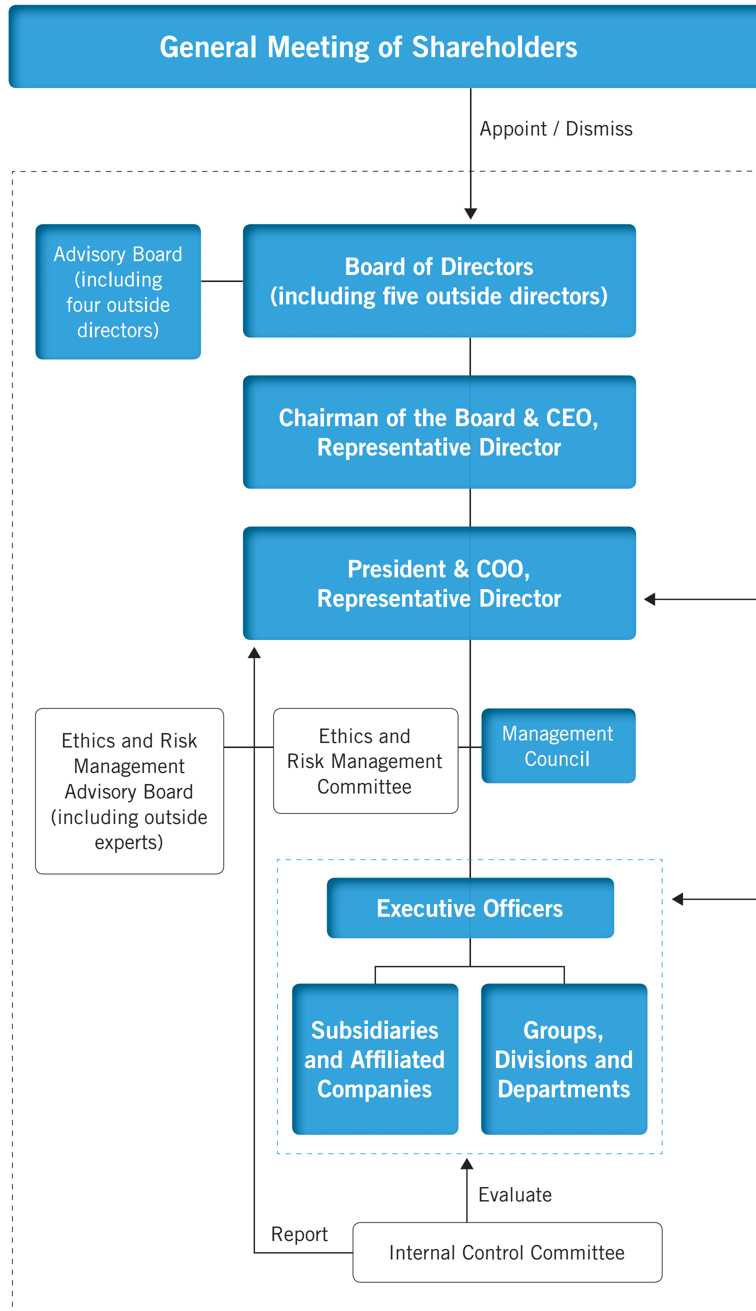
Executive Officers

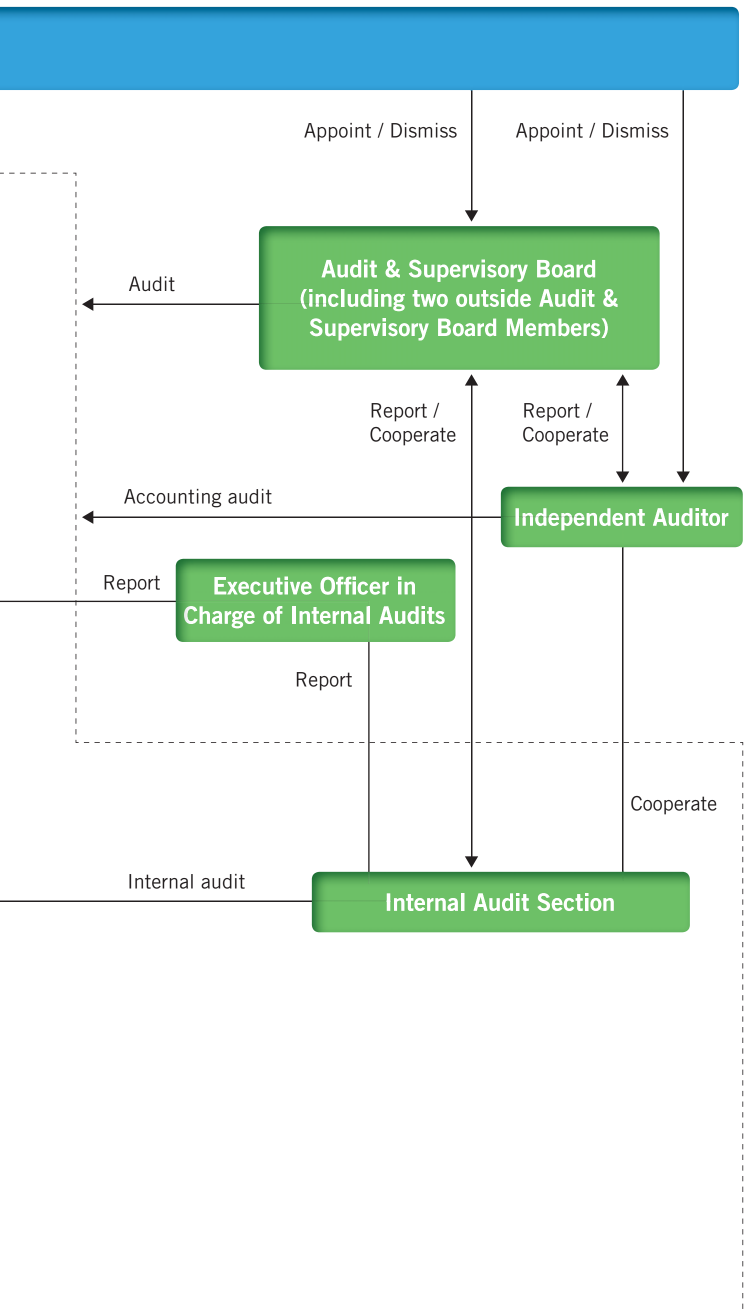
Business execution is carried out by 23 executive officers, who have been given authority to manage specific organizations within the Group. This devolution of authority is part of efforts to create a management system that speeds up decision-making and clarifies business execution responsibility. Among the executive officers, senior executive officers are entrusted with especially important and wide-ranging duties and do not hold employee status. To promote rapid and appropriate decision-making by the directors, important business matters are discussed in the Management Council, with senior executive officers and presidents from key Group subsidiaries serving as council members.

Audit & Supervisory System

The Audit & Supervisory Board consists of three Audit & Supervisory Board members, including two outside Audit & Supervisory Board members (one of whom is a woman). Each of the Audit & Supervisory Board members brings a high level of expertise and knowledge to their role of monitoring, auditing and assessing the management of Calbee. Not only does the Audit & Supervisory Board perform audits from the perspective of legal compliance, it also conducts audits in terms of appropriateness of management.

As part of this auditing role, the Audit & Supervisory Board members 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 Audit & Supervisory Board members also conduct systematic audits at Group companies in coordination with the Audit & Supervisory Board members at each company and Calbee's Internal Audit Section.





FY2016 Outside Audit & Supervisory Board Members' Attendance Record

Outside Audit & Supervisory Board Members	Attendance ratio	
	Board of Directors	Audit & Supervisory Board
Tadashi Ishida	100%	100%
Tomomi Yatsu*	100%	100%
Akira Kondoh*	100%	100%

* Ms. Yatsu and Mr. Kondoh retired on June 22, 2016.

In addition, the Audit & Supervisory Board members review annual accounting audit plans submitted by the external accounting auditors and receive reports on such audits from them in and are present at audits they conduct. In these ways, the Audit & Supervisory Board members maintain close mutual collaboration, engaging in periodic discussions and information exchanges with the external accounting auditors.

For internal audits, we have an Internal Audit Section, which has a dedicated staff of six and is responsible for conducting internal audits of the whole Group in accordance with annual audit plans. The Internal Audit Section regularly exchanges opinions with Audit & Supervisory Board members about the results of internal audits.

Executive Remuneration

The Company's executive remuneration system is highly transparent and incorporates objective perspectives. Specifically, it is decided upon after being discussed by the Advisory Board. Approximately half of the remuneration is accounted for by a performance-based variable portion, which is designed to reflect shareholders' interest in its amount from medium- and long-term perspectives.

To enhance management transparency, the Company pays remuneration for directors after discussion by the Advisory Board, obtaining a resolution from the Board of Directors and the approval of the General Meeting of Shareholders. The Company pays remuneration for senior executive officers after discussion by the Advisory Board and obtaining a resolution from the Board of Directors.

Remuneration for Calbee directors and executive officers comprises fixed 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 and a performance-linked stock compensation plan called the Board Incentive Plan (BIP) Trust.

In addition, outside directors and part-time Audit & Supervisory Board members receive fixed basic remuneration due to the importance of their supervisory function from an independent perspective.

Remuneration System for Calbee Directors, Audit & Advisory Board Members and Other Senior Management Personnel

Fixed proportion: Approx. 50%	
Basic remuneration*1	Fixed-amount cash remuneration paid for the recipient's executive duties1
Variable portion: Approx. 50%	
Bonus	Cash remuneration in an amount linked to the Company's business results during the fiscal year*2
Retirement benefits*2	Cash remuneration paid at the time of the recipient's retirement from the position in an amount linked to the Company's business results during the period of appointment
Stock options*3	Stock options provided in accordance with the Company's business results*4
Performance-based stock compensation*4	Cash remuneration paid at the time of recipient's retirement from the position in an amount determined in accordance with annual performance targets achieved during the period of appointment*3

Notes:
*1. The amount of basic remuneration for directors is within total annual remuneration approved by the General Meeting of Shareholders.
*2. The upper limit for total remuneration amount is set at 1.5% of consolidated ordinary income.
*3. The Company has not provided stock options since 2010.
*4. During the period spanning from fiscal 2015 to 2017, the Company pays bonuses only when annual performance targets for the fiscal year are met, with upper limit for total remuneration amount set at 1% of consolidated net income.

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	Performance-based stock compensation	Retirement benefits	
Directors (excluding outside directors)	209	110	—	66	—	33	2
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	34	30	—	—	—	4	1
Outside directors and Audit & Supervisory Board members	128	123	—	—	—	4	12

Total Remuneration Paid to Individual Directors

Name	Total remuneration (millions of yen)	Title	Total remuneration by type (millions of yen)				
			Basic remuneration	Stock options	Bonuses	Performance-based stock compensation	Retirement benefits
Akira Matsumoto	104	Chairman of the Board & CEO, Representative Director	55	—	33	—	16
Shuji Ito	104	President and COO, Representative Director	55	—	33	—	16

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

Compliance

Calbee considers compliance with the law and with social norms to be the supporting pillar of its business activities. We formulated Groupwide rules on compliance risk management and have since then strengthened our structure to ensure strict compliance under the initiative of the Ethics and Risk Management Committee.

The Ethics and Risk Management Committee, headed by the President & COO, promotes compliance and risk management activities throughout the entire Calbee Group. To complement activities conducted by this committee, Calbee has established the Ethics and Risk Management Advisory Board chaired by an outside expert and run by a total of six members, three of whom are external specialists. The board provides advice and proposals to 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 Resources & General Affairs Group, General Manager of Administration Division, and 3 external experts
Secretariat	Ethics and Risk Management Division
Meeting frequency	Once every month, in principle

Ethics and Risk Management Committee

Chairperson	President & COO
Members	General managers of Headquarters Divisions and Regional Business Divisions and presidents of subsidiaries
Secretariat	Ethics and Risk Management Division
Meeting frequency	Once every quarter, in principle

Risk Management

To address risk management, the Ethics and Risk Management Committee was set up to comprehensively and accurately identify and assess all risks that could have a major impact on the Group's operations in order to minimize any losses. The committee analyzes risks facing the Group and examines measures to mitigate any impact, maintains relevant regulations, and submits proposals to the Board of Directors when necessary. In particular, risk associated with product safety and raw material procurement is addressed by implementing preventive measures under the initiative of the Quality Assurance Headquarters and the Company is developing a structure capable of swiftly countering such risk whenever it materializes.

Calbee also formulates plans for minimizing damage and swiftly recovering business operations in the event of crisis situations that could have a major impact on management. These include action plans to deal with misconduct, product contamination, and the event of a major earthquake striking Tokyo.

Initiatives for IR Activities

Dialogues with Shareholders

Calbee values maintaining dialogues with its shareholders and investors who seek to fulfill their stewardship responsibilities from the medium and long-term perspectives. Accordingly, we actively engage in dialogues with them within reasonable limits. In addition, opinions and concerns voiced by shareholders and investors are periodically reported to the Board of Directors through the Investor Relations Group so that they are appropriately addressed.

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. It is also our policy to disclose, as proactively and constantly as possible, information that is not subject to laws and regulations whenever it is deemed that said information may have a bearing on such decisions. In addition, we utilize our Investor Relations (IR) website to publicize such financial information as earnings reports as well as earnings presentation materials and other IR materials.

Communication with Securities Analysts and Institutional Investors

Calbee holds earnings presentations every quarter. At the presentations, senior management explains the Company's future management plans and performance. In addition, we hold around 300 meetings with securities analysts and institutional investors in and outside of Japan each year. Calbee is also proactive in communicating with overseas institutional investors. In the year ended March 2016, we held meetings in Europe, North America, and Asia.

Driving Sustainable Growth through Health and Productivity Management

Nobue Ishii
Chief Healthcare Officer (CHO),
Chairperson, Healthcare Committee

Takashi Kawamura
Outside Director

To secure sustainable corporate growth, health and productivity management is as essential as diversity promotion. In fact, a mentally and physically sound workforce is key to forming a vibrant business organization that is conducive to innovation and capable of boosting corporate productivity and profitability.

Calbee established the Healthcare Committee in April 2016 and is poised to implement full-scale health and productivity management initiatives.

In this section, we hear from Mr. Takashi Kawamura, an outside director of Calbee, Inc., about the relationship between health management of our employees and sustainable corporate growth as well as related challenges Calbee is now tackling.

Ishii: In your view, what is the most important factor supporting sustainable corporate growth?

Kawamura: Hitachi, Ltd., where I formerly served as chairman, has integrated its personnel evaluation and management system on a global basis. Domestic employees are aware that most foreign managers complete their tasks by five o'clock and promptly go home. This situation is providing Japanese peers with a good insight into working styles and is raising their awareness of the need for change, including reduced overtime.

Sustainable corporate growth is dependent on employees who have high awareness of productivity and can act upon that awareness. Calbee has succeeded in changing its corporate culture to raise the proportion of female managers to more than 20%. It will have to do the same to enhance workforce productivity. To that end, top management should communicate its vision to each employee, gain their understanding of such vision, and encourage them to change their approach if necessary. If top management demonstrates its own commitment to doing so as well, employee awareness will be significantly enhanced.

Ishii: As for health management, **businesses are now being called upon to proactively take action to help employees maintain their health.**

Kawamura: First and foremost, **a healthy workforce is the foundation for all business operations and key to achieving corporate growth.** The company must actively offer assistance by, for example, sponsoring health checkups that use the latest technologies and providing detailed examination data, so that employees can act on any symptom before it develops into something serious and thus avoid contacting a disease. On the other hand, employees themselves must take responsibility for managing their lifestyles and take steps to improve their health if necessary.

Ishii: Mental health care of employees is becoming an important issue, too.

Kawamura: This issue is quite complicated. I think external specialists should be called in to address such issues, in addition to the Company taking steps. I expect Calbee to diligently carry out preventive measures to counter mental health issues.

Ishii: Mr. Kawamura, you've taken on a number of grave responsibilities to lead businesses. Do you have any personal tips on managing stress?

Kawamura: I often plan my vacations well in advance. This helps me to concentrate on the business at hand. Moreover, since I've become a corporate manager, I've been wearing a pedometer and walking a lot, and set a goal of 50 thousand steps a week. Physical exercise is very important in that enables me to sleep well. As a manager, I've set detailed KPI in phased manner to allow my staff to feel a sense of achievement when meeting each Key Performance Indicator (KPI).

Ishii: **Calbee has a corporate philosophy of contributing to healthy lifestyles. A healthy workforce leads to growth in corporate value.** With this in mind, we will support and encourage employees to pursue healthier, more affluent and fulfilling lives to ensure a constructive and vibrant working environment. Mr. Kawamura, thank you for sharing your views.

Corporate Social Responsibility

The Calbee Group's Basic Approach to CSR

Our corporate vision is to be respected, admired and loved by customers and suppliers, next by our employees and their families, then by the communities, and finally by our shareholders. We believe that our CSR approach must be designed to realize this vision.

At the same time, we recognize CSR activities as essential to securing sustainable corporate growth and, therefore, are committed to striving to benefit all of our stakeholders through these activities.

Materiality of Our CSR Activities: Priority Issues

1. **Ensuring food safety and security**
2. **Promoting diversity**
3. **Securing stable supply in collaboration with partners**
4. **Making contributions to local communities**
5. **Implementing solid compliance and risk management measures**
6. **Pursuing environment-friendly business operations**

Note: Please also refer to the Corporate Governance section (p.32) for details of our compliance and risk management measures.

Initiatives to Ensure Safety and Security

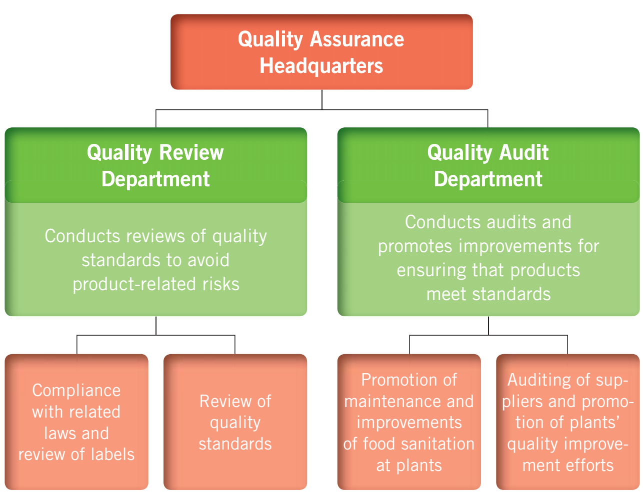
Calbee has embraced a policy of "pursuing higher quality based on the customer's perspective and delivering a constant stream of safe, reliable, delicious, and satisfying products at reasonable prices." In line with this policy, we are implementing a Companywide campaign to raise employee awareness of food safety. In addition, every department is engaged in active discussions regarding possible quality improvements based on feedback from customers. Meanwhile, each factory is implementing such ongoing initiatives as monitoring the effectiveness of measures intended to prevent major incidents affecting product quality while clarifying relevant rules.

Quality Assurance System

Calbee has its own quality assurance system in place, with the Quality Assurance Headquarters spearheading relevant activities. Under this system, the Quality Review Department is in charge of examining products with a focus on the safety of the raw materials used and conformance with standards as well as compliance with labeling regulations. Also, the Quality Audit Department is in charge of auditing and supporting improvements to production to ensure that all output is to standard. The headquarters regularly checks the effectiveness of the quality review and audit structures enforced by these two departments.

Furthermore, Calbee constantly works to cultivate an employee base that upholds and reinforces its quality assurance system. For example, the Company provides leadership training aimed at nurturing the next generation of quality assurance experts as well as technological education programs designed to produce key personnel who will serve as mentors on the production frontlines.

The Quality Assurance Organization and Quality Assurance System



Procurement Policy

1. We will make day-to-day procurement decisions and select new suppliers in accordance with reasonable standards regarding quality, cost, stability of supply and environmental impact.
2. We will abstain from becoming overly dependent on specific suppliers while ensuring that no supplier becomes overly dependent on us. To that end, we will strive to maintain an appropriate procurement volume per supplier while securing multiple sources of supply.
3. We will adhere to reasonable standards regarding the selection of suppliers based as specified in our supplier guidelines. To maintain fairness, our procurement function operates independently from other business functions to ensure the objectivity of the selection and evaluation process.
4. We will, in principle, obtain estimates from multiple suppliers and thereby ensure a competitive and fair selection process.
5. We will, upon request, provide suppliers whose proposals are rejected through the selection process following the submission of bids or competitive quotes with the reasons for such rejection in as much detail as possible.
6. We will engage in continued transactions only after we have signed a basic transaction agreement with a supplier and will observe terms and conditions stipulated by said agreement. Moreover we will, in principle, conclude and observe a written agreement even when we engage in a one-off deal.
7. We will never engage in business transactions aimed at directly marketing our products to suppliers.
8. We will be international in our recruitment of potential suppliers, maintaining an open and proactive attitude when offering them opportunities to enter our supply chain.

Basic Policy on Product Recall

1. **Customer First**
Ensure that not even one customer is exposed to a defective product
2. **Information Disclosure**
Disclose information at hand with no exception
3. **Leadership of Top Management**
Tackle all problems head-on and take the initiative
4. **Swift Recall**
First and foremost, quickly execute the recall of any defective product
5. **Recurrence Prevention**
Prevent the recurrence of any similar problem

Contribution to Local Communities

Calbee has identified “Support for parenting,” “Support for local communities” and “Protecting the environment” as its key themes for community contribution. Putting these themes into practice, all employees are encouraged to proactively think about local contribution and take action under the initiative of the Social Contribution Committees in each business division.

Support for Areas Affected by the Great East Japan Earthquake

Calbee continues to support communities and people who were affected by the Great East Japan Earthquake in March 2011.

The MICHINOKU Future Fund, set up to support earthquake orphans, was jointly established by Calbee, KAGOME CO., LTD. and ROHTO Pharmaceutical Co., Ltd. in 2011. In 2013, Ebara Foods Industry, Inc. was also welcomed into the fold as a co-sponsor. The fund provides scholarships, solicits donations and engages in other support activities, with the goal of continuously aiding earthquake orphans over a 25-year period following the disaster. As of March 2016, the number of scholarship recipients totaled 527.

Food Communication

With the aim of promoting healthier living, Calbee engages in “food communication” activities that include offering educational programs designed to impart useful information on enjoyable eating, using familiar snacks as examples.


A Calbee Snack School

Specifically, since 2003 Calbee has been providing “Calbee Snack School” lessons throughout Japan. The lessons are designed to help children—society’s future leaders—understand what makes a good diet to empower them to enjoy healthier and more active lives. In these lessons, we are also encouraging them to develop the habits of self control. In fiscal 2016, the program visited around 800 schools and met with more than 62,000 children and their parents.

Diversity Initiatives

In line with its belief that "No diversity, no growth," Calbee has positioned diversity promotion as an important management strategy. Accordingly, Calbee is endeavoring to hire and promote people with diverse backgrounds, regardless of their gender, nationality, ethnicity, age, or disability. We are confident that this pursuit will better position us to secure sustainable corporate growth.

Helping Women Succeed

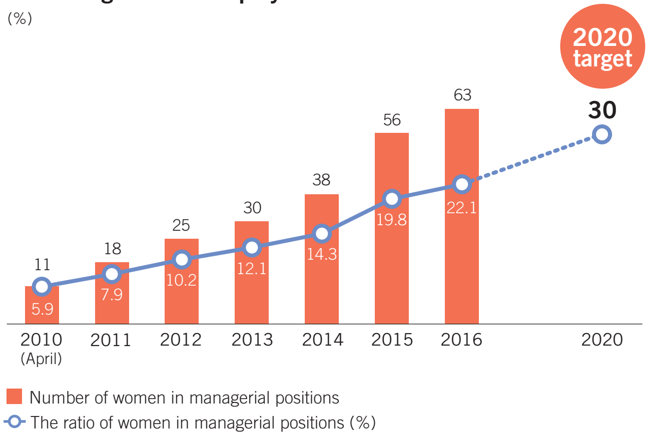
At Calbee, the ratio of women in overall managerial positions has steadily increased from 5.9% in 2010 to 22.1% in April 2016.

In 2010, Calbee established the Diversity Committee. Since then, we have implemented a variety of initiatives to raise employee awareness, with an eye to encouraging female workers, who account for around half of our workforce, to pursue fulfilling careers.

As part of its personnel policies aimed at helping employees strike the optimal work-life balance, Calbee has introduced a flextime system while allowing eligible employees to work at home. We are assisting our female workers in various other ways as well. For example, we are providing career development education to manager candidates and holding joint training sessions in tandem with other companies.

Calbee's current aim is to raise the ratio of female managers to 30% by 2020. Over the longer term, we will strive to achieve gender parity with regard to both regular employees and managers.

Promoting Female Employees



Creating a Multinational Team

As a player on the global stage, Calbee is creating a workplace in which people with diverse nationalities and cultural backgrounds can realize their full potential. In particular, domestic Group companies are striving to secure non-Japanese human resources. In fact, the management of many of the Group's overseas subsidiaries is entrusted to local hires, a practice that not only emphasizes the Group's commitment to "localization," it demonstrates awareness of and sensitivity to cultural needs in each market region.

Environmental Initiatives

Calbee formulated the "Calbee Group Declaration on the Environment." The declaration calls for the Group to take care when drawing on nature's gifts and, afterwards, to return the Earth to its natural state in as pristine condition as possible. As a member of today's global society, the entire Group constantly strives to promote energy saving, reduce waste emissions, and save water, thus playing an active role in environmental protection. As medium- to long-term targets, we aim to reduce our CO_2 emissions rate 11% compared with fiscal 2010 levels (1% annual reduction) and the waste and wastewater discharge rates by 30% by the end of fiscal 2021.

Promoting Environmental Management

To achieve the aforementioned reduction targets, Calbee established the Environmental Action Department in 2009. Under the initiative of this department, the Company holds periodic meetings covering various environmental subjects, thereby implementing a PDCA cycle to enhance its environmental management.

Moreover, in line with the "Calbee Group Code of Conduct," which clarifies the Group's focus on environmental protection and resource preservation, all employees are working as one to achieve environmental goals.

Calbee Group Declaration on the Environment

Our Basic Views on Environmental Protection

"Harvest the Power of Nature."
Under this corporate message, the Calbee Group has been delivering the blessings of nature to customers via its food products.

Because we harvest vital natural resources, we are committed to preserving the wonderful blessings of nature and returning the earth back to as near to its natural state as possible. We aspire to harmoniously coexist with all the world's flora and fauna and thus pass this legacy on to future generations. In this way we are working toward the realization of our common vision of being a corporate group that is respected, admired, and loved by all stakeholders.

Declaration of Environmental Management

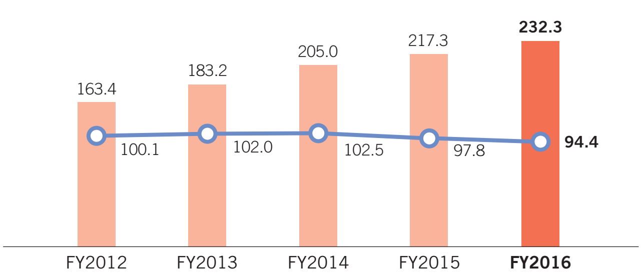
1. We will observe environment-related laws and ordinances.
2. We will strive to offer safe products that give consideration to people's health and the global environment.
3. We will strive to reduce CO_2 emissions that contribute to global warming.
4. We will strive to minimize waste in the use of raw materials, which are nature's gift to us, and reduce waste and the amount of water used.
5. All of our employees will engage in environmental conservation efforts.

Environmental Initiative Results

CO_2 Reduction

With the aim of reducing CO_2 emissions, Calbee assesses emissions from its entire value chain, from raw material procurement through production, distribution, sales, and facility utilization and maintenance to disposal and recycling. In fiscal 2016, overall CO_2 emissions increased year on year, reflecting an increase in production volume. On the other hand, the CO_2 emissions per sales unit decreased.

CO_2 Emissions per Sales Unit and CO_2 Emissions



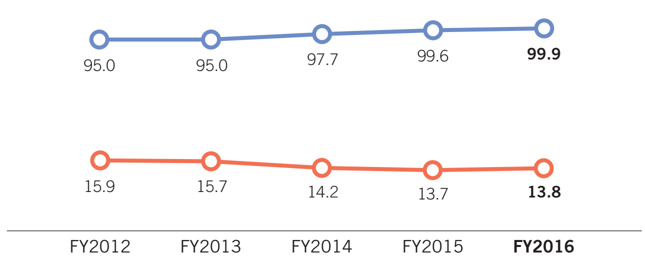
CO_2 emissions per sales unit (tons of CO_2 / ¥100 million of net sales)
CO_2 emissions (thousands of tons)
Source: Calbee Group companies in Japan

Effective Utilization of Resources and Water

To help create a recycling-oriented society, Calbee is striving to reduce waste emissions while promoting recycling. At every stage of the production processes, we are stepping up efforts to separate waste for recycling and reduce the volume of waste generated while looking to effectively utilize potato skin and other waste products, including plant residue. In these ways, we are working to achieve "zero-emission" status and realize a more recycle-oriented production structure, with the recycling rate being 99.9% in fiscal 2016.

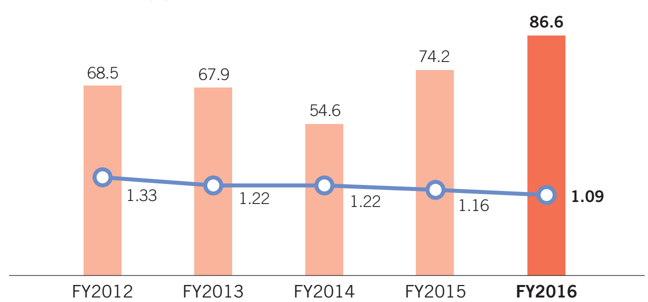
In addition, we are engaged in exhaustive effluent management, with an eye to utilizing recycled wastewater. Calbee will also endeavor to minimize water consumption and promote the effective utilization of water resources.

Waste Discharge Rate and Recycling Rate



Waste discharge rate per ¥100 million of net sales (tons of waste / ¥100 million of net sales)
Recycling rate (%)
Source: Calbee Group companies in Japan

Wastewater Discharge Rate and COD (Chemical Oxygen Demand)



Wastewater discharge rate (m^3 / ¥100 million of net sales)
COD (tons)
Source: Calbee Group companies in Japan
Note: Figures for FY2013-FY2015 were retroactively changed due to some factories' data modification.

Financial Section

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CFO Message

Koichi Kikuchi Executive Managing Officer
Chief Financial Officer

Prior to ascending to his present position, held since April 2016, Mr. Kikuchi served as Executive Officer and CFO from February 2012; having previously served at Mitsui Trust Bank, Limited, PricewaterhouseCoopers Co., Ltd. and IBM Japan, Ltd.

Challenges We Are Confronting As We Enter a New Growth Stage

The Domestic Business	The Overseas Business
• Expand production capacity through capital expenditure as we have almost reached the upper limit of domestic factory utilization • Streamlining SG&A expenses, especially selling expenses	• Restructuring the North American business, formulating strategies for re-entering China and stabilizing operations in countries we have recently entered • Establishing a highly profitable business model in overseas markets

Calbee's Profit Structure Enters a New Growth Stage

Since the shift to a new management framework in 2009, Calbee has achieved steady expansion in sales and profits along with constant improvement in profitability toward the targeted operating margin of 15%. However, we are now seeing profit growth slow down slightly. In fiscal 2016, overseas profits were held down by start-up costs in new markets. Our North American business, which funded our overseas expansion into other regions, was sluggish, affecting the overall performance of our overseas business.

In Japan, we achieved steady profit growth with strong domestic sales despite higher raw material prices due to the weaker yen. We faced some challenges in the supply-demand balance as we almost reached the maximum level of capacity utilization. Accordingly, we decided to increase production capacity for potato-based snacks and cereals. As for selling, general and administrative (SG&A) expenses, we will continue focusing on streamlining spending to gain greater control of our operations.

The Source of Future Growth: Overseas Business' Profit Model

We will execute reforms in our North American business, establish a strategy for re-entrance into the Chinese market, and get our newly launched U.K. and Spanish business up to speed. In 2016, we started operations in Indonesia and will remain open to seek out new growth opportunities overseas.

Striking a Balance between Growth Investment and Shareholder Returns

Taking a look at our cash flow distribution policy, we would maintain the current level of investment for growth opportunities, including overseas. As for shareholder returns, we have steadily increased cash dividends by improving operational profitability and the consolidated payout ratio. We expect that our targeted payout ratio of 30% will be realized by the end of fiscal 2017.

In fiscal 2016, Calbee achieved an operating margin of 11.4% while boasting ROE of 14.6%. These indicators attest to the probability of Calbee becoming one of the industry's leading global players. As a CFO, I am committed to showcasing Calbee's constant corporate growth by communicating its annual performance to shareholders. I sincerely ask for your continued support of our operations.

Six-Year Summary

Years ended March 31, 2016, 2015, 2014, 2013, 2012 and 2011

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2013	2012	2011	**2016**
For the Year:							
Net sales	**¥246,129**	¥222,150	¥199,941	¥179,411	¥163,268	¥155,529	**$2,184,319**
Operating income	**28,125**	24,183	19,717	15,790	12,247	10,717	**249,605**
Operating margin (%)	**11.4**	10.9	9.9	8.8	7.5	6.9	—
Net income attributable to owners of parent	**16,799**	14,114	12,086	9,440	7,096	4,253	**149,086**
Net income margin (%)	**6.8**	6.4	6.0	5.3	4.3	2.7	—
Return on equity (%)	**14.6**	13.7	13.1	11.4	9.6	6.5	—
Research and development costs	**2,195**	2,052	2,161	2,288	1,811	2,213	**19,482**
Capital expenditures	**21,229**	15,290	6,392	7,298	5,422	4,049	**188,405**
Depreciation and amortization	**7,570**	6,232	5,960	6,318	6,676	7,243	**67,183**
Per Share (¥/$) (Note 2):							
Net income attributable to owners of parent	**125.88**	105.82	91.46	72.18	55.07	36.62	**1.11**
Net assets	**905.20**	821.97	729.93	664.55	596.66	550.14	**8.03**
Cash dividends	**35.00**	28.00	22.00	15.50	10.50	7.00	**0.31**
Dividend payout ratio (%)	**27.8**	26.5	24.1	21.5	19.1	19.1	—
At Year-End:							
Total assets	**174,878**	161,968	140,966	124,793	108,474	99,393	**1,551,992**
Net assets	**131,469**	118,800	104,466	92,685	80,417	72,924	**1,166,752**
Working capital (Note 3)	**57,456**	55,313	50,160	36,302	25,210	16,131	**509,905**
Interest-bearing debt	**366**	402	—	7	6	299	**3,250**
Equity ratio (%) (Note 4)	**69.1**	67.7	69.1	70.2	71.6	70.7	—
Debt to equity ratio (times) (Note 4)	**0.0**	0.0	0.0	0.0	0.0	0.0	—
Number of consolidated subsidiaries	**24**	22	22	21	18	18	—
Number of employees (consolidated)	**3,728**	3,477	3,341	3,352	3,053	2,911	—
Cash Flows:							
Net cash provided by operating activities	**22,541**	22,266	23,478	17,328	7,049	16,664	**200,050**
Net cash used in investing activities	**(14,270)**	(9,422)	(17,041)	(12,999)	(5,347)	(620)	**(126,644)**
Net cash providing by (used in) financing activities	**(2,859)**	(2,878)	(383)	607	(411)	(2,124)	**(25,376)**
Cash and cash equivalents at end of year	**47,323**	42,572	31,592	25,331	19,448	18,238	**419,982**

Notes: 1. U.S. dollar amounts are presented, for convenience only, at a conversion rate of ¥112.68 = US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2016.
2. A 50-for-1 share split was conducted on January 14, 2011, and a 4-for-1 share split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.
3. Working capital comprises current assets less current liabilities.
4. Shareholder's equity as presented above consists of total net assets exclusive of subscription rights and non-controlling interests.

Management's Discussion and Analysis

Operating Results

Net Sales

In the fiscal year ended March 31, 2016 (fiscal 2016), consolidated net sales increased ¥23,978 million, up 10.8% year on year to ¥246,129 million due to strong performance in the production and sale of snacks and other foods, the Company's only reporting segment.

Production and Sale of Snacks and Other Foods

Sales in the production and sale of snacks and other foods segment increased 11.0 % to ¥242,879 million, driven by potato-based snack foods and cereals, as well as overseas business.

Snack Foods

Snack food sales grew 7.8% to ¥204,842 million due to growth in sales of potato-based snacks and overseas business.

1. Potato-Based Snacks

Sales of potato-based snacks increased 6.4% to ¥127,147 million. *Potato Chips* showed strong sales of regular items (*Usushio, Consome Punch,* and *Norishio*), *Shiawase Butter,* and others. *Kata-Age Potato* also saw a significant year-on-year increase in sales, and the expansion of contract production of private brands for client firms also contributed to performance.

Jagarico sales rose due to increased sales of *Tarako Butter* flavor and the launch of 20-year anniversary campaign products.

Jagabee also recorded a sales increase thanks to a strengthened lineup of time-limited and region-limited products.

2. Flour-Based Snacks

Sales of flour-based snacks increased 0.2% to ¥22,007 million. Sales of regular items *Sapporo Potato Tsubutsubu Vegetable* declined year on year, but there were strong sales of the sweet potato snack *Osatsu Snack* and of *Cheese Bit.*

3. Corn-Based Snacks

Sales of corn-based snacks increased 4.2% to ¥18,550 million backed by a new store opening of *Garett Popcorn Shops,* and other factors.

4. Domestic Other Snacks

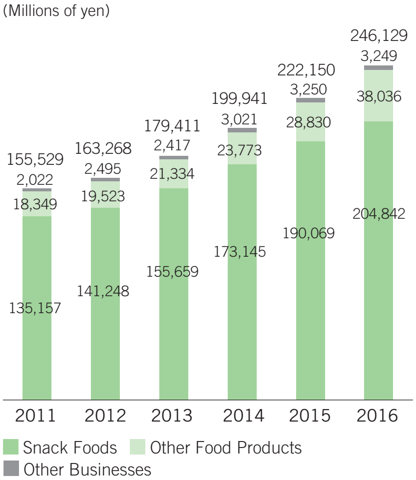
Sales of domestic other snacks decreased 7.0% to ¥7,815 million due to decreased sales of *Vegips* and other factors.

5. Overseas Business

Sales of overseas business increased 30.7% to ¥29,321 million on strong sales of *Harvest Snaps* in North America and *Honey Butter Chips* in South Korea, as well as sales boost from entry into new markets.

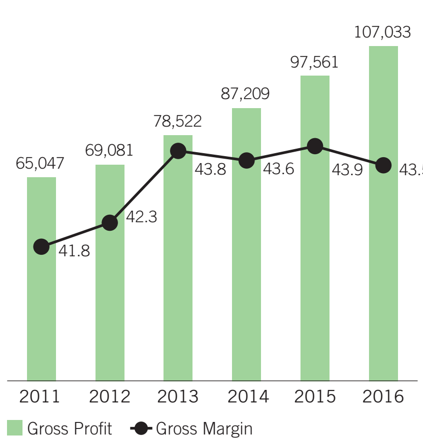
Net Sales

(Millions of yen)



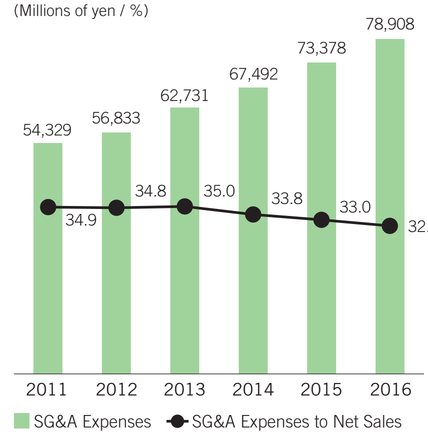
Gross Profit / Gross Margin

(Millions of yen / %)



SG&A Expenses / SG&A Expenses to Net Sales

(Millions of yen / %)



Other Food Products

Sales of other food products rose 31.9% to ¥38,036 million due to considerable growth in sales of the cereal product *Frugra. Frugra* demand continues to grow rapidly, driving growth in the cereal market due to increasing recognition that it is a convenient and healthy breakfast, as it is quick to prepare, low in salt, and high in fiber.

Other Businesses

In other business, sales were largely flat at ¥3,249 million, with a year-on-year decrease in distribution business sales mainly offset by increased sales of promotional tools.

Gross Profit

Gross profit grew ¥9,472 million, up 9.7% year on year to ¥107,033 million. This was due the success of our improvement of domestic production efficiency, which was partly offset by a decline in gross profit margin owing to a higher raw material costs accompanying the weak yen, a higher depreciation burden due to the augmentation of facilities, and a decline in the utilization ratio in North America. In step with this rise, the gross margin decreased 0.4 of a percentage point to 43.5%.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥5,529 million, up 7.5% year on year to ¥ 78,908 million. The ratio of SG&A expenses to net sales improved 0.9 of a percentage point, to 32.1%.Growth in sales promotion expenses was offset by a decrease in domestic advertising expenses.

Operating Income

As a result of the above, operating income rose ¥3,942 million, up 16.3% to ¥28,125 million. The operating margin increased 0.5 percentage point to 11.4%.

Non-Operating Income/Expenses

A ¥1,579 million net non-operating income/expenses included a ¥638 million foreign exchange losses, a ¥582 million loss on abandonment of inventories, and a ¥515 million business commencement expenses (UK ¥260 million, Indonesia ¥159 million, Spain ¥95 million).

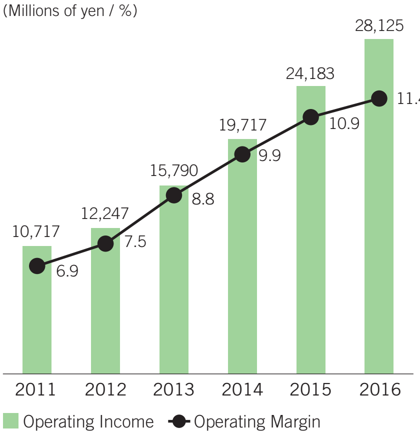
Net Income

As a result of the above, net income rose ¥2,684 million, up 19.0% year on year to ¥16,799 million. Net income per share was ¥125.88. After the dilution of common shares, net income per share was ¥125.64. ROE improved 0.9 of a percentage point to 14.6%.

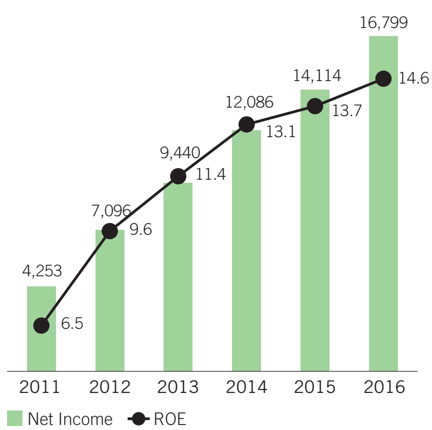
Financial Position

Total assets as of March 31, 2016, were ¥174,878 million, an increase of ¥12,909 million. Factors contributing to the increase in total assets included an increase in cash and deposits and on increase in property, plant and equipment that were partially

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

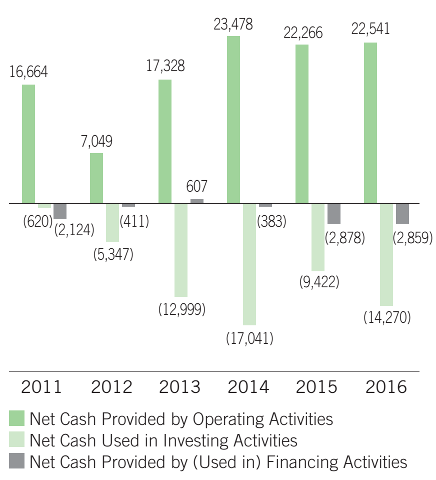


Net Income* / ROE
(Millions of yen / %)



* Net income attributable to owners of parent

Cash Flows
(Millions of yen)



offset by a decrease in securities resulting from the redemption of commercial paper. The increase in property, plant and equipment was driven by the expansion of production lines for strong-selling *Frugra* and the acquisition of production facilities overseas, including factories in North America.

Total current liabilities decreased ¥758 million to ¥33,469 million reflecting decreases in other current liabilities.
Total non-current liabilities increased ¥999 million to ¥9,939 million due to a rise in net defined benefit liabilities.

Net assets increased ¥12,669 million to ¥131,469 million. Factors contributing to this outcome included rises in retained earnings.
The equity ratio increased 1.4 percentage points from the end of the previous fiscal year to 69.1%, and net assets per share was ¥905.20.

Cash Flow

Cash and cash equivalents as of March 31, 2016 were ¥47,323 million, ¥4,751 million higher than at the end of the previous fiscal year. The main contributing factors are detailed below.

Cash flows from operating activities

Operating activities during the period under review resulted in a net cash inflow of ¥22,541 million, compared to an inflow of ¥22,266 million for the previous fiscal year. Factors contributing to this outcome included inflows of income before income taxes and depreciation, partially offset by an increase in notes and accounts receivable—trade and outflows of income tax payments.

Cash flows from investing activities

Investing activities during the period under review resulted in a net cash outflow of ¥14,270 million, due to outflows for the acquisition of production facilities for *Frugra* and in North America, compared to an outflow of ¥9,422 million for the previous fiscal year.

Cash flows from financing activities

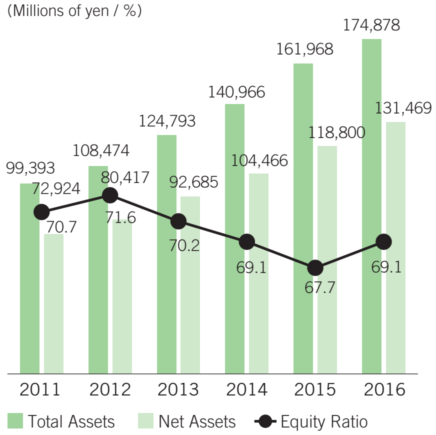
Financing activities during the period under review resulted in a net cash outflow of ¥2,859 million, due to outflows for cash dividends paid, compared to an outflow of ¥2,878 million for the previous fiscal year.

Capital Expenditures

In fiscal 2016, capital expenditures totaled ¥21,229 million, up ¥5,938 million, compared with the previous fiscal year. Of this total, ¥14,070 million went to domestic operations and ¥7,158 million went to overseas operations. The main components of domestic capital expenditure were ¥3,918 million used to expand *Frugra* production facilities and ¥1,786 million used to acquire production facilities for fabricated potato chips. Meanwhile, overseas capital expenditures included ¥3,601 million used to establish a North American factory and acquire other production facilities. For fiscal 2017, ending March 31, 2017, the Group plans capital expenditures totaling ¥12,600 million.

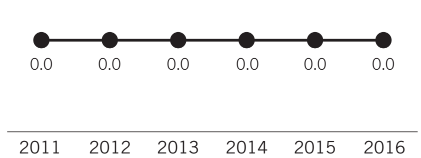
Total Assets / Net Assets / Equity Ratio

(Millions of yen / %)



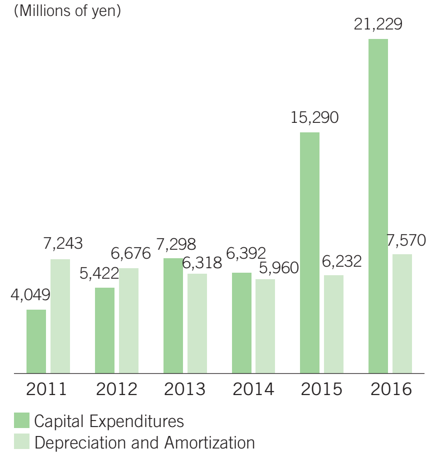
Debt to Equity Ratio

(Times)



Capital Expenditures / Depreciation and Amortization

(Millions of yen)



Business Risks

The major risks to which Calbee 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 Calbee's business activities.

Recognizing the possibility that such risks may materialize, Calbee'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 Calbee as of the date of publication of this report.

1. Product Development

Calbee 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 Calbee'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 Calbee's business expansion. As such, Calbee 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 Calbee'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 under the Plant Protection Act. In order to secure sufficient supplies of domestically produced high-quality potatoes at a stable price, Calbee 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 Calbee 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 Calbee's operating results and financial position.

Moreover, changes in demand trends and fluctuations in the price of crude oil and in foreign exchange markets could affect 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 Calbee's operating results and financial position.

3. Product Safety

Consumer demands for greater food safety have increased in recent years. In assuming responsibility for responding to these demands, Calbee strictly monitors the quality of ingredients and manufacturing processes and takes all possible precautions to ensure product quality and prevent contamination. However, unforeseen problems related to ingredients and manufacturing processes could have an impact on Calbee'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 Calbee'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

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

5. Global Expansion

Calbee is using subsidiaries overseas to expand its operations outside the Japanese market. Calbee believes it is necessary to strengthen and expand overseas business to deliver growth over the longer term. Going forward, Calbee intends to expand its operations more rapidly and boost its competitiveness.

However, if efforts to develop its presence in global markets do not proceed as anticipated it may be necessary for Calbee to review its growth strategy. In addition, as Calbee 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 Calbee's operating results and financial position.

6. Relationship with Major Shareholder

As of March 31, 2015, Frito-Lay Global Investments B.V. (FLGI), a wholly owned subsidiary of PepsiCo, Inc., (PepsiCo) 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 agreement, 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 Calbee's operating results and financial position.

a. Personnel Relationship
As of March 31, 2016, no significant personnel relationship exists between Calbee and PepsiCo Group.

b. Business Relationship
The Company's subsidiary Japan Frito-Lay Ltd. receives imports of snack foods from Frito-Lay, Inc., a PepsiCo Group company. In addition, the Company's subsidiary Calbee North America, LLC sells snack foods to PepsiCo Group's Frito-Lay North America, Inc.

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% 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 business environment.

7. Legal Regulations

In the course of its business activities, Calbee 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. Calbee 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 Calbee's operating results and financial position.

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

8. Natural Disaster Risk

Calbee 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 Calbee's operating results and financial position.

Consolidated Balance Sheets

Calbee, Inc. and Consolidated Subsidiaries
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2016	2015	2016
Assets			
Current assets:			
Cash and deposits (Notes 6 and 14)	¥ 22,784	¥ 18,891	$ 202,207
Notes and accounts receivable (Notes 6 and 13)	23,021	21,119	204,311
Marketable securities (Notes 6 and 7)	28,999	34,995	257,357
Inventories (Note 8)	9,268	8,037	82,254
Deferred tax assets (Note 10)	2,625	2,640	23,297
Others	4,230	3,861	37,542
Allowance for doubtful accounts	(4)	(5)	(39)
Total current assets	90,925	89,541	806,932
Property, plant and equipment:			
Land	11,642	11,501	103,319
Buildings and structures (Note 18)	63,958	56,900	567,607
Machinery and vehicles (Note 18)	91,084	81,918	808,343
Lease assets	233	246	2,071
Construction in progress (Note 18)	7,506	9,387	66,615
Others (Note 18)	4,503	4,637	39,963
	178,926	164,592	1,587,920
Accumulated depreciation	(108,767)	(104,838)	(965,274)
Property, plant and equipment, net	70,159	59,754	622,646
Investments and other assets:			
Investment securities (Notes 6 and 7)	2,083	2,099	18,492
Investments in affiliates (Notes 6 and 7)	11	11	103
Long-term loans	211	93	1,875
Deferred tax assets (Note 10)	2,004	1,347	17,786
Net defined benefit asset (Note 12)	1,561	2,066	13,861
Goodwill	2,245	2,719	19,929
Others (Note 18)	5,744	4,412	50,985
Allowance for doubtful accounts	(69)	(79)	(620)
Total investments and other assets	13,793	12,672	122,414
Total assets	¥174,878	¥161,968	$1,551,992

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2016	2015	**2016**
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 6)	**¥ 10,350**	¥ 9,387	**$ 91,856**
Short-term borrowings (Note 9)	**—**	402	**—**
Current portion of long-term debt (Note 9)	**52**	—	**464**
Lease obligations (Note 9)	**64**	52	**570**
Other payables	**6,121**	5,165	**54,326**
Income taxes payable	**4,604**	5,174	**40,865**
Deferred tax liabilities (Note 10)	**1**	—	**17**
Provision for bonuses	**4,195**	3,775	**37,237**
Provision for directors' bonuses	**128**	198	**1,136**
Provision for stock payments (Note 4)	**65**	83	**579**
Others	**7,884**	9,988	**69,971**
Total current liabilities	**33,469**	34,227	**297,027**
Non-current liabilities:			
Long-term debt (Note 9)	**313**	—	**2,785**
Lease obligations (Note 9)	**93**	76	**830**
Deferred tax liabilities (Note 10)	**553**	373	**4,915**
Provision for directors' retirement benefits	**527**	573	**4,677**
Provision for directors' stock payments (Note 4)	**121**	132	**1,075**
Net defined benefit liability (Note 12)	**7,489**	7,076	**66,468**
Asset retirement obligations	**645**	637	**5,729**
Others	**194**	70	**1,730**
Total non-current liabilities	**9,939**	8,940	**88,212**
Net assets (Note 11):			
Shareholders' equity:			
Common stock:			
Authorized 2016 — 176,000,000 shares Authorized 2015 — 176,000,000 shares Issued 2016 — 133,769,800 shares Issued 2015 — 133,629,800 shares	**12,008**	11,975	**106,569**
Additional paid-in capital	**11,572**	11,543	**102,702**
Retained earnings	**98,013**	84,956	**869,839**
Treasury stock — 193,452 shares in 2016 228,132 shares in 2015	**(609)**	(699)	**(5,405)**
Total shareholders' equity	**120,985**	107,774	**1,073,706**
Accumulated other comprehensive income:			
Unrealized holding gain on securities	**608**	617	**5,401**
Foreign currency translation adjustments	**904**	2,377	**8,025**
Remeasurements of defined benefit plans (Note 12)	**(1,585)**	(1,116)	**(14,069)**
Total accumulated other comprehensive income (loss)	**(72)**	1,877	**(641)**
Subscription rights	**15**	25	**133**
Non-controlling interests	**10,541**	9,122	**93,555**
Total net assets	**131,469**	118,800	**1,166,752**
Total liabilities and net assets	**¥174,878**	¥161,968	**$1,551,992**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2016	2015	2016
Net sales	¥246,129	¥222,150	$2,184,319
Cost of sales (Notes 8 and 16)	139,095	124,588	1,234,430
Gross profit	107,033	97,561	949,889
Selling, general and administrative expenses (Notes 15 and 16)	78,908	73,378	700,284
Operating income	28,125	24,183	249,605
Other income (expenses):			
Interest and dividend income	202	301	1,796
Interest expense	(9)	(5)	(81)
Real estate income	76	76	682
Cost of real estate	(32)	(33)	(291)
Foreign exchange gains (losses)	(638)	1,318	(5,670)
Loss on abandonment of inventories	(582)	—	(5,170)
Business commencement expenses	(515)	(368)	(4,573)
Gain on sales of non-current assets	6	7	60
Gain on sales of shares of subsidiaries and affiliates	370	—	3,287
Subsidy income	149	—	1,325
Loss on sales of property, plant and equipment (Note 17)	(3)	(229)	(35)
Loss on disposal of property, plant and equipment (Note 17)	(227)	(300)	(2,015)
Impairment loss (Note 18)	(594)	(836)	(5,274)
Other	(204)	105	(1,810)
Net income before income taxes	26,123	24,217	231,833
Income taxes (Note 10):			
Current	(8,359)	(9,190)	(74,185)
Deferred	267	(121)	2,377
	(8,091)	(9,311)	(71,807)
Net income	18,031	14,906	160,026
Net income attributable to:			
Non-controlling interests	1,232	(791)	10,939
Owners of parent	¥ 16,799	¥ 14,114	$ 149,086

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2016	2015	2016
Net income	¥18,031	¥14,906	$160,026
Other comprehensive income (Note 19):			
Unrealized holding gain (loss) on securities	(8)	406	(74)
Foreign currency translation adjustments	(2,253)	2,521	(19,998)
Remeasurements of defined benefit plans	(468)	149	(4,157)
Total other comprehensive income (loss)	(2,730)	3,076	(24,230)
Comprehensive income	¥15,301	¥17,983	$135,799
Comprehensive income attributable to:			
Owners of parent	¥14,848	¥16,074	$131,779
Non-controlling interests	¥ 452	¥ 1,908	$ 4,019

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

		Millions of yen				
		Shareholders' Equity				
	Number of Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2014	133,507,800	¥11,946	¥11,514	¥74,259	¥(262)	¥ 97,458
Cumulative effect of changes in accounting policy				(481)		(481)
Restated Balance		11,946	11,514	73,778	(262)	96,976
Issuance of stock (exercise of subscription rights)	122,000	28	28			57
Cash dividends paid				(2,937)		(2,937)
Profit attributable to owners of parent				14,114		14,114
Purchase of treasury stock					(449)	(449)
Disposal of treasury stock					12	12
Net changes during the year						
Balance at April 1, 2015	**133,629,800**	**¥11,975**	**¥11,543**	**¥84,956**	**¥(699)**	**¥107,774**
Issuance of stock (exercise of subscription rights)	**140,000**	**33**	**33**			**66**
Cash dividends paid				**(3,741)**		**(3,741)**
Profit attributable to owners of parent				**16,799**		**16,799**
Purchase of treasury stock						**—**
Disposal of treasury stock					**90**	**90**
Purchase of shares of consolidated subsidiaries			**(3)**			**(3)**
Net changes during the year						
Balance at March 31, 2016	**133,769,800**	**¥12,008**	**¥11,572**	**¥98,013**	**¥ (609)**	**¥120,985**

	Millions of yen						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehensive income	Subscription Rights	Non-controlling interests	Total Net Assets
Balance at April 1, 2014	¥210	¥ 973	¥(1,266)	¥ (82)	¥34	¥ 7,055	¥104,466
Cumulative effect of changes in accounting policy							(481)
Restated Balance	210	973	(1,266)	(82)	34	7,055	103,984
Issuance of stock (exercise of subscription rights)					(9)		48
Cash dividends paid							(2,937)
Profit attributable to owners of parent							14,114
Purchase of treasury stock							(449)
Disposal of treasury stock							12
Net changes during the year	406	1,404	149	1,959		2,066	4,026
Balance at April 1, 2015	**617**	**2,377**	**(1,116)**	**1,877**	**25**	**9,122**	**118,800**
Issuance of stock (exercise of subscription rights)					**(10)**		**56**
Cash dividends paid							**(3,741)**
Profit attributable to owners of parent							**16,799**
Purchase of treasury stock							**—**
Disposal of treasury stock							**90**
Purchase of shares of consolidated subsidiaries							**(3)**
Net changes during the year	**(8)**	**(1,473)**	**(468)**	**(1,950)**		**1,419**	**(530)**
Balance at March 31, 2016	**¥608**	**¥ 904**	**¥(1,585)**	**¥ (72)**	**¥15**	**¥10,541**	**¥131,469**

See accompanying notes to the consolidated financial statements.

	Number of Shares of Common Stock Outstanding	Thousands of U.S. Dollars (Note 5)				
		Shareholders' Equity				
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2015	**133,629,800**	**$106,274**	**$102,441**	**$753,959**	**$(6,207)**	**$ 956,467**
Issuance of stock (exercise of subscription rights)	**140,000**	**295**	**295**			**590**
Cash dividends paid				**(33,205)**		**(33,205)**
Profit attributable to owners of parent				**149,086**		**149,086**
Purchase of treasury stock						**—**
Disposal of treasury stock					**802**	**802**
Purchase of shares of consolidated subsidiaries			**(34)**			**(34)**
Net changes during the year						
Balance at March 31, 2016	**133,769,800**	**$106,569**	**$102,702**	**$869,839**	**$(5,405)**	**$1,073,706**

	Thousands of U.S. Dollars (Note 5)						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehensive income	Subscription Rights	Non-controlling interests	Total Net Assets
Balance at April 1, 2015	**$5,476**	**$21,100**	**$ (9,912)**	**$16,664**	**$226**	**$80,958**	**$1,054,317**
Issuance of stock (exercise of subscription rights)					**(93)**		**496**
Cash dividends paid							**(33,205)**
Profit attributable to owners of parent							**149,086**
Purchase of treasury stock							**—**
Disposal of treasury stock							**802**
Purchase of shares of consolidated subsidiaries							**(34)**
Net changes during the year	**(74)**	**(13,074)**	**(4,157)**	**(17,306)**		**12,596**	**(4,709)**
Balance at March 31, 2016	**$5,401**	**$ 8,025**	**$(14,069)**	**$ (641)**	**$133**	**$93,555**	**$1,166,752**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2016	2015	**2016**
Cash flows from operating activities:			
Net income before income taxes	**¥26,123**	¥24,217	**$231,833**
Depreciation and amortization	**7,570**	6,232	**67,183**
Impairment loss	**594**	836	**5,274**
Goodwill amortization	**693**	647	**6,150**
Increase (decrease) in provision	**357**	346	**3,172**
Increase (decrease) in net defined benefit asset/liability	**283**	312	**2,517**
Interest and dividend income	**(202)**	(301)	**(1,796)**
Interest expense	**9**	5	**81**
Foreign exchange loss (gain)	**982**	(842)	**8,717**
Net loss (gain) on sales of investment securities	**(395)**	(10)	**(3,505)**
Net loss (gain) on sales of property, plant and equipment	**(2)**	222	**(24)**
Loss on disposal of property, plant and equipment	**227**	300	**2,015**
Decrease (increase) in notes and accounts receivables	**(2,193)**	(3,260)	**(19,470)**
Decrease (increase) in inventories	**(1,432)**	(1,300)	**(12,716)**
Increase (decrease) in notes and accounts payable	**1,058**	1,304	**9,392**
Decrease (increase) in accounts receivable - other	**(167)**	140	**(1,487)**
Increase (decrease) in other payables	**365**	490	**3,244**
Increase (decrease) in accrued consumption taxes	**(1,617)**	1,584	**(14,352)**
Others	**(955)**	350	**(8,476)**
Subtotal	**31,297**	31,274	**277,753**
Interest and dividends received	**186**	294	**1,657**
Interest paid	**(6)**	(1)	**(54)**
Income taxes paid	**(8,936)**	(9,301)	**(79,305)**
Net cash provided by operating activities	**22,541**	22,266	**200,050**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(19,066)**	(14,318)	**(169,211)**
Proceeds from sales of property, plant and equipment	**29**	19	**264**
Acquisition of intangible fixed assets	**(2,162)**	(971)	**(19,193)**
Acquisition of marketable securities	**(7,997)**	(24,990)	**(70,974)**
Proceeds from redemption of marketable securities	**15,000**	26,000	**133,120**
Purchase of investment securities	**(15)**	(14)	**(140)**
Proceeds from sales of investment securities	**24**	18	**217**
Payment of loans receivable	**(150)**	(60)	**(1,337)**
Collection of loans receivable	**195**	98	**1,736**
Payment into time deposits	**(904)**	(517)	**(8,028)**
Proceeds from withdrawal of time deposits	**716**	5,500	**6,354**
Payment of security deposit	**(121)**	(275)	**(1,082)**
Collection of security deposit	**223**	92	**1,985**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(92)**	—	**(818)**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**(108)**	—	**(964)**
Others	**160**	(2)	**1,427**
Net cash used in investing activities	**(14,270)**	(9,422)	**(126,644)**
Cash flows from financing activities:			
Net increase in short-term borrowings	**—**	368	**—**
Proceeds from long-term debt	**390**	—	**3,465**
Purchase of treasury stock	**—**	(449)	**—**
Inflow from exercise of stock options	**56**	48	**496**
Repayment for lease obligations	**(60)**	(66)	**(534)**
Cash dividends paid	**(3,738)**	(2,937)	**(33,175)**
Proceeds from share issuance to non-controlling shareholders	**1,308**	757	**11,608**
Dividends paid to non-controlling interests	**(815)**	(599)	**(7,237)**
Net cash used in financing activities	**(2,859)**	(2,878)	**(25,376)**
Effect of exchange rate changes on cash and cash equivalents	**(660)**	1,013	**(5,863)**
Net increase in cash and cash equivalents	**4,751**	10,979	**42,165**
Cash and cash equivalents at beginning of year	**42,572**	31,592	**377,816**
Cash and cash equivalents at end of year (Note 14)	**¥47,323**	¥42,572	**$419,982**

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

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 down. 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 24 (22 in 2015) significant subsidiaries as listed below.

Consolidated subsidiaries

- Calbee Potato, Inc.
- Snack Food Service Co., Ltd.
- Garden Bakery, Inc.
- Tower Bakery, Inc.
- Star Bakery, Inc.
- Calnac Co., Ltd.
- Calbee Eatalk Co., Ltd.
- Japan Frito-Lay Ltd.
- ICS Investment Co., LTD. (Note 4)
- Calbee America, Inc. (Note 4)
- Calbee North America, LLC (Note 4)
- Qingdao Calbee Foods Co., Ltd. (Note 4)
- Yantai Calbee Co., Ltd. (Note 4)
- CFSS Co. Ltd. (Note 4)
- Calbee Four Seas Co., Ltd.
- Calbee E-commerce Limited (Notes 1 and 4)
- Calbee (Taipei) Foods Co., Ltd. (Note 4)
- Haitai-Calbee Co., Ltd. (Note 4)
- Calbee Tanawat Co., Ltd. (Note 4)
- Calbee Moh Seng Pte. Ltd. (Notes 2 and 4)
- PT. Calbee-Wings Food (Note 4)
- Calbee-URC, Inc. (Note 4)
- Calbee (UK) Ltd (Note 4)
- Calbee Iberia, S. L. (Notes 1 and 4)

Notes: 1. The Company established Calbee Iberia, S. L. in April 2015, and Calbee E-commerce Limited in October 2015. These companies were included in the scope of consolidation from the year ended March 31, 2016.

2. In April 2015, the Company acquired a 51% stake in Moh Seng Marketing Pte. Ltd., which has thus been included in the scope of consolidation during the year ended March 31, 2016. In addition, its name was changed to Calbee Moh Seng Pte. Ltd.

3. The Company divested its entire stake in subsidiary Calbee (Hangzhou) Foods Co., Ltd., and it was therefore removed from the scope of consolidation from the year ended March 31, 2016.

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

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

For the years ended March 31, 2016 and 2015, all subsidiaries are consolidated and there is no affiliate that is accounted for by the equity method.

For the years ended March 31, 2016 and 2015, 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 non-controlling 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 collectability for certain doubtful accounts.

(e) Marketable and investment securities

Marketable and investment securities are classified and valued as follows:

(1) Held-to-maturity debt securities

Amortized cost method (straight-line method)

(2) Available-for-sale securities

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, machinery and equipment 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) Goodwill

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

(i) 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.

(j) 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.

(k) Provision for bonuses

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

(l) Provision for stock payments

To prepare for future awards of Calbee shares to Group employees, provision for stock payments is provided for stock award debt based on predetermined regulations for awarding stock.

(m) Provision 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) Provision for directors' stock payments

To prepare for future awards of Calbee shares to Calbee's directors, etc, provision for stock payments is provided for stock award debt based on predetermined regulations for awarding stock.

(o) Accounting method for retirement benefits

(1) Period allocation methodology for the estimated retirement benefit amount

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a benefit formula basis.

(2) Amortization of net unrecognized actuarial gains (losses) and unrecognized past service cost

Net unrecognized actuarial gains (losses) are 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.

Unrecognized past 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.

(3) Application of the simplified method for small businesses

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

For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the fiscal year are recorded as retirement benefit obligations.

(p) Consumption taxes

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

(q) Business commencement expenses

Business commencement expenses are expensed as incurred.

(r) Accounting standards issued but not yet adopted

Implementation Guidance on Recoverability of Deferred Tax Assets Accounting Standards Board of Japan (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences that an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current annual period; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

The guidance is effective from the beginning of the year ending March 31, 2017.

(3) Effects of application of the guidance

The impact of the Company's consolidated financial statements from the adoption of implementation guidance on recoverability of deferred tax assets is under evaluation at the time of the preparation of consolidated financial statements.

3. Accounting Change

Accounting Standard for Business Combinations

The Accounting Standard for Business Combinations (ASBJ Statement No. 21) revised September 13, 2013, the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22) revised September 13, 2013, and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7) revised September 13, 2013, have been applied from the year ended March 31, 2016. Differences arising from changes in ownership interests in subsidiaries in cases where the parent company continues to have control are now recorded in additional paid-in capital, and acquisition expenses for business combinations are now treated as expenses in the consolidated financial statements for the year in which they arise. For business combinations that occur from April 1, 2015, any changes to the allocation of the acquisition price arising from settlement of the provisional accounting treatment shall be reflected in the consolidated financial statements for the year in which the business combination occurs. Additionally, a change in presentation has been made to net income, and the previous accounting standard category of minority interests has changed to non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the previous year have been restated.

The Company has adopted these accounting standards from the beginning of the year ended March 31, 2016, in accordance with transitional treatment based on Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows arising from acquisition-related expenses for the acquisition of shares of subsidiaries that result in changes in the scope of consolidation, or the acquisition or sale of shares of subsidiaries that do not result in changes in the scope of consolidation, are recorded under cash flows from operating activities.

The impact on operating income, ordinary income and income before income taxes and additional paid-in capital as of and for the year ended March 31, 2016 is minimal.

The effect on per share information is described in Note 25, "Per Share Information."

4. Additional Information

Employee Stock Ownership Plan (ESOP) Trust

The Company awards the Company's own stock to the employees of the Group through a trust.

(1) Transaction summary

On March 7, 2014, the Employee Stock Ownership Plan (ESOP) Trust was introduced as an employee incentive plan with the aim of improving long-term corporate value. By raising awareness of our financial results and share price among employees, the Company aims to further promote corporate activities that improve financial results. The Company has established the Trust by contributing funds for acquisition of Calbee stocks for those employees who satisfy certain requirements. Based on predetermined regulations for awarding stocks, the Trust will acquire the estimated number of Calbee stocks to be awarded to employees from the stock market during the predetermined stock acquisition period. Funds required for the Trust to purchase the aforementioned stocks will be provided by the Company. The employees will bear no liabilities.

Introducing the Trust will enable employees to profit from a rise in stock prices, and will promote awareness of the stock price among employees as they fulfill their duties and is thereby expected to improve employee motivation. Further, the voting rights of the company stocks held in the Trust will be executed within a structure that will reflect the will of the employees who are potential beneficiaries and is an effective way to improve corporate value by promoting employees' participation in management planning.

(2) The Company's own stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value in the trust (excluding ancillary expenses). The book value and the number of these treasury shares as of March 31, 2016 and 2015 were ¥168 million ($1,496 thousand) and 67,120 shares, and ¥247 million and 98,500 shares, respectively.

Performance-linked Stock Compensation Plan

The Company awards stock to board members (excluding outside and part-time directors) and executives contractually bound to Calbee including Senior Executive Officers and Executive Officers (hereinafter "Board Members") through the Trust.

(1) Transaction summary

On August 6, 2014, the Company introduced a performance-linked stock compensation plan (hereinafter the "Plan") with the goal of increasing awareness of the importance of contributing to further enhancing Calbee's corporate value and performance over the medium-to-long-term. The plan will be highly transparent and objective and closely linked with the Company's performance for board members.

The Plan is the performance-linked stock compensation plan under which the Company's shares are acquired through the Board Incentive Plan Trust (hereafter "BIP Trust") with the funds of remuneration contributed by the Company and the Company's shares are awarded to the Company's Board Members in accordance with performance targets achieved. Upon their retirement, Board Members will receive Calbee stock in principle.

In order to ensure the neutrality of Calbee's management, voting rights for Calbee stock in the Trust shall not be exercised while in the Trust.

(2) The Company's own stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2016 and 2015 were ¥438 million ($3,889 thousand) and 125,500 shares, and ¥449 million and 128,800 shares, respectively.

5. 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 ¥112.68 = $1, the approximate rate in effect on March 31, 2016. 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.

6. 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 fund management policy. 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 does not enter into derivative transactions for speculative or trading purposes.

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

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

Marketable securities consist of commercial paper and jointly-managed money trust and are highly safe financial instruments held for short-term investment. The Company considers their credit risk to be insignificant.

Investment securities consist of shares of companies with business relationships 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 and are exposed to liquidity risk. The Company manages such risk by preparing fund management plans on a monthly basis. Also, the Company enhanced its centralized funding and cash management functions by implementing a cash management system.

Long-term debt (including current portion of long-term debt) are taken out for the purpose of capital investments. To avoid risks from fluctuations in interest rates for payments on long-term debt, the Company's borrowings are limited to those with fixed interest rates.

To hedge exchange rate volatility risk related to monetary receivables and 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 fair value of financial instruments includes the market value, or the reasonably determined value, in case there is no relevant market value. Such value may change depending on the different presumptions adopted, since variable factors are taken into account in determining the fair value.

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

(4) Fair values of financial instruments

Carrying amount, estimated fair value and the difference between them for financial instruments as of March 31, 2016 and 2015 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Note 2 below).

	Millions of yen		
(As of March 31, 2016)	Carrying amount	Estimated fair value	Difference
Assets			
(1) Cash and deposits	**¥ 22,784**	**¥ 22,784**	**—**
(2) Notes and accounts receivable	**23,021**	**23,021**	**—**
(3) Marketable and investment securities			
Held-to-maturity	**28,999**	**29,004**	**¥ 5**
Available-for-sale	**2,074**	**2,074**	**—**
Total assets	**¥ 76,880**	**¥ 76,885**	**¥ 5**
Liabilities			
(4) Notes and accounts payable	**¥(10,350)**	**¥(10,350)**	**—**
(5) Long-term debt (including current portion of long-term debt)	**(366)**	**(366)**	**—**
Total liabilities	**¥(10,716)**	**¥(10,716)**	**—**
Derivative transactions			
Hedge accounting not applied	**¥ 169**	**¥ 169**	**—**
Total derivative transactions	**¥ 169**	**¥ 169**	**—**

	Thousands of U.S. dollars		
(As of March 31, 2016)	Carrying amount	Estimated fair value	Difference
Assets			
(1) Cash and deposits	**$202,207**	**$202,207**	**—**
(2) Notes and accounts receivable	**204,311**	**204,311**	**—**
(3) Marketable and investment securities			
Held-to-maturity	**257,357**	**257,403**	**$45**
Available-for-sale	**18,414**	**18,414**	**—**
Total assets	**$682,290**	**$682,335**	**$45**
Liabilities			
(4) Notes and accounts payable	**$ (91,856)**	**$ (91,856)**	**—**
(5) Long-term debt (including current portion of long-term debt)	**(3,250)**	**(3,250)**	**—**
Total liabilities	**$ (95,106)**	**$ (95,106)**	**—**
Derivative transactions			
Hedge accounting not applied	**$ 1,505**	**$ 1,505**	**—**
Total derivative transactions	**$ 1,505**	**$ 1,505**	**—**

(As of March 31, 2015)	Millions of yen Carrying amount	 Estimated fair value	 Difference
Assets			
(1) Cash and deposits	¥18,891	¥18,891	—
(2) Notes and accounts receivable	21,119	21,119	—
(3) Marketable and investment securities			
Held-to-maturity	34,995	34,997	¥ 2
Available-for-sale	2,090	2,090	—
Total assets	¥77,098	¥77,100	¥ 2
Liabilities			
Notes and accounts payable	¥ (9,387)	¥ (9,387)	—
Total liabilities	¥ (9,387)	¥ (9,387)	—
Derivative transactions			
Hedge accounting not applied	¥ 660	¥ 660	—
Total derivative transactions	¥ 660	¥ 660	—

*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 and investment 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

(4) Notes and accounts payable

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

(5) Long-term debt (including current portion of long-term debt)

Long-term debt (including current portion of long-term debt) is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

Derivative transactions

Refer to Note 21, “Derivative Financial Instruments.”

2. Unlisted shares with carrying value of ¥8 million ($78 thousand) and ¥8 million at March 31, 2016 and 2015, respectively, are not included in “(3) Marketable and investment 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 loss is recognized unless there is sufficient evidence for their recoverability. During the years ended March 31, 2016 and 2015, no impairment loss was recognized on unlisted shares.

Investments in affiliates with carrying value of ¥11 million ($103 thousand) and ¥11 million at March 31, 2016 and 2015 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, 2016.

(As of March 31, 2016)	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	**¥19,414**	—	—	—
Notes and accounts receivable	**23,021**	—	—	—
Marketable securities				
Held-to-maturity				
Jointly-managed money trust	**25,000**	—	—	—
Commercial paper	**4,000**	—	—	—
Total	**¥71,436**	—	—	—

(As of March 31, 2016)	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	**$172,295**	—	—	—
Notes and accounts receivable	**204,311**	—	—	—
Marketable securities				
Held-to-maturity				
Jointly-managed money trust	**221,867**	—	—	—
Commercial paper	**35,498**	—	—	—
Total	**$633,973**	—	—	—

7. Marketable and Investment Securities

(1) The summary of acquisition cost and carrying value of held to maturity and available-for-sale securities as of March 31, 2016 and 2015 is as follows:

Held-to-maturity

	Millions of yen			Thousands of U.S. dollars		
	2016			**2016**		
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)	**¥14,000**	**¥14,005**	**¥ 5**	**$124,245**	**$124,294**	**$48**
Jointly-managed money trust						
(Securities with estimated fair value not exceeding carrying amount)						
Jointly-managed money trust	**¥11,000**	**¥11,000**	**—**	**$ 97,621**	**$ 97,621**	**—**
Commercial paper	**3,999**	**3,998**	**¥(0)**	**35,490**	**35,487**	**$(3)**
Total	**¥28,999**	**¥29,004**	**¥5**	**$257,357**	**$257,403**	**$45**

Available-for-sale

	Millions of yen			Thousands of U.S. dollars		
	2016			**2016**		
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	**¥2,052**	**¥1,208**	**¥843**	**$18,215**	**$10,729**	**$7,486**
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	**22**	**27**	**(5)**	**198**	**244**	**(45)**
Total	**¥2,074**	**¥1,236**	**¥838**	**$18,414**	**$10,973**	**$7,440**

Held-to-maturity

	Millions of yen		
	2015		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)			
Jointly-managed money trust	¥10,000	¥10,002	¥ 2
Commercial paper	7,997	7,997	0
Trust beneficiary rights on lease receivables	2,000	2,000	0
(Securities with estimated value not exceeding carrying amount)			
Jointly-managed money trust	10,000	10,000	—
Commercial paper	4,998	4,998	(0)
Total	¥34,995	¥34,997	¥2

Available-for-sale

	Millions of yen		
	2015		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥2,060	¥1,165	¥894
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	30	32	(2)
Total	¥2,090	¥1,198	¥891

Note: Unlisted shares with carrying values of ¥8 million ($78 thousand) and ¥8 million at March 31, 2016 and 2015, 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, 2016 and 2015 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2016			2016		
	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
Equity securities	**¥24**	**¥24**	**—**	**$217**	**$217**	**—**

	Millions of yen		
	2015		
	Proceeds	Realized gains	Realized losses
Equity securities	¥18	¥10	—

(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, 2016 and 2015, impairment loss recognized on equity securities classified as available-for-sale securities amounted to nil.

8. Inventories

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished goods and commercial goods	**¥3,473**	¥2,601	**$30,824**
Work in process	**1,340**	1,429	**11,896**
Raw materials and supplies	**4,454**	4,005	**39,533**
	¥9,268	¥8,037	**$82,254**

Valuation losses due to declines in profitability included in cost of sales for the years ended March 31, 2016 and 2015 were ¥98 million ($873 thousand) and ¥242 million, respectively.

9. Short-Term Borrowings and Long-Term Debt

(1) The outstanding balance of short-term borrowings, long-term debt, lease obligations and other interest-bearing liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2016	2015	**2016**	**2016**	2015
Short-term borrowings	**—**	¥402	**—**	**—**	2.0%
Current portion of long-term debt	**¥ 52**	—	**$ 464**	**2.4%**	—
Current portion of lease obligations	**64**	52	**570**	**—**	—
Long-term debt, excluding current portion	**313**	—	**2,785**	**2.4**	—
Lease obligations, excluding current portion	**93**	76	**830**	**—**	—
Other interest-bearing liabilities	**31**	31	**279**	**1.6**	1.5
Total	**¥555**	¥563	**$4,930**		

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	
2017	**¥ 52**	**$464**	**¥64**	**$570**
2018	**52**	**464**	**38**	**341**
2019	**52**	**464**	**19**	**171**
2020	**52**	**464**	**13**	**123**
2021	**52**	**464**	**12**	**111**
2022 and thereafter	**104**	**928**	**9**	**83**

10. 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 the aggregate resulted in a statutory tax rate of approximately 32.8% and 35.4% for the fiscal years ended March 31, 2016 and 2015, respectively. Overseas subsidiaries are subject to income and other taxes of the respective countries in which they operate.

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2016 and 2015 is as follows:

	2016	2015
Statutory tax rate	**32.8%**	35.4%
Adjustments:		
Entertainment and other permanently non-deductible expenses	**0.3**	0.8
Dividend and other permanently non-taxable income	**(0.0)**	(0.0)
Special tax credit for income tax	**(1.7)**	(1.6)
Per capita inhabitant tax	**0.3**	0.4
Adjustment to deferred tax assets and liabilities from changes in the statutory tax rate	**0.7**	1.2
Changes in valuation allowances	**(1.9)**	2.8
Tax rate differences in consolidated subsidiaries	**(1.0)**	(1.0)
Effect of consolidation adjustments	**1.3**	0.8
Others	**0.1**	(0.4)
Effective tax rates	**31.0%**	38.4%

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 25**	¥ 27	**$ 224**
Provision for bonuses	**1,265**	1,190	**11,231**
Accrued expenses	**1,012**	1,002	**8,986**
Enterprise tax payable	**307**	381	**2,726**
Provision for employees’ stock payments	**20**	27	**177**
Provision for directors’ stock payments	**36**	42	**327**
Net defined benefit liability	**1,795**	1,584	**15,938**
Provision for directors’ retirement benefits	**194**	190	**1,728**
Share-based payment expense	**4**	8	**40**
Depreciation	**109**	112	**968**
Impairment loss	**250**	119	**2,219**
Asset retirement obligations	**206**	210	**1,835**
Loss carried forward	**244**	512	**2,173**
Others	**678**	315	**6,023**
Subtotal	**6,152**	5,726	**54,603**
Less valuation allowances	**(496)**	(956)	**(4,408)**
Total deferred tax assets	**5,655**	4,769	**50,194**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(251)**	(274)	**(2,234)**
Deferred gains on property, plant and equipment	**(519)**	(521)	**(4,611)**
Asset retirement obligations	**(30)**	(37)	**(270)**
Others	**(780)**	(321)	**(6,927)**
Total deferred tax liabilities	**(1,582)**	(1,154)	**(14,043)**
Net deferred tax assets	**¥4,073**	¥3,615	**$36,151**

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2016 and 2015 as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current assets—deferred tax assets:	**¥2,625**	¥2,640	**$23,297**
Investments and other assets—deferred tax assets:	**2,004**	1,347	**17,786**
Current liabilities—deferred tax liabilities	**(1)**	—	**(17)**
Non-current liabilities—deferred tax liabilities	**(553)**	(373)	**(4,915)**
Net deferred tax assets	**¥4,073**	¥3,615	**$36,151**

With the Japanese Diet's enactment of The Act for Partial Revision of the Income Tax Act, etc., and The Act for Partial Revision of the Local Tax Act on March 29, 2016, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities (limited to settlements made on or after April 1, 2016) will change from 32.8% to 30.7% between April 1, 2016 and March 31, 2018, and to 30.5% after April 1, 2018 for temporary differences expected to be realized or settled.

As a result, deferred tax assets (after offsetting deferred tax liabilities) decreased by ¥211 million ($1,876 thousand), income taxes-deferred increased ¥194 million ($1,728 thousand), unrealized holding loss on securities increased by ¥11 million ($105 thousand) and remeasurements of defined benefit plans decreased by ¥28 million ($253 thousand) as of and for the year ended March 31, 2016.

11. Net Assets

(1) Movements of number of common stock issued and outstanding during the years ended March 31, 2016 and 2015 are as follows:

	Number of shares	
	2016	2015
Balance at beginning of year	**133,629,800**	133,507,800
Increase	**140,000**	122,000
Decrease	**—**	—
Balance at end of year	**133,769,800**	133,629,800

Notes: The breakdown of the increase during the year ended March 31, 2016 is as follows:
Increase due to an exercise of subscription rights 140,000 shares

The breakdown of the increase during the year ended March 31, 2015 is as follows:
Increase due to an exercise of subscription rights 122,000 shares

(2) Movements of number of treasury stock during the years ended March 31, 2016 and 2015 are as follows:

	Number of shares	
	2016	2015
Balance at beginning of year	**228,132**	104,232
Increase	**—**	128,800
Decrease	**(34,680)**	(4,900)
Balance at end of year	**193,452**	228,132

Notes: The breakdown of the increase and decrease during the year ended March 31, 2016 is as follows:
Decrease due to issuance of treasury shares by the trust 34,680 shares

The breakdown of the increase during the year ended March 31, 2015 is as follows:
Increase due to an acquisition of treasury shares by the trust 128,800 shares
Decrease due to issuance of treasury shares by the trust 4,900 shares

(3) As of March 31, 2016 and 2015, the outstanding balance of subscription rights provided for as stock options was ¥15 million ($133 thousand) and ¥25 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2016 and 2015 was approved at the annual meetings of the Company's shareholders held on June 22, 2016 and June 25, 2015, respectively.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash dividends	**¥4,681**	¥3,741	**$41,550**

Cash dividends attributable to the year ended March 31, 2015 of ¥3,741 million ($33,205 thousand) were paid during the year ended March 31, 2016 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 25, 2015.

Amount of total dividends paid to shares held by the Company in trust in 2016 and 2015 is ¥6 million ($59 thousand) and ¥6 million, respectively.

12. Retirement Benefits for Employees

The Company and its 2 domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans that are multi-employer plans as defined benefit pension plans. Other domestic consolidated subsidiaries and certain foreign consolidated subsidiaries have only lump-sum payment plans. The Company adopts defined contribution pension plans and prepaid retirement allowance plans.

Charges for net defined benefit liability and retirement benefit expenses for a portion of the Company's retirement benefit plans, the defined benefit pension plans for consolidated subsidiaries and the retirement lump-sum payment plans are calculated using the simplified accounting method.

Notes relating to retirement benefits based on defined benefit plans include the portion related to multi-employer plans.

(1) The changes in the retirement benefit obligation for the years ended March 31, 2016 and 2015 are as follows: (excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥14,969	¥13,661	$132,848
Cumulative effects of changes in accounting policies	—	745	—
Restated balance	14,969	14,406	132,848
Service cost	770	715	6,838
Interest cost	109	144	970
Actuarial loss	800	444	7,108
Retirement benefits paid	(714)	(740)	(6,340)
Other	—	(0)	—
Retirement benefit obligations at end of year	¥15,935	¥14,969	$141,425

(2) The changes in plan assets for the years ended March 31, 2016 and 2015 are as follows: (excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥10,842	¥10,145	$96,223
Expected return on plan assets	108	101	962
Actuarial gain (loss)	(62)	482	(555)
Employer's contribution	414	407	3,680
Retirement benefits paid	(347)	(294)	(3,088)
Plan assets at end of year	¥10,955	¥10,842	$97,222

(3) Changes to balance of net defined benefit liability of the plans, to which the simplified accounting method is applied, at beginning and end of year

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net defined benefit liability at beginning of year	¥882	¥727	$7,830
Retirement benefit expense	209	231	1,863
Retirement benefits paid	(116)	(84)	(1,030)
Contribution to the plans	(11)	(11)	(101)
Increase (decrease) due to foreign currency translation	(17)	19	(159)
Net defined benefit liability at end of year	¥946	¥882	$8,403

(4) Reconciliation of the ending balances of retirement benefit obligations and plan assets with the net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	¥ 9,551	¥ 8,938	$84,763
Plan assets	(11,113)	(11,004)	(98,625)
	(1,561)	(2,066)	(13,861)
Unfunded retirement benefit obligations	7,489	7,076	66,468
Net liabilities (assets) recorded on the consolidated balance sheet	5,927	5,009	52,606
Net defined benefit liability	7,489	7,076	66,468
Net defined benefit asset	(1,561)	(2,066)	(13,861)
Net liability (assets) recorded on the consolidated balance sheet	¥ 5,927	¥ 5,009	$52,606

(5) Retirement benefit expenses and breakdown of amounts

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service costs	¥ 770	¥ 715	$ 6,838
Interest cost	109	144	970
Expected return on plan assets	(108)	(101)	(962)
Amortization of actuarial loss	83	133	744
Amortization of past service costs	126	139	1,126
Retirement benefit expense using the simplified method	209	231	1,863
Additional severance payments, etc.	—	40	—
Retirement benefit expense related to the defined benefit plans	¥1,192	¥1,303	$10,581

(6) Remeasurements of defined benefit plans

The breakdowns of items recorded under remeasurements of defined benefit plans (before deduction of tax) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs	¥ 126	¥139	$ 1,126
Actuarial gain (loss)	(779)	171	(6,919)
Total	¥(652)	¥310	$(5,793)

(7) Accumulated remeasurements of defined benefit plans

The breakdowns of items recorded under accumulated remeasurements of defined benefit plans (before deduction of tax) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized past service costs	¥ 253	¥ 423	$ 2,250
Unrecognized actuarial loss	2,053	1,230	18,224
Total	¥2,307	¥1,654	$20,474

(8) Items related to plan assets

(a) Breakdown of main items

Allocation of main plan asset items comprising the total is as follows:

	2016	2015
Domestic bonds	**32.9%**	24.1%
Domestic equity	**8.3**	18.0
Foreign bonds	**—**	10.4
Foreign equity	**10.2**	17.7
Alternative investments*	**31.8**	13.1
General life insurance accounts	**14.0**	13.8
Other	**2.8**	2.9
Total	**100.0%**	100.0%

* Alternative investments are mainly managed by the investment advisory company with the deposits of investment fund.

(b) Method for determining the long-term expected rate of return

In determining the long-term expected rate of return, conservative estimates are made of the assumed interest rate for the corporate pension, the current and expected allocation of plan assets, and the current and future long-term expected rate of return from the various assets that compose the plan assets.

(9) Items related to actuarial calculations

Main components used in actuarial calculations are as follows:

	2016	2015
Discount rate	**0.4%**	0.7%
Long-term expected rate of return	**1.0**	1.0
Estimated salary increase rate	**4.9**	5.1

The amounts of required contributions to the defined contribution plans of the Company and consolidated subsidiaries for the years ended March 31, 2016 and 2015 were ¥200 million ($1,780 thousand) and ¥116 million, respectively.

13. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trade notes discounted	**¥—**	¥434	**$—**

14. Supplemental Cash Flow Information

The reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥22,784**	¥18,891	**$202,207**
Time deposits maturing over three months	**(460)**	(319)	**(4,090)**
Commercial paper included in the marketable securities	**1,999**	1,999	**17,747**
Trust beneficiary rights on lease receivables included in the marketable securities	**—**	2,000	**—**
Jointly-managed money trust included in the marketable securities	**23,000**	20,000	**204,117**
Cash and cash equivalents	**¥47,323**	¥42,572	**$419,982**

15. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Sales promotion expenses	**¥31,623**	¥28,405	**$280,652**
Advertisement expenses	**2,437**	3,113	**21,633**
Freight expenses	**13,592**	11,451	**120,629**
Salaries and other allowances	**11,757**	11,755	**104,342**
Provision for directors' retirement benefits	**76**	109	**681**
Provision for employees' bonuses	**2,201**	2,099	**19,534**
Provision for directors' bonuses	**128**	198	**1,136**
Provision for employees' stock payments	**65**	81	**579**
Provision for directors' stock payment	**—**	132	**—**
Retirement benefit expense	**738**	867	**6,558**

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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Selling, general and administrative expenses	**¥2,092**	¥2,047	**$18,574**
Manufacturing expenses	**102**	5	**908**
Total	**¥2,195**	¥2,052	**$19,482**

17. Sale and Disposal of Property, Plant and Equipment

Gain on sales of property, plants and equipment for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Machinery and vehicles	¥6	¥ 7	$58
Other	0	—	1
Total	¥6	¥ 7	$60

Loss on sales of property, plant and equipment for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥—	¥178	$—
Machinery and vehicles	3	5	31
Land	—	46	—
Other	0	0	3
Total	¥ 3	¥229	$35

Loss on disposal of property, plant and equipment for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 41	¥ 62	$ 370
Machinery and vehicles	171	117	1,521
Construction in progress	5	115	49
Other	8	4	73
Total	¥227	¥300	$2,015

18. Impairment Loss

For the year ended March 31, 2016, the Company recognized impairment loss of ¥594 million ($5,274 thousand) on the idle assets for which there is no intended to use in the future and whose market values significantly declined. With regard to shops, the Company has reduced the book value to the recoverable amount, since the Company decided to close those shops.

For the year ended March 31, 2015, the Company recognized impairment loss of ¥836 million on property, plant and equipment. With regard to the plant, the Company has reduced the book value to the recoverable amount, since the plant has recorded operating loss continuously and the estimated aggregated value of future cash flows is lower than the carrying amounts of each asset. With regard to manufacturing equipment, the Company has reduced the book value to the recoverable amount, since the Company decided to discontinue the production and there is no plan to utilize these assets in future. With regard to shops, the Company has reduced the book value to the recoverable amount, since the Company decided to relocate those shops. With regard to the warehouse, the Company has reduced the book value to the recoverable amount, since the Company decided to scrap it.

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, 2016)

Location	Purpose of use	Type of asset	Amount	
			Millions of yen	Thousands of U.S. dollars
Utsunomiya City, Tochigi Prefecture	Idle assets	Construction in progress	**¥215**	**$1,911**
Taipei, Taiwan	Idle assets	Machinery and vehicles Others	**194**	**1,723**
Sumida-ku, Tokyo Other: 2 buildings	Shops	Buildings Property, plant and equipment, others Investments and other assets, others	**160**	**1,427**
Shimotsuma City, Ibaraki Prefecture	Idle assets	Machinery and vehicles	**23**	**211**

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 the above assets can be sold or used for other purposes.

(For the year ended March 31, 2015)

Location	Purpose of use	Type of asset	Amount
			Millions of yen
China	Factory	Building Machinery and vehicles Others	¥700
Utsunomiya City, Tochigi Prefecture	Manufacturing equipment	Construction in progress	55
Sumida-ku, Tokyo and other	Shops	Buildings Others	36
California, USA	Manufacturing equipment	Machinery and equipment	26
Konan City, Shiga Prefecture	Warehouse	Buildings, structures and machinery and equipment	17

The recoverable amount is measured by the net selling price or the value in use.

The net selling price is considered to be zero since it is not likely that these assets can be sold or used for other purposes.

In addition, the value in use is considered to be zero since future cash flows from these assets are negative.

19. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Other comprehensive income			
Unrealized holding gain (loss) on securities			
Amount during the year	**¥ 363**	¥ 579	**$ 3,230**
Reclassification adjustments	**(395)**	(10)	**(3,505)**
Amount before tax effects	**(31)**	568	**(275)**
Tax effects	**22**	(161)	**200**
Total	**¥ (8)**	¥ 406	**$ (74)**
Foreign currency translation adjustments			
Amount during the year	**¥(2,565)**	¥2,521	**$(22,764)**
Reclassification adjustments	**311**	—	**2,765**
Amount before tax effects	**(2,253)**	2,521	**(19,998)**
Tax effects	**—**	—	**—**
Total	**¥(2,253)**	¥2,521	**$(19,998)**
Remeasurements of defined benefit plans			
Amount during the year	**¥ (863)**	¥ 37	**$ (7,663)**
Reclassification adjustments	**210**	273	**1,870**
Amount before tax effects	**(652)**	310	**(5,793)**
Tax effects	**184**	(161)	**1,635**
Total	**¥ (468)**	¥ 149	**$ (4,157)**
Total	**¥(2,730)**	¥3,076	**$(24,231)**

20. Leases

Future minimum lease payments subsequent to March 31, 2016 and 2015 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Due in 1 year or less	**¥14**	¥10	**$125**
Due over 1 year	**39**	19	**354**
Total	**¥54**	¥29	**$479**

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		
	2016			2016		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Other	**¥7**	**¥7**	**¥0**	**$67**	**$65**	**$1**
Total	**¥7**	**¥7**	**¥0**	**$67**	**$65**	**$1**

	Millions of yen		
	2015		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value
Other	¥24	¥23	¥ 1
Total	¥24	¥23	¥ 1

Future minimum lease obligations under finance lease transactions subsequent to March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due in 1 year or less	**¥ 0**	¥ 1	**$ 1**
Due over 1 year	**—**	0	**—**
Total	**¥ 0**	¥ 1	**$ 1**

Lease payments for the years ended March 31, 2016 and 2015 are ¥1 million ($10 thousand) and ¥13 million, respectively.

21. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2016 and 2015 is as follows:

	Millions of yen			
	2016			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
USD	**¥3,127**	**—**	**¥207**	**¥207**
Buy				
USD	**4,838**	**¥2,515**	**(37)**	**(37)**
Total	**¥7,966**	**¥2,515**	**¥169**	**¥169**

	Thousands of U.S. dollars			
	2016			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
USD	**$27,758**	**—**	**$1,842**	**$1,842**
Buy				
USD	**42,943**	**$22,324**	**(336)**	**(336)**
Total	**$70,702**	**$22,324**	**$1,505**	**$1,505**

	Millions of yen			
	2015			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
USD	¥ 3,304	—	¥ (39)	¥ (39)
Buy				
USD	6,124	¥2,323	697	697
GBP	312	—	3	3
SGD	344	—	(0)	(0)
Total	¥10,085	¥2,323	¥660	¥660

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

22. Business Combinations

No applicable items

23. Stock Options

As of March 31, 2016, the Company has the following stock option programs.

Date of resolution	June 24, 2009
Type and number of eligible persons	[The Company] Directors: 2 Statutory auditor: 1 Employees: 14 [the Company's subsidiaries] Directors: 2
Class and number of shares to be granted	Common stock: 1,600,000 shares (Note 1)
Grant date	June 30, 2009
Vesting requirement	—
Vesting period	—
Exercise period	From July 1, 2009 to June 30, 2019 (Note 2)

Notes: 1. Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.
2. The exercise period was revised at the extraordinary shareholders' meeting held on January 14, 2011.

(1) Number and price information

(As of March 31, 2016)

Date of resolution	Shares
	June 24, 2009
Unvested stock options	
Outstanding as of March 31, 2015	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2016	—
Vested stock options	
Outstanding as of March 31, 2015	340,000
Vested	—
Exercised	140,000
Expired	—
Outstanding as of March 31, 2016	200,000

Note: Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

	Yen	U.S. dollars
Date of resolution	June 24, 2009	
Exercise price	¥ 400	$ 3.54
Average stock price at exercise	4,546	40.34
Fair value at grant date	75	0.66

Note: Exercise price in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

(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
Total intrinsic value at March 31, 2016	**¥814,000,000**	**$7,223,997**
Total intrinsic value on the exercise date of the stock options exercised in the year ended March 31, 2016	**¥576,140,000**	**$5,113,063**

24. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2016 and 2015.

(1) For the year ended March 31, 2016

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	Akira Matsumoto	Chairman of the board & CEO Representative Director of the Company	Direct 0.03%	Exercise of subscription rights (Note 2)	¥24 million ($212 thousand)

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

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, 2015

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	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.05%	Exercise of subscription rights (Note 2)	¥20 million

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

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.

25. Per Share Information

Per share information as of March 31, 2016 and 2015 and for the years then ended is as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥905.20	¥821.97	$8.03
Net income per share			
Basic	¥125.88	¥105.82	$1.11
Diluted	¥125.64	¥105.54	$1.11

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total net assets	¥131,469	¥118,800	$1,166,752
Net assets attributable to common stock	¥120,912	¥109,652	$1,073,064
Major components of the difference			
Subscription rights	¥ 15	¥ 25	$ 133
Non-controlling interests	¥ 10,541	¥ 9,122	$ 93,555

	Number of shares	
	2016	2015
Number of common stock issued and outstanding	133,769,800	133,629,800
Treasury stock of common stock	193,452	228,132
Number of common shares used in calculation of net assets per share	133,576,348	133,401,668

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Basis for calculation of net income per share			
Net income attributable to owners of parent	¥16,799	¥14,114	$149,086
Net income attributable to owners of parent attributable to common stock	¥16,799	¥14,114	$149,086
Net income attributable to owners of parent to common stock	—	—	—

	Number of shares	
	2016	2015
Average number of shares outstanding during the year	133,452,595	133,392,045

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Major dilutive factors included in calculating diluted net income per share			
Adjustments to net income attributable to owners of parent	**¥—**	¥—	**$—**

	Number of shares	
	2016	2015
Subscription rights	**251,478**	348,982
Increase in number of common stock	**251,478**	348,982

Notes: 1. The Company's own stock in the trust recorded as treasury stock under shareholders' equity includes treasury shares excluded from the average number of shares during the period used for calculating net income per share and treasury shares excluded from the number of shares outstanding at the end of the fiscal year used for calculating net assets per share.
204,036 treasury shares (183,756 shares in 2015) were excluded from the average number of shares during the year used for calculating net income per share for the year ended March 31, 2016 and 192,620 treasury shares (227,300 shares in 2015) were excluded from the number of shares outstanding used for calculating net assets per share at March 31, 2016.
2: As stated in "Changes in accounting principles," the Accounting Standard for Business Combinations have been applied.
As a result, net assets per share, net income per share and net income per share (diluted) as of and for the year ended March 31, 2016 decreased by ¥0.05 ($0.00), ¥0.02 ($0.00) and ¥0.02 ($0.00), respectively.

26. Segment Information

For the years ended March 31, 2016 and 2015, 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]

(1) Sales by product and service

	Millions of yen			
	2016			
	Snacks	Other foods	Other	Total
Sales to third parties	**¥204,842**	**¥38,036**	**¥3,249**	**¥246,129**

	Thousands of U.S. dollars			
	2016			
	Snacks	Other foods	Other	Total
Sales to third parties	**$1,817,914**	**$337,563**	**$28,841**	**$2,184,319**

	Millions of yen			
	2015			
	Snacks	Other foods	Other	Total
Sales to third parties	¥190,069	¥28,830	¥3,250	¥222,150

(2) Information by region

Information about sales by region is as follows:

	Millions of yen				
	2016				
	Japan	America	China	Others	Total
Sales	**¥216,807**	**¥12,517**	**¥1,909**	**¥14,894**	**¥246,129**

	Thousands of U.S. dollars				
	2016				
	Japan	America	China	Others	Total
Sales	**$1,924,098**	**$111,091**	**$16,943**	**$132,186**	**$2,184,319**

	Millions of yen				
	2015				
	Japan	America	China	Others	Total
Sales	¥199,709	¥9,668	¥2,227	¥10,544	¥222,150

Information about property, plant and equipment by region is as follows:

	Millions of yen				
	2016				
	Japan	America	China	Others	Total
Property, plant and equipment	**¥51,292**	**¥9,408**	**¥585**	**¥8,873**	**¥70,159**

	Thousands of U.S. dollars				
	2016				
	Japan	America	China	Others	Total
Property, plant and equipment	**$455,209**	**83,496**	**$5,195**	**$78,745**	**$622,646**

	Millions of yen				
	2015				
	Japan	America	China	Others	Total
Property, plant and equipment	¥44,915	¥7,274	¥753	¥6,811	¥59,754

(3) Sales by major customers

		Millions of yen		Thousands of U.S. dollars
	Reported segment	**2016**	2015	**2016**
CONFEX CO., LTD.	Production and sale of snacks and other foods	**¥28,105**	¥25,856	**$249,424**
YAMABOSHIYA Co., Ltd.	Production and sale of snacks and other foods	**26,352**	27,065	**233,873**
Mitsubishi Shokuhin Co., Ltd	Production and sale of snacks and other foods	**26,324**	24,231	**233,622**

(4) Impairment loss on fixed assets by reporting segment

	Millions of yen				
	2016				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	**¥594**	**¥594**	**—**	**—**	**¥594**

	Thousands of U.S. dollars				
	2016				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	**$5,274**	**$5,274**	**—**	**—**	**$5,274**

	Millions of yen				
	2015				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	¥836	¥836	—	—	¥836

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

	Millions of yen				
	2016				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	**¥ 693**	**¥ 693**	**—**	**—**	**¥ 693**
Balance at end of year	**¥2,245**	**¥2,245**	**—**	**—**	**¥2,245**

	Thousands of U.S. dollars				
	2016				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	**$ 6,150**	**$ 6,150**	**—**	**—**	**$ 6,150**
Balance at end of year	**$19,929**	**$19,929**	**—**	**—**	**$19,929**

	Millions of yen				
	2015				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 647	¥ 647	—	—	¥ 647
Balance at end of year	¥2,719	¥2,719	—	—	¥2,719

Independent Auditor's Report

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Building a better working world

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, 2016, 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 its consolidated subsidiaries as at March 31, 2016, 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 5.

Ernst & Young ShinNihon LLC
June 22, 2016
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 U.S.
Apr. 1972	Calbee Shokuhin Co., Ltd. established (absorbed by merger with Calbee, Inc. in July 2014)
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
Mar. 1991	*Frugra* (Fruit Granola) launched
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. (currently CFSS Co. Ltd.*) established in China
Jul. 2004	R&DDE Center (currently R&D Center) 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 U.S.
Oct. 2006	Acquired 80% of issued shares in Tower Bakery, Inc.* and acquired 100% of issued shares in Star Bakery, Inc.*
Nov. 2007	Calbee Eatalk Co., Ltd.*, a company employing people with disabilities, established
Jul. 2009	Capital alliance formed with U.S. 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	All of Calbee America, Inc.*'s snack food production and sales were split off and transferred to Calbee North America, LLC*
Aug. 2012	Calbee (Hangzhou) Foods Co., Ltd., a joint venture with Master Kong Instant Foods Investment (China) Co., Ltd. and ITOCHU Corporation, established in China
Aug. 2012	Calbee (Taipei) Foods Co., Ltd.*, a joint venture with Wei Chuan Foods Corporation, established in Taiwan
Feb. 2013	Established ICS Investment Co., Ltd.* as a special purpose company with ITOCHU Corporation to establish PT. Calbee-Wings Food*
Jul. 2013	PT. Calbee-Wings Food* established in Indonesia as a joint venture with the Wings group
Oct. 2013	Conducted a stock split in which common shares were split at a ratio of 1:4
Mar. 2014	Established Calbee (UK) Ltd* in the UK.
Apr. 2014	Established Calbee-URC, Inc.* in the Philippines as a joint company with Universal Robina Corporation
Apr. 2015	Acquired 51% of share of Moh Seng Marketing Pte. Ltd. and renamed Calbee Moh Seng Pte. Ltd.* in Singapore
Apr. 2015	Established Calbee Iberia S.L.* in Spain
Oct. 2015	Calbee E-commerce Limited,* a joint venture with UNQ International (HK) Ltd., established in Hong Kong
Nov. 2015	Dissolved joint venture agreement of Calbee (Hangzhou) Foods Co., Ltd.

* Currently consolidated subsidiaries

Corporate Data

(As of March 31, 2016)

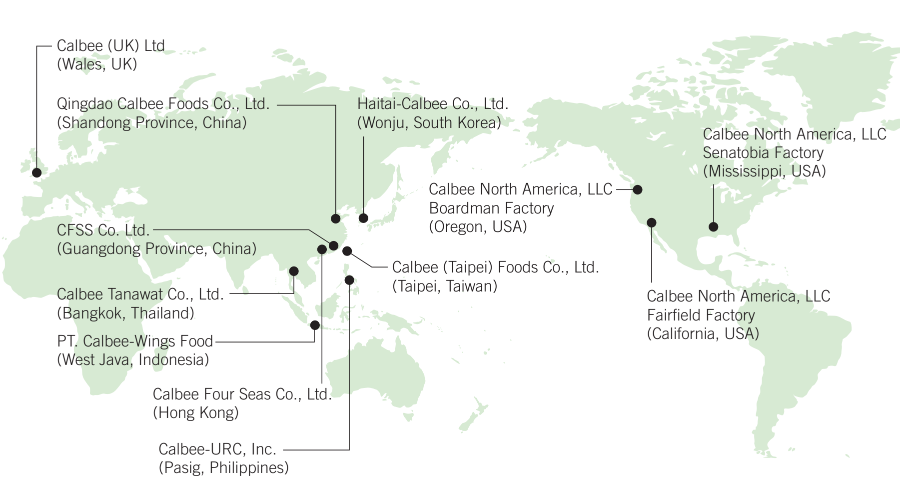
Company Name	Calbee, Inc.
Date of Establishment	April 30, 1949
Head Office	Marunouchi Trust Tower Main, 22nd Floor 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-0005, JAPAN
Paid-in Capital	12,008 million yen
Representatives	Akira Matsumoto, Chairman of the Board & CEO Shuji Ito, President & COO
Number of Employees	3,728 (consolidated basis), 1,685 (parent basis)
Fiscal Year-end	March 31
Business	Production and sale of snacks and other foods
Independent Auditor	Ernst & Young ShinNihon LLC

Group Companies

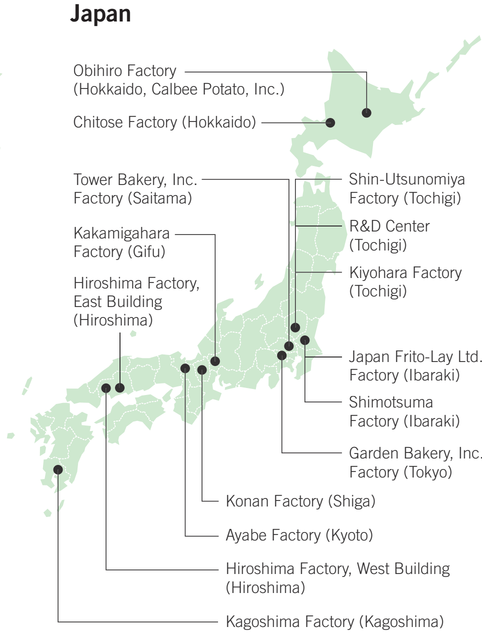
Japan	Overseas
Calbee Potato, Inc.	Calbee America, Inc.
Snack Food Service Co., Ltd.	Calbee North America, LLC
Garden Bakery, Inc.	Qingdao Calbee Foods Co., Ltd.
Tower Bakery, Inc.	Yantai Calbee Co., Ltd.
Star Bakery, Inc.	CFSS Co. Ltd.
Calnac Co., Ltd.	Calbee E-commerce Limited
Calbee Eatalk Co., Ltd.	Calbee Four Seas Co., Ltd.
Japan Frito-Lay Ltd.	Calbee (Taipei) Foods Co., Ltd. (Decided as of March 2016 to liquidate)
ICS Investment Co., Ltd.	Haitai-Calbee Co., Ltd.
	Calbee Tanawat Co., Ltd.
	PT. Calbee-Wings Food
	Calbee-URC, Inc.
	Calbee Moh Seng Pte. Ltd.
	Calbee (UK) Ltd
	Calbee Iberia S.L.

Location of Factories

Overseas



Japan

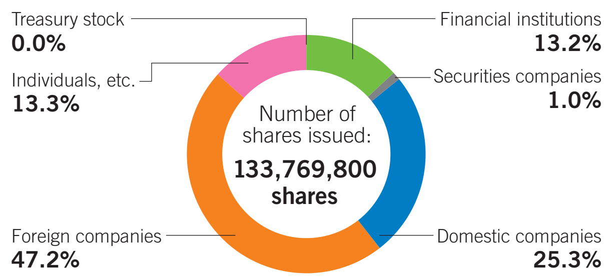


Investor Information

(As of March 31, 2016)

Common Stock	Authorized: 176,000,000 shares Issued: 133,769,800 shares
Number of Shareholders	19,088
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

Share Breakdown by Shareholder Type



Principal Shareholders

Shareholders	Number of Shares (thousands)	Ownership ratio[3] (%)
FRITO-LAY GLOBAL INVESTMENTS B.V. [1]	26,800	20.03
General Incorporated Association Miki-no-Kai [2]	22,970	17.17
Japan Trustee Services Bank, Ltd. (Trust Account)	3,925	2.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,603	2.69
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	3,069	2.29
Calbee Employees Shareholding Association	2,633	1.97
THE TORIGOE CO., LTD.	1,936	1.45
STATE STREET BANK AND TRUST COMPANY	1,787	1.34
BNYM TREATY DTT 15	1,409	1.05
BBH FOR MATTHEWS JAPAN FUND	1,323	0.99

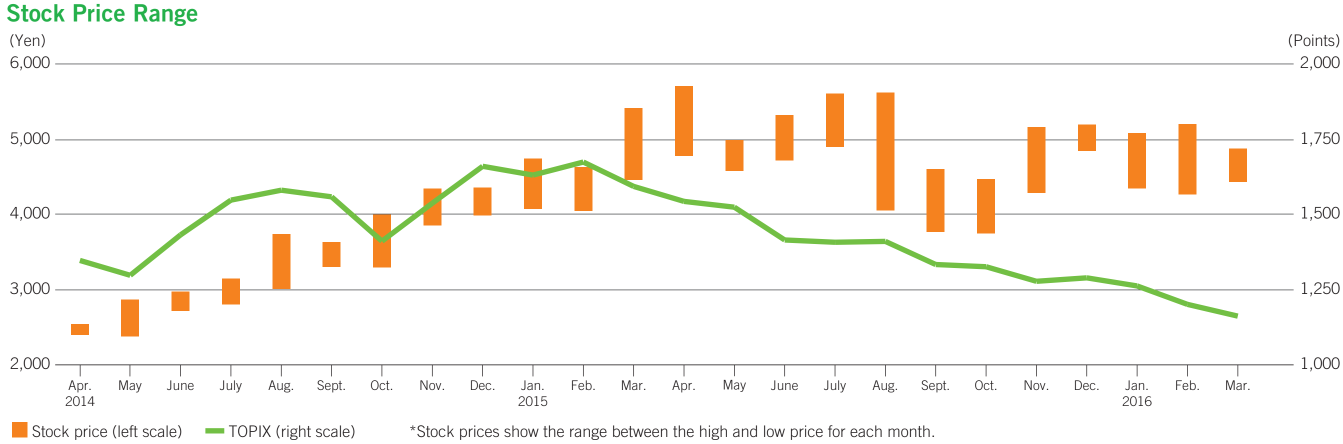
1. FRITO-LAY GLOBAL INVESTMENTS B.V. is a wholly-owned subsidiary of PepsiCo, Inc.
2. General Incorporated Association Miki-no-Kai is a shareholding association of the founding family of the Company.
3. Ownership ratios are calculated excluding 832 shares held by the Company as treasury stock including 67,120 shares held by the Employee Stock Ownership Plan Trust Account and 125,500 shares held by the Board Incentive Plan Trust Account.

Shares and Shareholders

	2015	2016
Number of Shares Issued	133,629,800	133,769,800
Share Breakdown by Shares Issued		
Financial institutions	13.8%	13.2%
Securities companies	1.0%	1.0%
Domestic companies	27.2%	25.3%
Foreign companies	44.7%	47.2%
Individuals, etc.	13.3%	13.3%
Treasury stock	0.0%	0.0%

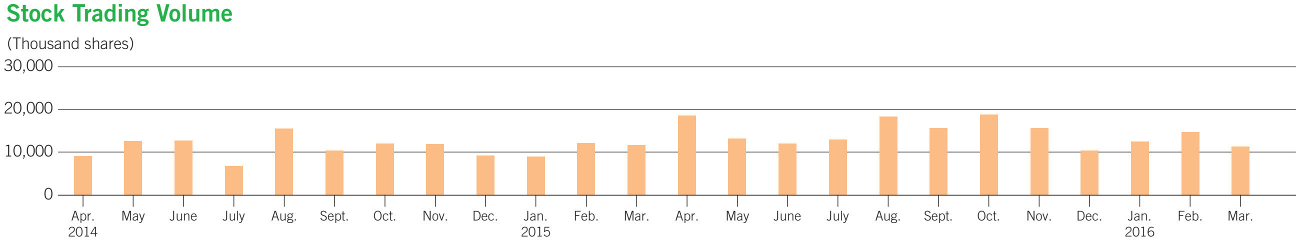
	2015	2016
Number of Shareholders	13,878	19.088
Share Breakdown by Shareholders		
Financial institutions	0.4%	0.4%
Securities companies	0.3%	0.2%
Domestic companies	1.0%	0.8%
Foreign companies	3.2%	2.4%
Individuals, etc.	95.1%	96.2%
Treasury stock	0.0%	0.0%

Stock Price Range



*Stock prices show the range between the high and low price for each month.

Stock Trading Volume



*Calbee's common stock was split at a ratio of 4 shares for 1 share effective October 1, 2013. Stock prices and trading volumes prior to the date of the stock split have also been retroactively adjusted.

Contact

IR and Strategic Planning Group **E-mail: 2229ir@calbee.co.jp**

Board of Directors, Audit & Supervisory Board Members

(As of June 22, 2016)

Directors

1 Akira Matsumoto

Chairman of the Board & CEO, Representative Director
Age 68

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)

2 Shuji Ito

President & COO, Representative Director
Age 59

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)

3 Yuzaburo Mogi

Outside Director (Independent)
Age 81, 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)

4 Takashi Kawamura

Outside Director (Independent)
Age 76, Elected 2015

1962 Joined Hitachi Ltd.
2009 Appointed Representative Executive Officer, Chairman, President and Chief Executive Officer and Board Director, Hitachi, Ltd.
2010 Appointed Representative Executive Officer, Chairman and Chief Executive Officer and Board Director, Hitachi, Ltd.
2011 Appointed Chairman of the Board, Hitachi
2014 Appointed Advisor, Hitachi
2015 Appointed Director, Calbee, Inc. (current position)

5 Takahisa Takahara

Outside Director (Independent)
Age 54, Elected 2015

1986 Joined Sanwa Bank, Ltd. (now The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
1991 Joined Unicharm Corporation
1995 Appointed Director, Unicharm
2001 Appointed President & CEO, Unicharm (current position)
2015 Appointed Director, Calbee, Inc. (current position)

6 Atsuko Fukushima

Outside Director (Independent)
Age 54, Elected 2015

1985 Joined Chubu-Nippon Broadcasting Co., Ltd.
1988 Named newscaster, Japan Broadcasting Corporation (NHK)
1993 Named newscaster, Tokyo Broadcasting System, Inc. (TBS, now Tokyo Broadcasting System Television, Inc.)
1994 Appointed Management Advisor for Matsushita Electric Industrial Co., Ltd. (now Panasonic Corporation)
2015 Appointed Director, Calbee, Inc. (current position)

7 Katty Lam

Outside Director
Age 49, Elected 2016

1994 Joined PepsiCo China
2008 Appointed Area Vice President of PepsiCo Beverages, South China
2011 Appointed President of PepsiCo Greater China Foods Operation
2013 Appointed Chairman, PepsiCo Greater China Region (current position)
2016 Appointed Director, Calbee, Inc. (current position)

Audit & Supervisory Board Members

Tadashi Ishida

Outside (Independent) Audit & Supervisory Board Member
Age 72, 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 Audit & Supervisory Board Member, Calbee, Inc. (current position)

Isao Hirakawa

Age 60, 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 Audit & Supervisory Board Member, Calbee (current position)

Nagako Oe

Outside (Independent) Audit & Supervisory Board Member
Age 43, Elected 2016

1998 Licensed and registered as an attorney at law
1998 Joined Toranomon Sougoh Law Office
2004 Joined Kramer Levin Naftalis & Frankel LLP, New York (Foreign Trainee)
2005 Joined Asahi Koma Law Offices (Associate)
2007 Joined TMI Associates (Associate)
2008 Appointed Partner, TMI Associate (current position)
2016 Appointed Statutory Audit & Supervisory Board Member, Calbee, Inc. (current position)

(Note) Calbee has appointed one alternate Audit and Supervisory Board Member to ensure that it consistently maintains the number of corporate auditors prescribed under the law.

Calbee
Harvest the Power of Nature.

Calbee, Inc.

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https://www.calbee.com/ir/

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