Calbee
Harvest the Power of Nature.
TSE code: 2229

Calbee Financial Book 2017

Fiscal year ended March 31, 2017

Contents

Seven-Year Summary

Years ended March 31

	2017	2016	2015	2014	2013	2012	2011	2017
	Millions of yen							Thousands of U.S. dollars (Note 1)
For the Year:								
Net sales	**¥252,420**	¥246,129	¥222,150	¥199,941	¥179,411	¥163,268	¥155,529	**$2,249,938**
Operating income	**28,841**	28,125	24,183	19,717	15,790	12,247	10,717	**257,074**
Operating margin (%)	**11.4**	11.4	10.9	9.9	8.8	7.5	6.9	—
Net income attributable to owners of parent	**18,605**	16,799	14,114	12,086	9,440	7,096	4,253	**165,835**
Net income margin (%)	**7.4**	6.8	6.4	6.0	5.3	4.3	2.7	—
Return on equity (ROE) (%)	**14.9**	14.6	13.7	13.1	11.4	9.6	6.5	—
Research and development costs	**2,168**	2,195	2,052	2,161	2,288	1,811	2,213	**19,327**
Capital expenditures	**9,763**	21,229	15,290	6,392	7,298	5,422	4,049	**87,022**
Depreciation and amortization	**7,297**	7,570	6,232	5,960	6,318	6,676	7,243	**65,042**
Per Share (¥/$) (Note 2):								
Net income attributable to owners of parent	**139.24**	125.88	105.82	91.46	72.18	55.07	36.62	**1.24**
Net assets	**958.60**	905.20	821.97	729.93	664.55	596.66	550.14	**8.54**
Cash dividends	**42.00**	35.00	28.00	22.00	15.50	10.50	7.00	**0.37**
Dividend payout ratio (%)	**30.2**	27.8	26.5	24.1	21.5	19.1	19.1	—
At Year-End:								
Total assets	**182,011**	174,878	161,968	140,966	124,793	108,474	99,393	**1,622,352**
Net assets	**135,056**	131,469	118,800	104,466	92,685	80,417	72,924	**1,203,821**
Working capital (Note 3)	**60,805**	57,456	55,313	50,160	36,302	25,210	16,131	**541,987**
Interest-bearing debt	**1,107**	366	402	—	7	6	299	**9,870**
Equity ratio (%) (Note 4)	**70.4**	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	0.0	—
Number of consolidated subsidiaries	**27**	24	22	22	21	18	18	—
Number of employees (consolidated)	**3,860**	3,728	3,477	3,341	3,352	3,053	2,911	—
Cash Flows:								
Net cash provided by operating activities	**25,958**	22,541	22,266	23,478	17,328	7,049	16,664	**231,379**
Net cash used in investing activities	**(13,404)**	(14,270)	(9,422)	(17,041)	(12,999)	(5,347)	(620)	**(119,477)**
Net cash provided by (used in) financing activities	**(14,711)**	(2,859)	(2,878)	(383)	607	(411)	(2,124)	**(131,134)**
Cash and cash equivalents at end of year	**44,627**	47,323	42,572	31,592	25,331	19,448	18,238	**397,783**

Notes: 1. U.S. dollar amounts are presented, for convenience only, at a conversion rate of ¥112.19 = US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2017.
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. Shareholders' 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, 2017 (fiscal 2017), consolidated net sales for the year under audit increased 2.6%, to ¥252,420 million.

Production and Sale of Snacks and Other Foods Business

Net sales increased 2.5%, to ¥248,872 million, driven by sales growth in cereals, flour-based snacks, and the launch of new snacks, which offset the impact of decreased sales of potato-based and corn-based snacks and lower sales in the overseas business.

Snack Foods

Snack food sales increased 0.4%, to ¥203,284 million.

1. Potato-Based Snacks

Net sales decreased 0.3% year on year, to ¥126,824 million.

Potato Chips: Sales decreased 2.6%, to ¥76,583 million due to production and sales adjustments caused by a potato supply shortage.

Jagarico: Sales increased 4.6%, to ¥36,685 million, driven by a product lineup enhanced through L-size products and flavor development.

Jagabee and Jaga Pokkuru: Sales increased 0.8%, to ¥13,556 million, despite decreased sales of *Jagabee*, mainly due to the strong performance of *Jaga Pokkuru*.

2. Flour-Based Snacks

Net sales increased 3.6% year on year, to ¥22,795 million, on growth in sales of *Sapporo Potato* stemming from a product renewal and successful, proactive promotional activities.

3. Corn-Based Snacks

Net sales decreased 7.5% year on year, to ¥17,160 million, owing to lower sales of popcorn.

4. Other New Snacks

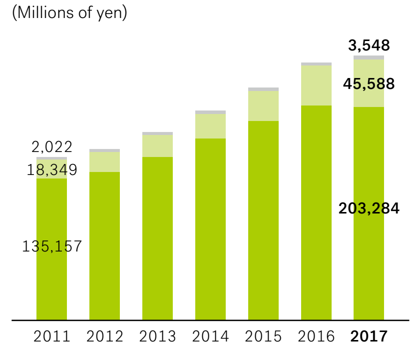
Net sales grew strongly, increasing 36.6% year on year, to ¥7,524 million, due in part to the fiscal 2017 launch of *Potato Chips Crisps* fabricated potato chips.

5. Overseas Business

Net sales decreased 1.2% year on year, to ¥28,978 million, due to the effects of foreign currency exchange differences. Excluding foreign currency exchange effects, sales increased 9.4% year on year, to ¥32,074 million. Sales fell in North America on the effects of the stronger yen, despite sales actually increasing in real terms on a recovery in sales of core product *Harvest Snaps* to large customers. Sales fell year on year in South Korea, where sales of *Honey Butter Chips* decreased and sales growth among new products was somewhat weak. Other regions such as the U.K., where we made a full-fledged entry during the fiscal year under review, and Indonesia, where we began sales during the year, contributed to increased sales.

Net Sales

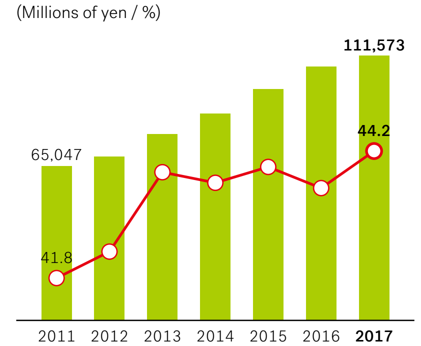
(Millions of yen)



Snack foods
Other food products
Other businesses

Gross Profit / Gross Margin

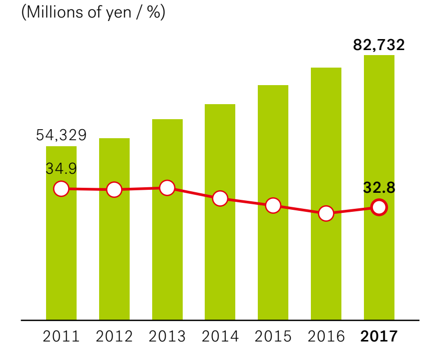
(Millions of yen / %)



Gross profit
Gross margin

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

(Millions of yen / %)



SG&A expenses
SG&A expenses to net sales

Cereals, Bread, and Others
Net sales increased 13.0% year on year, to ¥45,588 million. This was mainly due to continued strong demand for the cereal product *Frugra*, following an increase in production capacity and efforts to expand the product lineup, leading to a rise in sales of 30.7% year on year, to ¥29,196 million.

Other Businesses
Net sales increased 9.2% year on year, to ¥3,548 million, due in part to higher potato-related sales, despite lower sales in the distribution business and a decline in promotional tool sales.

Gross Profit
Gross profit increased 4.2% year on year, to ¥111,573 million. This was due to lower raw material costs from cost reductions stemming from the positive effects of the strong yen and *Frugra* raw material costs, lower electricity costs due to lower prices of crude oil, and improved domestic productivity. In step with the rise in gross profit, the gross margin increased 0.7 percentage point, to 44.2%.

Selling, General and Administrative Expenses
Selling, general and administrative (SG&A) expenses increased 4.8% year on year, to ¥82,732 million. The ratio of SG&A expenses to net sales rose 0.7 percentage point, to 32.8%. This was due to higher domestic selling expenses and initial investment for sales promotion expenses in Indonesia.

Operating Income
As a result of the aforementioned, operating income increased 2.5% year on year, to ¥28,841 million. The operating margin was 11.4%, the same level as in the previous fiscal year.

Non-Operating Income / Expenses
Foreign exchange losses totaling ¥260 million included ¥215 million in net non-operating expenses.

Net Income
As a result of the above, net income increased 10.8% year on year, to ¥18,605 million. Net income per share was ¥139.24. After the dilution of common shares, net income per share was ¥139.08. ROE improved 0.3 percentage point, to 14.9%.

Financial Position

Total assets as of March 31, 2017 were ¥182,011 million, an increase of ¥7,133 million. The primary factor contributing to this outcome was a change in the date of payment for settlements causing an increase in notes and accounts receivable—trade.

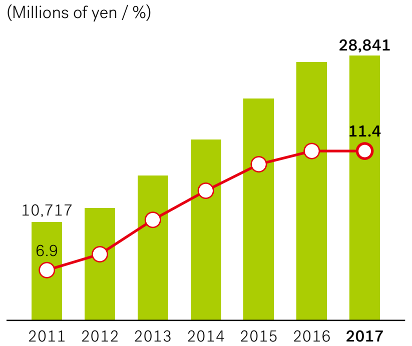
Liabilities increased ¥3,546 million, to ¥46,954 million, primarily due to an increase in short-term loans payable and income taxes payable.

Net assets increased ¥3,587 million, to ¥135,056 million, due to an increase in retained earnings, despite the decrease in capital surplus and non-controlling interests as a result of the acquisition of consolidated subsidiary Calbee North America, LLC.

The shareholders' equity ratio increased 1.3 percentage points from the end of the previous fiscal year, to 70.4%.

Operating Income / Operating Income Ratio

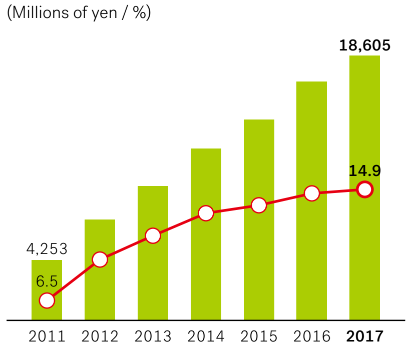
(Millions of yen / %)



■ Operating income
— Operating income ratio

Net Income* / ROE

(Millions of yen / %)

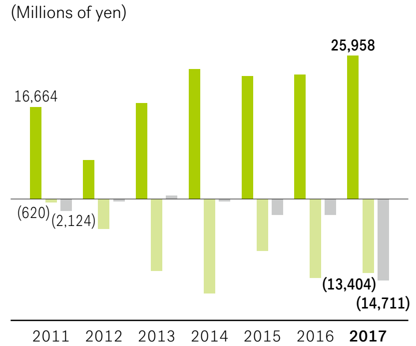


■ Net income
— ROE

* Net income attributable to owners of parent

Cash Flows

(Millions of yen)



■ Net cash provided by operating activities
■ Net cash used in investing activities
■ Net cash provided by (used in) financing activities

Cash Flows
Cash and cash equivalents as of March 31, 2017 were ¥44,627 million, ¥2,696 million lower than at the end of the previous fiscal year. The main influencing factors are detailed below.

Cash Flows from Operating Activities
Operating activities in fiscal 2017 resulted in a net cash inflow of ¥25,958 million, compared with an inflow of ¥22,541 million in the previous fiscal year. Factors contributing to this outcome included inflows of profit before income taxes and depreciation, partially offset by an increase in notes and accounts receivable—trade and outflows of income tax payments.

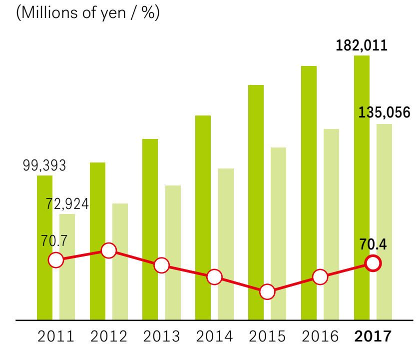
Cash Flows from Investing Activities
Investing activities in fiscal 2017 resulted in a net cash outflow of ¥13,404 million, compared with an outflow of ¥14,270 million in the previous fiscal year. Factors influencing this outcome included outflows on the acquisition of fixed assets such as the expansion of *Frugra* production lines and the acquisition of factories in South Korea and Indonesia.

Cash Flows from Financing Activities
Financing activities in fiscal 2017 resulted in a net cash outflow of ¥14,711 million, compared with an outflow of ¥2,859 million in the previous fiscal year, due to outflows for cash dividends paid and the acquisition of shares in subsidiaries for consolidation.

Capital Expenditures
In fiscal 2017, capital expenditures totaled ¥9,763 million, down ¥11,466 million, compared with the previous fiscal year. Of this total, ¥7,200 million went to domestic operations and ¥2,562 million went to overseas operations. The main components of domestic capital expenditures were ¥2,479 million used to expand *Frugra* production facilities.

Total Assets / Net Assets / Equity Ratio

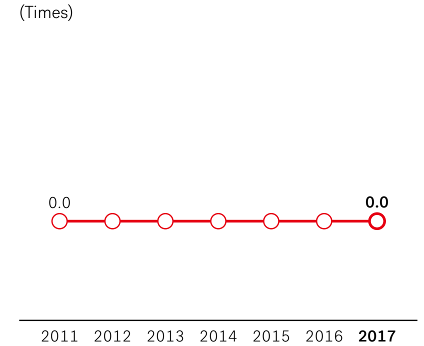
(Millions of yen / %)



■ Total assets
■ Net assets
— Equity ratio

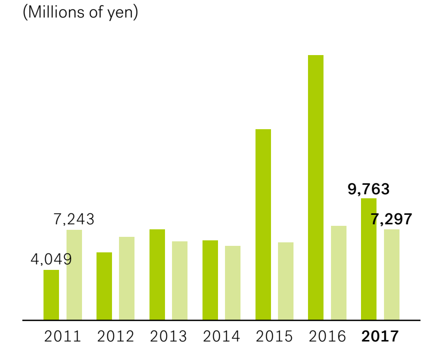
Debt to Equity Ratio

(Times)



Capital Expenditures / Depreciation and Amortization

(Millions of yen)



■ Capital expenditures
■ Depreciation and amortization

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 aging 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 demand for greater food safety has increased in recent years. In assuming responsibility for responding to this demand, 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 food 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 strategies. 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, 2017, 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 food 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, 2017, no significant personnel relationship existed 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
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2017	2016	2017
Assets			
Current assets:			
Cash and deposits (Notes 6 and 14)	¥ 23,961	¥ 22,784	$ 213,581
Notes and accounts receivable (Notes 6 and 13)	28,600	23,021	254,928
Marketable securities (Notes 6 and 7)	28,999	28,999	258,481
Inventories (Note 8)	9,895	9,268	88,201
Deferred tax assets (Note 10)	2,593	2,625	23,114
Others	3,868	4,230	34,485
Allowance for doubtful accounts	(33)	(4)	(301)
Total current assets	97,884	90,925	872,491
Non-current assets:			
Property, plant and equipment:			
Land	11,626	11,642	103,635
Buildings and structures (Note 18)	67,093	63,958	598,030
Machinery, equipment and vehicles (Note 18)	97,368	91,084	867,888
Lease assets	644	233	5,742
Construction in progress (Note 18)	1,840	7,506	16,402
Others (Note 18)	4,191	4,503	37,363
	182,764	178,926	1,629,063
Accumulated depreciation	(111,929)	(108,767)	(997,675)
Property, plant and equipment, net	70,835	70,159	631,388
Investments and other assets:			
Investment securities (Notes 6 and 7)	2,091	2,083	18,638
Investments in affiliates (Note 6)	9	11	82
Long-term loans	151	211	1,347
Deferred tax assets (Note 10)	2,307	2,004	20,569
Net defined benefit asset (Note 12)	1,984	1,561	17,687
Goodwill	1,618	2,245	14,425
Others (Note 18)	5,200	5,744	46,351
Allowance for doubtful accounts	(70)	(69)	(629)
Total investments and other assets	13,291	13,793	118,473
Total non-current assets	84,126	83,953	749,861
Total assets	¥ 182,011	¥ 174,878	$1,622,352

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2017	2016	2017
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 6)	¥ 9,668	¥ 10,350	$ 86,180
Short-term borrowings (Notes 6 and 9)	1,107	—	9,870
Current portion of long-term debt (Notes 6 and 9)	—	52	—
Lease obligations (Note 9)	139	64	1,241
Other payables (Note 6)	6,595	6,121	58,791
Income taxes payable	5,577	4,604	49,716
Deferred tax liabilities (Note 10)	2	1	20
Provision for bonuses	4,247	4,195	37,856
Provision for directors' bonuses	139	128	1,247
Provision for stock payments (Note 4)	50	65	447
Others	9,550	7,884	85,130
Total current liabilities	37,079	33,469	330,503
Non-current liabilities:			
Long-term debt (Notes 6 and 9)	—	313	—
Lease obligations (Note 9)	308	93	2,753
Deferred tax liabilities (Note 10)	551	553	4,916
Provision for directors' retirement benefits	507	527	4,521
Provision for directors' stock payments (Note 4)	111	121	992
Net defined benefit liability (Note 12)	7,669	7,489	68,363
Asset retirement obligations	654	645	5,830
Others	72	194	649
Total non-current liabilities	9,875	9,939	88,027
Total liabilities	46,954	43,408	418,530
Net assets (Note 11):			
Shareholders' equity:			
Common stock:			
Authorized 2017 — 176,000,000 shares			
Authorized 2016 — 176,000,000 shares			
Issued 2017 — 133,821,800 shares			
Issued 2016 — 133,769,800 shares	12,020	12,008	107,145
Capital Surplus	4,781	11,572	42,619
Retained earnings	111,936	98,013	997,742
Treasury stock — 166,997 shares in 2017			
193,452 shares in 2016	(539)	(609)	(4,812)
Total shareholders' equity	128,198	120,985	1,142,694
Accumulated other comprehensive income:			
Unrealized holding gain on securities	604	608	5,386
Foreign currency translation adjustments	492	904	4,385
Remeasurements of defined benefit plans (Note 12)	(1,173)	(1,585)	(10,462)
Total accumulated other comprehensive income (loss)	(77)	(72)	(690)
Subscription rights	11	15	98
Non-controlling interests	6,924	10,541	61,718
Total net assets	135,056	131,469	1,203,821
Total liabilities and net assets	¥182,011	¥174,878	$1,622,352

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2017	2016	2017
Net sales	¥252,420	¥246,129	$2,249,938
Cost of sales (Notes 8 and 16)	140,847	139,095	1,255,434
Gross profit	111,573	107,033	994,504
Selling, general and administrative expenses (Notes 15 and 16)	82,732	78,908	737,430
Operating income	28,841	28,125	257,074
Other income (expenses):			
Interest and dividend income	120	202	1,069
Interest expense	(36)	(9)	(324)
Real estate income	77	76	691
Cost of real estate	(37)	(32)	(337)
Foreign exchange losses	(260)	(638)	(2,319)
Depreciation	(163)	(88)	(1,456)
Loss on abandonment of inventories	—	(582)	—
Business commencement expenses	(131)	(515)	(1,168)
Gain on sales of non-current assets (Note 17)	11	6	103
Gain on sales of shares of subsidiaries and affiliates	—	370	—
Gain on liquidation of subsidiaries and affiliates	146	—	1,306
Subsidy income	107	149	962
Loss on sales of non-current assets (Note 17)	(4)	(3)	(38)
Loss on retirement of non-current assets (Note 17)	(516)	(227)	(4,606)
Impairment loss (Note 18)	(584)	(594)	(5,210)
Others	130	(115)	1,160
Net income before income taxes	27,700	26,123	246,906
Income taxes (Note 10):			
Current	(9,161)	(8,359)	(81,658)
Deferred	406	267	3,626
	(8,754)	(8,091)	(78,031)
Net income	18,946	18,031	168,875
Net income attributable to:			
Non-controlling interests	341	1,232	3,039
Owners of parent	¥ 18,605	¥ 16,799	$ 165,835

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2017	2016	2017
Net income	¥18,946	¥18,031	$168,875
Other comprehensive income (Note 19):			
Unrealized holding loss on securities	(4)	(8)	(39)
Foreign currency translation adjustments	(578)	(2,253)	(5,157)
Remeasurements of defined benefit plans	411	(468)	3,668
Total other comprehensive loss	(171)	(2,730)	(1,528)
Comprehensive income	¥18,774	¥15,301	$167,346
Comprehensive income attributable to:			
Owners of parent	¥18,599	¥14,848	$165,789
Non-controlling interests	¥ 174	¥ 452	$ 1,556

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

		Millions of yen				
		Shareholders' Equity				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
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
Disposal of treasury stock					90	90
Purchase of shares of consolidated subsidiaries			(3)			(3)
Net changes during the year						
Balance at April 1, 2016	133,769,800	¥12,008	¥11,572	¥ 98,013	¥(609)	¥120,985
Issuance of stock (exercise of subscription rights)	52,000	12	12			24
Cash dividends paid				(4,681)		(4,681)
Profit attributable to owners of parent				18,605		18,605
Disposal of treasury stock					69	69
Purchase of shares of consolidated subsidiaries			(6,803)			(6,803)
Net changes during the year						
Balance at March 31, 2017	133,821,800	¥12,020	¥ 4,781	¥111,936	¥(539)	¥128,198

	Millions of yen						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Non-Controlling Interests	Total Net Assets
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
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 April 1, 2016	¥608	¥ 904	¥(1,585)	¥ (72)	¥15	¥10,541	¥131,469
Issuance of stock (exercise of subscription rights)					(3)		20
Cash dividends paid							(4,681)
Profit attributable to owners of parent							18,605
Disposal of treasury stock							69
Purchase of shares of consolidated subsidiaries							(6,803)
Net changes during the year	(4)	(412)	411	(5)		(3,617)	(3,622)
Balance at March 31, 2017	¥604	¥ 492	¥(1,173)	¥ (77)	¥11	¥ 6,924	¥135,056

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	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2016	133,769,800	$107,035	$103,150	$873,638	$(5,429)	$1,078,395
Issuance of stock (exercise of subscription rights)	52,000	110	110			220
Cash dividends paid				(41,732)		(41,732)
Profit attributable to owners of parent				165,835		165,835
Disposal of treasury stock					617	617
Purchase of shares of consolidated subsidiaries			(60,641)			(60,641)
Net changes during the year						
Balance at March 31, 2017	133,821,800	$107,145	$ 42,619	$997,742	$(4,812)	$1,142,694

	Thousands of U.S. dollars (Note 5) Accumulated Other Comprehensive Income: Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Non-Controlling Interests	Total Net Assets
Balance at April 1, 2016	$5,425	$ 8,061	$(14,131)	$(644)	$133	$ 93,963	$1,171,848
Issuance of stock (exercise of subscription rights)					(34)		185
Cash dividends paid							(41,732)
Profit attributable to owners of parent							165,835
Disposal of treasury stock							617
Purchase of shares of consolidated subsidiaries							(60,641)
Net changes during the year	(38)	(3,675)	3,668	(45)		(32,245)	(32,336)
Balance at March 31, 2017	$5,386	$ 4,385	$(10,462)	$(690)	$ 98	$ 61,718	$1,203,821

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 5) 2017
Cash flows from operating activities			
Net income before income taxes	¥ 27,700	¥ 26,123	$ 246,906
Depreciation and amortization	7,297	7,570	65,042
Impairment loss	584	594	5,210
Goodwill amortization	619	693	5,519
Increase (decrease) in provision	117	357	1,048
Increase (decrease) in net defined benefit asset/liability	359	283	3,208
Interest and dividend income	(120)	(202)	(1,069)
Interest expense	36	9	324
Foreign exchange loss (gain)	268	982	2,395
Net loss (gain) on sales of non-current assets	(7)	(2)	(64)
Loss on retirement of non-current assets	516	227	4,606
Decrease (increase) in notes and accounts receivables	(5,549)	(2,193)	(49,461)
Decrease (increase) in inventories	(642)	(1,432)	(5,725)
Increase (decrease) in notes and accounts payable	(734)	1,058	(6,545)
Increase (decrease) in other payables	1,957	365	17,445
Others	1,984	(3,134)	17,685
Subtotal	34,389	31,297	306,525
Interest and dividends received	127	186	1,134
Interest paid	(34)	(6)	(309)
Income taxes paid	(8,523)	(8,936)	(75,970)
Net cash provided by operating activities	25,958	22,541	231,379
Cash flows from investing activities			
Acquisition of property, plant and equipment	(9,372)	(19,066)	(83,537)
Proceeds from sale of property, plant and equipment	13	29	121
Acquisition of intangible fixed assets	(391)	(2,162)	(3,485)
Acquisition of marketable securities	(13,998)	(7,997)	(124,776)
Proceeds from redemption of marketable securities	10,000	15,000	89,134
Purchase of investment securities	(16)	(15)	(145)
Proceeds from sales of investment securities	—	24	—
Payment of loans receivable	(0)	(150)	(5)
Collection of loans receivable	32	195	291
Payment into time deposits	(728)	(904)	(6,493)
Proceeds from withdrawal of time deposits	827	716	7,377
Payment of security deposit	(175)	(121)	(1,568)
Collection of security deposit	152	223	1,360
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(92)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	42	—	379
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(108)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	62	—	555
Others	147	160	1,314
Net cash used in investing activities	(13,404)	(14,270)	(119,477)
Cash flows from financing activities			
Net increase in short-term borrowings	1,070	—	9,544
Proceeds from long-term debt	—	390	—
Repayments of long-term debt	(354)	—	(3,158)
Inflow from exercise of stock options	20	56	185
Repayment for lease obligations	(107)	(60)	(955)
Cash dividends paid	(4,677)	(3,738)	(41,696)
Proceeds from share issuance to non-controlling shareholders	—	1,308	—
Dividends paid to non-controlling interests	(990)	(815)	(8,826)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(9,673)	—	(86,227)
Net cash used in financing activities	(14,711)	(2,859)	(131,134)
Effect of exchange rate changes on cash and cash equivalents	(538)	(660)	(4,801)
Net increase (decrease) in cash and cash equivalents	(2,696)	4,751	(24,033)
Cash and cash equivalents at beginning of year	47,323	42,572	421,816
Cash and cash equivalents at end of year (Note 14)	¥ 44,627	¥ 47,323	$ 397,783

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Calbee, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

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 27 (24 in 2016) 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)
- Studio Socio, Inc. (Note 2)
- CalNeCo, Inc. (Note 1)
- Calbee America, Inc. (Note 4)
- Calbee North America, LLC (Note 4)
- Haitai-Calbee Co., Ltd. (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 (Note 4)
- Calbee (Taiwan) Co., Ltd. (Notes 1 and 4)
- Calbee-URC, Inc. (Note 4)
- Calbee Tanawat Co., Ltd. (Note 4)
- Calbee Moh Seng Pte. Ltd. (Note 4)
- PT. Calbee-Wings Food (Note 4)
- Calbee Australia Pty Limited (Notes 1 and 4)
- Calbee (UK) Ltd (Note 4)
- Calbee Iberia, S. L. (Note 4)

Notes: 1. The Company established CalNeCo, Inc. and Calbee (Taiwan) Co., Ltd. in August 2016, and Calbee Australia Pty Limited in September 2016. These companies were included in the scope of consolidation from the year ended March 31, 2017.
2. Due to the acquisition of shares in Studio Socio, Inc. in April 2016, it has been included in the scope of consolidation during the year ended March 31, 2017.
3. Following the liquidation of Calbee (Taipei) Foods Co., Ltd., which was within the scope of consolidation as of March 31, 2016, it has been excluded from the scope of consolidation during the year ended March 31, 2017.
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, 2017 and 2016, all subsidiaries are consolidated and there is no affiliate that is accounted for by the equity method.

For the year ended March 31, 2017, two affiliates, Potato Foods Co., Ltd. and Hiroshima Agricultural Produce Distributors Cooperative, and for the year ended March 31, 2016, 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 are 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 the 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 that are readily convertible into cash and subject to insignificant risk of changes in value.

(d) Allowance for doubtful accounts

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

(e) Marketable and investment securities

Marketable and investment securities are 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 by the straight-line method over the estimated useful lives of the respective assets.

The useful lives of buildings and machinery and equipment are as follows:

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

(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.

(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 the Company's 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 benefits, 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 the Company's shares to the Company'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.

3. Accounting Change

Changes in accounting policy that are difficult to distinguish from accounting estimates

Until the end of last year, the Company and certain of its domestic consolidated subsidiaries mainly used the declining-balance method to depreciate property, plant and equipment. For the year ended March 31, 2017, this has been changed to the straight-line method. The Company foresees stable utilization of property, plant and equipment based on expansion of its domestic and overseas production facilities as well as revising investment policy. As a result of reviewing its depreciation method, the Company concluded that the straight-line method to distribute expenses more evenly would be more appropriate to reflect its usage of property, plant and equipment.

Compared with the previous method, for the year ended March 31, 2017 the impact on operating income is an increase of ¥1,915 million, and the impact on net income before income taxes is an increase of ¥1,955 million.

Changes in the presentation method

Consolidated statements of income

"Depreciation," which had been included in "Others" under other income (expenses) within the consolidated financial statements for the year ended March 31, 2016, has been presented as a separate line item within the consolidated financial statements for the year ended March 31, 2017. The consolidated financial statements for the year ended March 31, 2017 have been reclassified to reflect this change in presentation. As a result, the amount of ¥204 million, which had been presented as "Others" under other income (expenses) within the consolidated financial statements for the year ended March 31, 2016, has been reclassified as "Depreciation" of ¥88 million and "Others" of ¥115 million, respectively.

Consolidated statements of cash flows

"Net loss (gain) on sales of investment securities," "Decrease (increase) in accounts receivable–other," and "Increase (decrease) in accrued consumption taxes", which had been presented as separate line items under cash flows from operating activities within the consolidated financial statements for the year ended March 31, 2016, have been included in the "Others" for the year ended March 31, 2017. As a result, the amount of ¥(3,134) million, which had been included in "Net loss (gain) on sales of investment securities" of ¥(395) million, "Decrease (increase) in accounts receivable–other" of ¥(167) million, "Increase (decrease) in accrued consumption taxes" of ¥(1,617) million, and "Others" of ¥(955) million within our consolidated financial statements for the year ended March 31, 2016, has been reclassified as "Others" within the consolidated financial statements for the year ended March 31, 2017.

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 its 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 the Company's stocks for those employees who satisfy certain requirements. Based on predetermined regulations for awarding stocks, the trust will acquire the estimated number of the Company's 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's 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 stock 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, 2017 and 2016 were ¥109 million ($973 thousand) and 43,465 shares, and ¥168 million and 67,120 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 the Company 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 the Company'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 the Company's stocks in principle.

In order to ensure the neutrality of the Company's management, voting rights for the Company's shares 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 stock under net assets based on the book value in the Trust (excluding ancillary expenses). The book value and the number of treasury stock in the trust as of March 31, 2017 and 2016 were ¥428 million ($3,819 thousand) and 122,700 shares, and ¥438 million and 125,500 shares, respectively.

Implementation Guidance on Recoverability of Deferred Tax Assets

The Company adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016) from the year ended March 31, 2017.

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 ¥112.19 = $1, the approximate rate in effect on March 31, 2017. 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's 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 other payable 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 20 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, 2017 and 2016 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, 2017)	Carrying Amount	Estimated Fair Value	Difference
Assets			
(1) Cash and deposits	¥ 23,961	¥ 23,961	—
(2) Notes and accounts receivable	28,600	28,600	—
(3) Marketable and investment securities			
Held-to-maturity	28,999	28,998	¥(0)
Available-for-sale	2,082	2,082	—
Total assets	¥ 83,643	¥ 83,643	¥(0)
Liabilities			
(4) Notes and accounts payable	¥ (9,668)	¥ (9,668)	—
(5) Short-term borrowings	(1,107)	(1,107)	—
(6) Other payables	(6,595)	(6,595)	—
(7) Long-term debt (including current portion of long-term debt)	—	—	—
Total liabilities	¥(17,371)	¥(17,371)	—
Derivative transactions			
Hedge accounting not applied	¥ 47	¥ 47	—
Total derivative transactions	¥ 47	¥ 47	—

	Thousands of U.S. dollars		
(As of March 31, 2017)	Carrying Amount	Estimated Fair Value	Difference
Assets			
(1) Cash and deposits	$ 213,581	$ 213,581	—
(2) Notes and accounts receivable	254,928	254,928	—
(3) Marketable and investment securities			
Held-to-maturity	258,481	258,478	$(2)
Available-for-sale	18,560	18,560	—
Total assets	$ 745,551	$ 745,549	$(2)
Liabilities			
(4) Notes and accounts payable	$ (86,180)	$ (86,180)	—
(5) Short-term borrowings	(9,870)	(9,870)	—
(6) Other payables	(58,791)	(58,791)	—
(7) Long-term debt (including current portion of long-term debt)	—	—	—
Total liabilities	$(154,842)	$(154,842)	—
Derivative transactions			
Hedge accounting not applied	$ 420	$ 420	—
Total derivative transactions	$ 420	$ 420	—

(As of March 31, 2016)	Millions of yen 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) Short-term borrowings	—	—	—
(6) Other payables	(6,121)	(6,121)	—
(7) Long-term debt (including current portion of long-term debt)	(366)	(366)	—
Total liabilities	¥(16,838)	¥(16,838)	—
Derivative transactions			
Hedge accounting not applied	¥ 169	¥ 169	—
Total derivative transactions	¥ 169	¥ 169	—

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

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, (5) Short-term borrowings, and (6) Other payables

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

(7) 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 that 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 20, "Derivative Financial Instruments."

2. Unlisted shares with carrying value of ¥8 million ($78 thousand) and ¥8 million at March 31, 2017 and 2016, 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, 2017 and 2016, no impairment loss was recognized on unlisted shares.

Investments in affiliates with carrying values of ¥9 million ($82 thousand) and ¥11 million at March 31, 2017 and 2016 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, 2017.

(As of March 31, 2017)	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	¥22,743	—	—	—
Notes and accounts receivable	28,600	—	—	—
Marketable securities				
Held-to-maturity				
Jointly-managed money trust	21,000	—	—	—
Commercial paper	6,000	—	—	—
Trust beneficiary rights on lease receivables	2,000	—	—	—
Total	¥80,344	—	—	—

(As of March 31, 2017)	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	$202,727	—	—	—
Notes and accounts receivable	254,928	—	—	—
Marketable securities				
Held-to- maturity				
Jointly managed money trust	187,182	—	—	—
Commercial paper	53,480	—	—	—
Trust beneficiary rights on lease receivables	17,826	—	—	—
Total	$716,145	—	—	—

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, 2017 and 2016 is as follows:

Held-to-maturity

	Millions of yen			Thousands of U.S. dollars		
	2017			2017		
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)						
Jointly-managed money trust	¥ 2,000	¥ 2,000	¥ 0	$ 17,826	$ 17,827	$ 0
Commercial paper	3,999	3,999	0	35,647	35,649	2
Trust beneficiary rights on lease receivables	2,000	2,000	0	17,826	17,828	1
(Securities with estimated fair value not exceeding carrying amount)						
Jointly managed money trust	¥19,000	¥18,999	¥(0)	$169,355	$169,349	$(5)
Commercial paper	1,999	1,999	(0)	17,824	17,823	(1)
Total	¥28,999	¥28,998	¥(0)	$258,481	$258,478	$(2)

Available-for-sale

	Millions of yen			Thousands of U.S. dollars		
	2017			2017		
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	¥2,057	¥1,225	¥832	$18,337	$10,920	$7,416
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	25	27	(2)	222	246	(23)
Total	¥2,082	¥1,252	¥829	$18,560	$11,166	$7,393

Held-to-maturity

	Millions of yen		
	2016		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)			
Jointly managed money trust	¥14,000	¥14,005	¥ 5
(Securities with estimated fair value not exceeding carrying amount)			
Jointly managed money trust	11,000	11,000	—
Commercial paper	3,999	3,998	(0)
Total	¥28,999	¥29,004	¥ 5

Available-for-sale

	Millions of yen		
	2016		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥2,052	¥1,208	¥843
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	22	27	(5)
Total	¥2,074	¥1,236	¥838

(Note) Unlisted shares with carrying values of ¥8 million ($78 thousand) and ¥8 million at March 31, 2017 and 2016, respectively, are not included in the above table as their market values are not readily available.

(2) Sales of available-for-sale securities

No applicable items are sold during the year ended March 31, 2017. Information on the available-for-sale securities sold during the year ended March 31, 2016 is as follows:

	Millions of yen		
	2016		
	Proceeds	Realized gains	Realized losses
Equity securities	¥24	¥24	—

(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, 2017 and 2016, impairment loss recognized on equity securities classified as available-for-sale securities amounted to nil.

8. Inventories

Inventories at March 31, 2017 and 2016 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods and commercial goods	¥4,117	¥3,473	$36,703
Work in process	1,351	1,340	12,046
Raw materials and supplies	4,426	4,454	39,451
	¥9,895	¥9,268	$88,201

Valuation losses (reversal) due to declines in profitability included in cost of sales for the years ended March 31, 2017 and 2016 were ¥(263) million ($(2,347) thousand) and ¥98 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2017	2016	2017	2017	2016
Short-term borrowings	¥1,107	—	$ 9,870	2.2%	—
Current portion of long-term debt	—	¥ 52	—	—	2.4%
Current portion of lease obligations	139	64	1,241	—	—
Long-term debt, excluding current portion	—	313	—	—	2.4
Lease obligations, excluding current portion	308	93	2,753	—	—
Other interest-bearing liabilities	40	31	361	1.0	1.6
Total	¥1,596	¥555	$14,227		

(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 lease obligations are summarized below:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	Lease obligations	
2018	¥139	$1,241
2019	106	953
2020	101	902
2021	80	717
2022	15	141
2023 and thereafter	4	38

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 30.7% and 32.8% for the fiscal years ended March 31, 2017 and 2016, 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, 2017 and 2016 is as follows:

	2017	2016
Statutory tax rate	30.7%	32.8%
Adjustments:		
Entertainment and other permanently non-deductible expenses	0.4	0.3
Dividend and other permanently non-taxable income	(0.1)	(0.0)
Special tax credit for income tax	(1.6)	(1.7)
Per capita inhabitant tax	0.3	0.3
Adjustment to deferred tax assets and liabilities from changes in the statutory tax rate	—	0.7
Changes in valuation allowances	1.5	(1.9)
Tax rate differences in consolidated subsidiaries	0.0	(1.0)
Effect of consolidation adjustments	0.6	1.3
Others	(0.2)	0.1
Effective tax rates	31.6%	31.0%

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful accounts	¥ 26	¥ 25	$ 233
Provision for bonuses	1,282	1,265	11,428
Accrued expenses	1,110	1,012	9,898
Enterprise tax payable	292	307	2,606
Provision for stock payments	15	20	137
Provision for directors' stock payments	33	36	302
Net defined benefit liability	1,734	1,795	15,460
Provision for directors' retirement benefits	160	194	1,434
Share-based payment expense	3	4	30
Depreciation	136	109	1,213
Impairment loss	264	250	2,358
Asset retirement obligations	209	206	1,869
Loss carried forward	457	244	4,079
Others	889	678	7,931
Subtotal	6,617	6,152	58,984
Less valuation allowances	(740)	(496)	(6,602)
Total deferred tax assets	5,876	5,655	52,382
Deferred tax liabilities:			
Unrealized holding gain on securities	(247)	(251)	(2,209)
Deferred gains on property, plant and equipment	(499)	(519)	(4,449)
Asset retirement obligations	(27)	(30)	(241)
Others	(755)	(780)	(6,734)
Total deferred tax liabilities	(1,529)	(1,582)	(13,634)
Net deferred tax assets	¥ 4,347	¥ 4,073	$ 38,747

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2017 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets—deferred tax assets	¥2,593	¥2,625	$23,114
Investments and other assets—deferred tax assets	2,307	2,004	20,569
Current liabilities—deferred tax liabilities	(2)	(1)	(20)
Non-current liabilities—deferred tax liabilities	(551)	(553)	(4,916)
Net deferred tax assets	¥4,347	¥4,073	$38,747

11. Net Assets

(1) Movements of number of common stock issued and outstanding during the years ended March 31, 2017 and 2016 are as follows:

	Number of shares	
	2017	2016
Balance at beginning of year	133,769,800	133,629,800
Increase	52,000	140,000
Decrease	—	—
Balance at end of year	133,821,800	133,769,800

Note: The breakdown of the increase during the year ended March 31, 2017 is as follows:
Increase due to an exercise of subscription rights 52,000 shares

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

(2) Movements of number of treasury stock during the years ended March 31, 2017 and 2016 are as follows:

	Number of shares	
	2017	2016
Balance at beginning of year	193,452	228,132
Increase	—	—
Decrease	(26,455)	(34,680)
Balance at end of year	166,997	193,452

Note: The breakdown of the increase and decrease during the year ended March 31, 2017 is as follows:
Decrease due to issuance of treasury shares by the trust 26,455 shares

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

(3) As of March 31, 2017 and 2016, the outstanding balance of subscription rights provided for as stock options was ¥11 million ($98 thousand) and ¥15 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2017 and 2016 was approved at the annual meetings of the Company's shareholders held on June 21, 2017 and June 22, 2016, respectively.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash dividends	¥5,620	¥4,681	$50,097

Cash dividends attributable to the year ended March 31, 2016 of ¥4,681 million ($41,732 thousand) were paid during the year ended March 31, 2017 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 22, 2016.

Amount of total dividends paid to shares held by the Company in trust in 2017 and 2016 is ¥7 million ($62 thousand) and ¥6 million, respectively.

12. Retirement Benefits for Employees

The Company and its two 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, 2017 and 2016 are as follows: (excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥15,935	¥14,969	$142,043
Service cost	808	770	7,209
Interest cost	71	109	637
Actuarial loss (gain)	(95)	800	(849)
Retirement benefits paid	(477)	(714)	(4,256)
Past service cost	19	—	170
Other	(385)	—	(3,435)
Retirement benefit obligations at end of year	¥15,877	¥15,935	$141,520

(2) The changes in plan assets for the years ended March 31, 2017 and 2016 are as follows: (excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥10,955	¥10,842	$ 97,647
Expected return on plan assets	109	108	976
Actuarial gain (loss)	121	(62)	1,084
Employer's contribution	425	414	3,790
Retirement benefits paid	(236)	(347)	(2,110)
Plan assets at end of year	¥11,374	¥10,955	$101,388

(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
	2017	2016	2017
Balance at beginning of year	¥ 946	¥ 882	$ 8,440
Retirement benefit expense	144	209	1,285
Retirement benefits paid	(108)	(116)	(964)
Contribution to the plans	(17)	(11)	(154)
Increase (decrease) due to foreign currency translation	5	(17)	45
Other	212	—	1,890
Net defined benefit liability at end of year	¥1,182	¥ 946	$10,543

(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
	2017	2016	2017
Funded retirement benefit obligations	¥ 9,579	¥ 9,551	$ 85,386
Plan assets	(11,555)	(11,113)	(102,996)
	(1,975)	(1,561)	(17,610)
Unfunded retirement benefit obligations	7,660	7,489	68,285
Net liabilities (assets) recorded on the consolidated balance sheet	5,685	5,927	50,675
Net defined benefit liability	7,669	7,489	68,363
Net defined benefit asset	(1,984)	(1,561)	(17,687)
Net liabilities (assets) recorded on the consolidated balance sheet	¥ 5,685	¥ 5,927	$ 50,675

(5) Retirement benefit expenses and breakdown of amounts

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 808	¥ 770	$ 7,209
Interest cost	71	109	637
Expected return on plan assets	(109)	(108)	(976)
Amortization of actuarial loss	278	83	2,486
Amortization of past service cost	130	126	1,165
Retirement benefit expense using the simplified method	144	209	1,285
Additional severance payments, etc.	(36)	—	(324)
Retirement benefit expense related to the defined benefit plans	¥1,288	¥1,192	$11,483

(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
	2017	2016	2017
Past service cost	¥111	¥ 126	$ 994
Actuarial gain (loss)	495	(779)	4,420
Total	¥607	¥(652)	$5,415

(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
	2017	2016	2017
Unrecognized past service cost	¥ 142	¥ 253	$ 1,265
Unrecognized actuarial loss	1,557	2,053	13,883
Total	¥1,699	¥2,307	$15,149

(8) Items related to plan assets

(a) Breakdown of main items

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

	2017	2016
Domestic bonds	30.8%	32.9%
Domestic equity	8.2	8.3
Foreign bonds	10.4	—
Foreign equity	2.8	10.2
Alternative investments*	31.2	31.8
General life insurance accounts	13.7	14.0
Other	3.0	2.8
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:

	2017	2016
Discount rate	0.5%	0.4%
Long-term expected rate of return	1.0	1.0
Expected salary increase rate	4.9	4.9

The amounts of required contributions to the defined contribution plans of the Company and consolidated subsidiaries for the years ended March 31, 2017 and 2016 were ¥213 million ($1,902 thousand) and ¥200 million, respectively.

13. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trade notes discounted	¥544	¥—	$4,851

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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥23,961	¥22,784	$213,581
Time deposits maturing over three months	(333)	(460)	(2,976)
Commercial paper included in the marketable securities	3,999	1,999	35,649
Trust beneficiary rights on lease receivables included in the marketable securities	2,000	—	17,826
Jointly managed money trust included in the marketable securities	15,000	23,000	133,701
Cash and cash equivalents	¥44,627	¥47,323	$397,783

15. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales promotion expenses	¥35,023	¥31,623	$312,177
Advertisement expenses	2,662	2,437	23,735
Freight expenses	13,144	13,592	117,166
Salaries and other allowances	11,224	11,757	100,052
Provision for directors' retirement benefits	72	76	647
Provision for bonuses	2,575	2,201	22,959
Provision for directors' bonuses	139	128	1,247
Provision for stock payments	44	65	395
Retirement benefit expense	753	738	6,717

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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Selling, general and administrative expenses	¥2,033	¥2,092	$18,129
Manufacturing expenses	134	102	1,197
Total	¥2,168	¥2,195	$19,327

17. Sale and Retirement of Non-Current Assets

Gain on sales of non-current assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥ 0	—	$ 0
Machinery, equipment and vehicles	10	¥6	90
Other	1	0	12
Total	¥11	¥6	$103

Loss on sales of non-current assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Machinery, equipment and vehicles	¥1	¥ 3	$17
Land	1	—	10
Other	1	0	10
Total	¥4	¥ 3	$38

Loss on retirement of non-current assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥ 96	¥ 41	$ 858
Machinery, equipment and vehicles	305	171	2,722
Construction in progress	85	5	765
Other	29	8	259
Total	¥516	¥227	$4,606

18. Impairment Loss

For the year ended March 31, 2017, the Company recognized impairment loss of ¥584 million ($5,210 thousand) on the idle assets for which there is no intention to use in the future and whose market values significantly declined. With regard to business assets, the Company has reduced the book value to the recoverable amount since the Company decided to withdraw from the businesses.

For the year ended March 31, 2016, the Company recognized impairment loss of ¥594 million 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 purpose of impairment testing, assets are generally grouped based on region; however, idle assets with no plans for future use are grouped by each asset.

The recoverable amount is higher than its fair value less costs of disposal and its value in use. Fair value less costs of disposal for which sales or other usage is unlikely is recorded as having no value.

The details of impairment loss recognized are as follows:

(For the year ended March 31, 2017)

Location	Purpose of use	Type of asset	Amount: Millions of yen	Amount: Thousands of U.S. dollars
Taipei, Taiwan	Idle assets	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment, others	¥467	$4,163
Utsunomiya City, Tochigi Prefecture	Business assets	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment, others, Construction in progress	101	908
Barcelona, Spain	Business assets	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment, others	15	138

(For the year ended March 31, 2016)

Location	Purpose of use	Type of asset	Amount: Millions of yen
Utsunomiya City, Tochigi Prefecture	Idle assets	Construction in progress	¥215
Taipei, Taiwan	Idle assets	Machinery, equipment and vehicles Property, plant and equipment, others	194
Sumida-ku, Tokyo, Other: 2 buildings	Shops	Buildings and structures Property, plant and equipment, others Investments and other assets, others	160
Shimotsuma City, Ibaraki Prefecture	Idle assets	Machinery, equipment and vehicles	23

19. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Other comprehensive income			
Unrealized holding gain on securities			
Amount during the year	¥ (8)	¥ 363	$ (73)
Reclassification adjustments	—	(395)	—
Amount before tax effects	(8)	(31)	(73)
Tax effects	3	22	34
Total	¥ (4)	¥ (8)	$ (39)
Foreign currency translation adjustments			
Amount during the year	¥(488)	¥(2,565)	$(4,350)
Reclassification adjustments	(139)	311	(1,244)
Amount before tax effects	(627)	(2,253)	(5,595)
Tax effects	49	—	437
Total	¥(578)	¥(2,253)	$(5,157)
Remeasurements of defined benefit plans			
Amount during the year	¥ 197	¥ (863)	$ 1,763
Reclassification adjustments	409	210	3,651
Amount before tax effects	607	(652)	5,415
Tax effects	(195)	184	(1,746)
Total	¥ 411	¥ (468)	$ 3,668
Total	¥(171)	¥(2,730)	$(1,528)

20. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2017 and 2016 is as follows:

	Millions of yen			
	2017			
	Carrying amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
USD	¥2,511	—	¥ 53	¥ 53
Buy				
USD	4,846	¥2,330	(12)	(12)
GBP	533	163	6	6
Total	¥7,891	¥2,494	¥ 47	¥ 47

	Thousands of U.S. dollars			
	2017			
	Carrying amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
USD	$22,384	—	$ 476	$ 476
Buy				
USD	43,195	$20,773	(110)	(110)
GBP	4,757	1,457	54	54
Total	$70,338	$22,230	$ 420	$ 420

	Millions of yen			
	2016			
	Carrying 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

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

21. Business Combinations

Transaction under common control
(Acquisition of equity interest in subsidiary)
The Company resolved on January 23, 2017 that Calbee America, Inc. (hereafter "CAI") would acquire the entire equity interest held by R.D. Offutt Company (hereafter "RDO") in Calbee North America, LLC (hereafter "CNA"), of which previously RDO and CAI each held a 50-50 interest. This transaction was completed on January 31, 2017, making CNA a fully-owned subsidiary of CAI.

I. Overview of transaction
1. Name and business description of acquired company
   Name of acquired company: Calbee North America, LLC
   Description of business: Manufacture and sales of snacks
2. Date on which business combination came into effect
   January 31, 2017
3. Legal form of business combination
   Acquisition of equity interest from non-controlling shareholders
4. Name of company after business combination
   No change in name
5. Other matters with regard to transaction
   To strengthen business in North America, CAI acquired equity interest in CNA from non-controlling shareholders and made CNA its fully owned subsidiary.

II. Overview of accounting treatment
The acquisition was accounted for as a transaction with non-controlling shareholders under common control, based on ASBJ Statement No.21, "Accounting Standard for Business Combinations" and ASBJ Guidance No.10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," issued on September 13, 2013.

III. Details to be reported in case of acquisition of equity interest in subsidiary
Purchase price and its breakdown
Purchase price of equity interest paid by cash: ¥9,673 million ($86,227 thousand)

IV. Details about change in shareholders' equity by transaction with non-controlling shareholders
1. Main reason for change in capital surplus
   Acquisition of equity interest in subsidiary
2. Amount of capital surplus decrease due to transaction with non-controlling shareholders:
   ¥6,803 million ($60,641 thousand)

22. Stock Options

As of March 31, 2017, 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, 2017)

	Shares
Date of resolution	June 24, 2009
Unvested stock options	
Outstanding as of March 31, 2016	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2017	—
Vested stock options	
Outstanding as of March 31, 2016	200,000
Vested	—
Exercised	52,000
Expired	—
Outstanding as of March 31, 2017	148,000

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.

	June 24, 2009	
Date of resolution	Yen	U.S. dollars
Exercise price	¥ 400	$ 3.56
Average stock price at exercise	3,685	32.84
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, 2017	**¥502,460,000**	**$4,478,652**
Total intrinsic value on the exercise date of the stock options exercised in the year ended March 31, 2017	**¥173,810,000**	**$1,549,246**

23. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2017 and 2016.

(1) For the year ended March 31, 2017

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 0.06%	Exercise of subscription rights (Note 2)	¥16 million ($142 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, 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

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.

24. Per Share Information

Per share information as of March 31, 2017 and 2016 and for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net assets per share	**¥958.60**	¥905.20	**$8.54**
Net income per share			
Basic	**¥139.24**	¥125.88	**$1.24**
Diluted	**¥139.08**	¥125.64	**$1.24**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	**¥135,056**	¥131,469	**$1,203,821**
Net assets attributable to common stock	**¥128,121**	¥120,912	**$1,142,004**
Major components of the difference			
Subscription rights	**¥ 11**	¥ 15	**$ 98**
Non-controlling interests	**¥ 6,924**	¥ 10,541	**$ 61,718**

	Number of shares	
	2017	2016
Number of common stock issued and outstanding	**133,821,800**	133,769,800
Treasury stock of common stock	**166,997**	193,452
Number of common shares used in calculation of net assets per share	**133,654,803**	133,576,348

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Basis for calculation of net income per share			
Net income attributable to owners of parent	**¥18,605**	¥16,799	**$165,835**
Net income attributable to owners of parent attributable to common stock	**¥18,605**	¥16,799	**$165,835**
Net income attributable to owners of parent to common stock	**—**	—	**—**

	Number of shares	
	2017	2016
Average number of shares outstanding during the year	**133,620,921**	133,452,595

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Major dilutive factors included in calculating diluted net income per share			
Adjustments to net income attributable to owners of parent	**¥—**	¥—	**$ —**

	Number of shares 2017	Number of shares 2016
Subscription rights	**155,564**	251,478
Increase in number of common stock	**155,564**	251,478

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. 174,935 treasury shares (204,036 shares in 2016) were excluded from the average number of shares during the year used for calculating net income per share for the year ended March 31, 2017 and 166,165 treasury shares (192,620 shares in 2016) were excluded from the number of shares outstanding used for calculating net assets per share at March 31, 2017.

25. Segment Information

For the years ended March 31, 2017 and 2016, 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, 2017

	Snacks	Other foods	Other	Total
Sales to third parties	**¥203,284**	**¥45,588**	**¥3,548**	**¥252,420**

Thousands of U.S. dollars, 2017

	Snacks	Other foods	Other	Total
Sales to third parties	**$1,811,963**	**$406,349**	**$31,626**	**$2,249,938**

Millions of yen, 2016

	Snacks	Other foods	Other	Total
Sales to third parties	¥204,842	¥38,036	¥3,249	¥246,129

(2) Information by region

Information about sales by region is as follows:

Millions of yen, 2017

	Japan	America	China	Others	Total
Sales	**¥223,441**	**¥11,606**	**¥1,565**	**¥15,806**	**¥252,420**

Thousands of U.S. dollars, 2017

	Japan	America	China	Others	Total
Sales	**$1,991,637**	**$103,452**	**$13,954**	**$140,894**	**$2,249,938**

Millions of yen, 2016

	Japan	America	China	Others	Total
Sales	¥216,807	¥12,517	¥1,909	¥14,894	¥246,129

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

Millions of yen, 2017

	Japan	America	China	Others	Total
Property, plant and equipment	**¥51,821**	**¥9,032**	**¥503**	**¥9,477**	**¥70,835**

Thousands of U.S. dollars, 2017

	Japan	America	China	Others	Total
Property, plant and equipment	**$461,911**	**$80,510**	**$4,487**	**$84,478**	**$631,388**

Millions of yen, 2016

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

(3) Sales by major customers

No applicable items.

(4) Impairment loss on fixed assets by reporting segment

Millions of yen — 2017

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Impairment loss	¥584	¥584	—	—	¥584

Thousands of U.S. dollars — 2017

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Impairment loss	$5,210	$5,210	—	—	$5,210

Millions of yen — 2016

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Impairment loss	¥594	¥594	—	—	¥594

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

Millions of yen — 2017

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Amortization	¥ 619	¥ 619	—	—	¥ 619
Balance at end of year	¥1,618	¥1,618	—	—	¥1,618

Thousands of U.S. dollars — 2017

	Reporting segment: Production and sale of snacks and other foods	Reporting segment: Total	Other	Corporate / elimination	Total
Amortization	$ 5,519	$ 5,519	—	—	$ 5,519
Balance at end of year	$14,425	$14,425	—	—	$14,425

Millions of yen — 2016

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

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of Calbee, Inc.:

We have audited the accompanying consolidated financial statements of Calbee, Inc. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 such internal control as management determines is necessary to enable the preparation of 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 comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements, which describes that the Company and certain of its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment from the year ended March 31 2017. Our opinion is not modified in respect of this matter.

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Other Matter

The consolidated financial statements of the Company and its consolidated subsidiaries as at and for the year ended March 31, 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 22, 2016.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5 to the consolidated financial statements.

KPMG AZSA LLC.

June 22, 2017
Tokyo, Japan

Harvest the Power of Nature.

Calbee, Inc.

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