Calbee

Harvest the Power of Nature.

TSE code: 2229

Building a Global Presence

Annual Report 2013

Fiscal year ended March 31, 2013

Contents

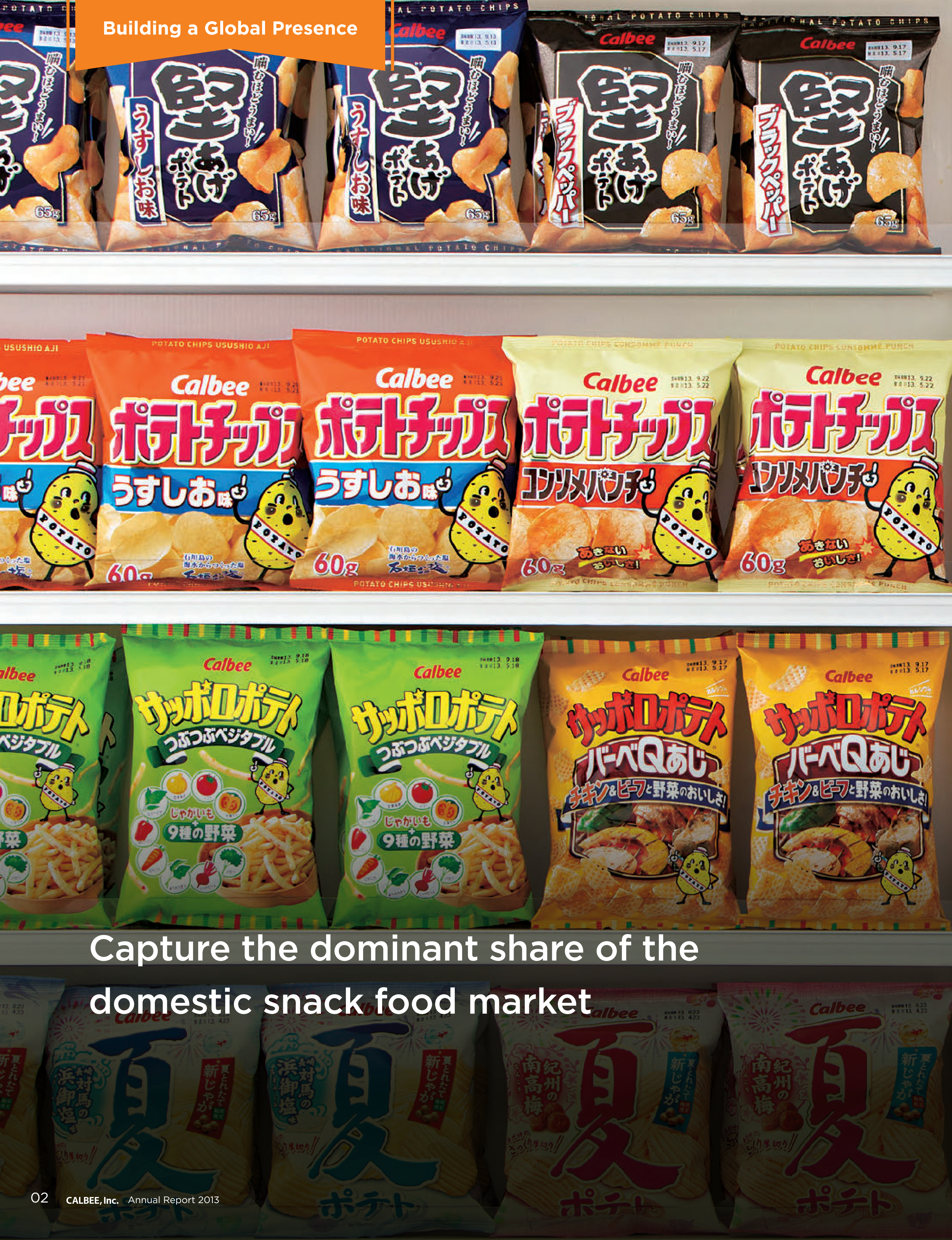
Forward-looking Statements

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

Calbee Continues to Innovate

Since its establishment in 1949, Calbee has been contributing to people's healthy lifestyles by providing innovative taste and fun through the production and sale of snack foods. Currently, Calbee has established itself as the predominant brand and the leading company in Japan's snack foods sector, with a 50% share of the market.

As Calbee expands its presence in the international marketplace going forward, we will rise to the new challenge by stepping up from being No. 1 in Japan to becoming a global food company. In order to establish a global presence, we will continue to innovate with the aim of winning a place as a food company loved by consumers all over the world.



Capture the dominant share of the domestic snack food market

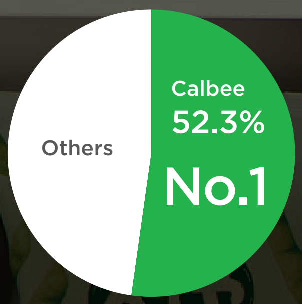
Building a Presence in the Domestic Market

Calbee's long commitment to developing innovative products has enabled it to establish a dominant presence in the domestic snack food market.

In fiscal 2013, the Calbee Group's share of the domestic snack food market was 52.3% (up 3.4 percentage points year on year). Looking ahead, we intend to maintain our position as the market leader, and to extend our share even further.

For more information about Calbee's performance in the domestic business for fiscal 2013, see the COO Message on **page 18** and the Special Feature Domestic Initiatives Drive Growth on **page 23**.

Snack Market in Japan



Calbee's share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
Market share source: Intage SRI (nationwide, all retail formats)
Base: Sales value, April 2012-March 2013

Cost Re

Innov

Realize a highly profitable business structure through innovation and cost reduction

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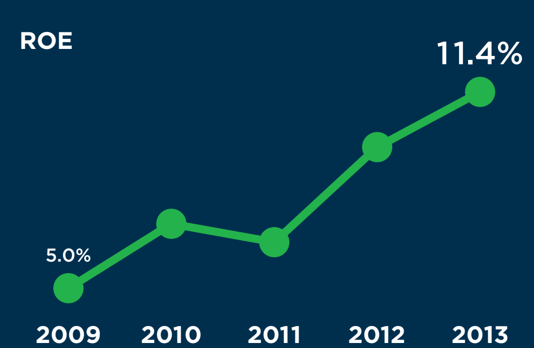
Pursuing Profitability

Since the inauguration of the new management structure in 2009, Calbee's management has focused on the twin pillars of innovation and cost reduction, aiming to realize continued growth and a highly profitable business structure. Over these past four years Calbee has achieved a dramatic improvement in profitability, and we aim to continue improving going forward.

For more information about Calbee's performance during the year under review, see Calbee Performance Highlights on **page 10** and the Financial Section that starts on **page 47**.



Aiming to Increase Growth by Becoming a Global Food Company

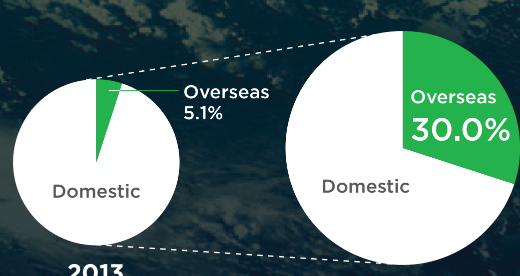
Meeting the Challenge of Global Expansion

Calbee has adopted an essential strategy of expanding overseas business to achieve medium- to long-term growth. We will act swiftly to develop business in overseas markets in the strategic regions of North America, Asia, Oceania, Europe, and Russia.

In April 2013, Calbee formed a business alliance with PepsiCo Group in the North American market, and started a joint venture with the Tingyi Group in the Chinese market.

For more information about Calbee's business expansion in North America, see CEO Message on **page 12** and the feature Aiming for Further Global Expansion on **page 26**.

Overseas Sales Ratio

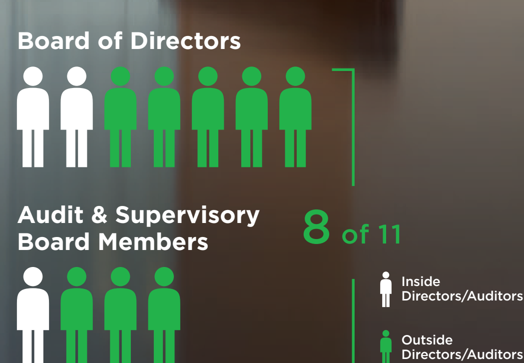


Building a Global Presence

Promote highly transparent management that meets global standards of excellence

Emphasizing Quality of Management

The unifying principle of Calbee's corporate governance policy is the creation of a highly transparent corporate governance structure. All of our five outside directors and three outside Audit & Supervisory Board members bring extensive management experience or a high level of expertise to the role of monitoring and supervising from an independent standpoint. Calbee is also moving forward with achieving diversity: two of the eight outside members of the Board of Directors and Audit & Supervisory Board are foreign nationals and two of them are women.



For more information about Calbee's corporate governance, see **page 36**.

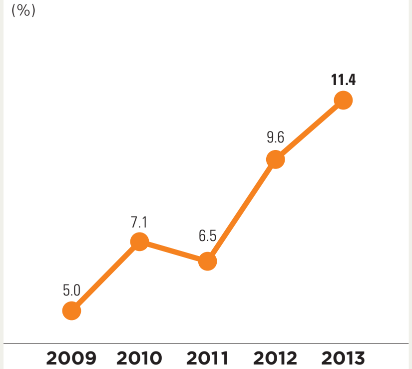
Calbee Performance Highlights

Years ended March 31

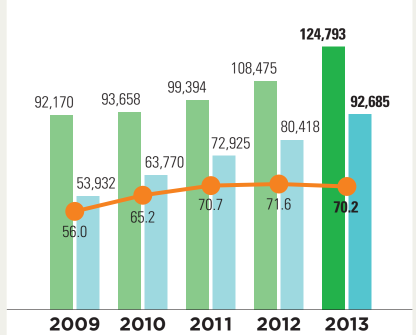
	Millions of yen 2009	2010	2011	2012	2013	Thousands of U.S. dollars (Note 2) 2013
For the Year:						
Net sales	¥ 137,377	¥ 146,453	¥ 155,529	¥ 163,269	**¥ 179,411**	**$1,907,616**
Operating income	4,408	9,534	10,717	12,247	**15,791**	**167,896**
Operating margin (%)	3.2	6.5	6.9	7.5	**8.8**	**—**
Net income	2,524	4,017	4,253	7,097	**9,441**	**100,379**
Net income margin (%)	1.8	2.7	2.7	4.3	**5.3**	**—**
ROE (%)	5.0	7.1	6.5	9.6	**11.4**	**—**
Per Share (¥/$) (Note 3):						
Net income	98.29	144.03	146.48	220.29	**288.73**	**3.07**
Net assets	2,008.93	2,117.76	2,200.55	2,386.63	**2,658.22**	**28.26**
Cash dividends	20.00	24.00	28.00	42.00	**62.00**	**0.66**
Payout ratio (%)	20.3	16.7	19.1	19.1	**21.5**	**—**
For the Year:						
Capital expenditures	5,079	3,390	4,050	5,423	**7,299**	**77,605**
Depreciation and amortization	8,325	7,915	7,244	6,676	**6,319**	**67,185**
Cash Flows:						
Net cash provided by operating activities	11,160	19,492	16,665	7,050	**17,329**	**184,251**
Net cash used in investing activities	(4,740)	(11,378)	(620)	(5,348)	**(13,000)**	**(138,223)**
Net cash provided by (used in) financing activities	(6,389)	(6,954)	(2,125)	(411)	**607**	**6,459**

Notes:
1. Consolidated financial statements prepared from 2009.
2. U.S. dollar amounts are the yen equivalent, calculated, for convenience only, at a rate of ¥94.05 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2013.
3. A 50-to-1 stock split was conducted on January 14, 2011. Per share figures were retroactively adjusted to reflect this stock split.

ROE
(%)

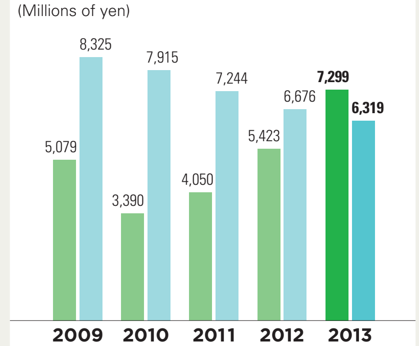


Total Assets / Net Assets / Equity Ratio
(Millions of yen / %)



Total Assets
Net Assets
Equity Ratio

Capital Expenditures / Depreciation and Amortization
(Millions of yen)



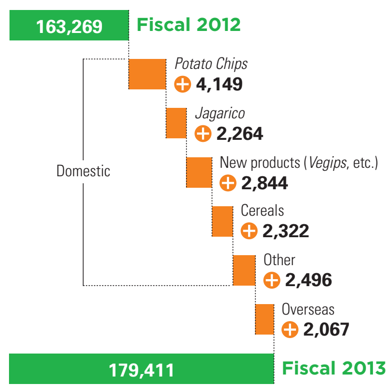
Capital Expenditures
Depreciation and Amortization

Net Sales in Fiscal 2013
(Millions of yen)

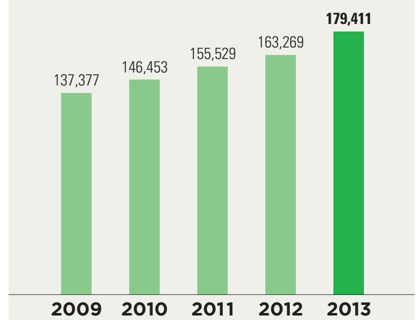
¥179,411 million
(Up ¥16,143 million, 9.9% year-on-year)

Consolidated net sales for the fiscal year increased 9.9% to ¥179,411 million due to strong business performance.

Snack foods, which are our core products, saw steady sales. Cereals such as *Fruit Granola* and overseas sales also contributed to overall results.



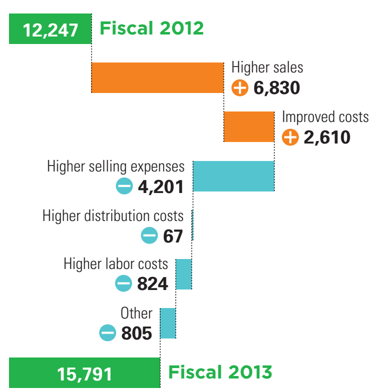
Net Sales
(Millions of yen)



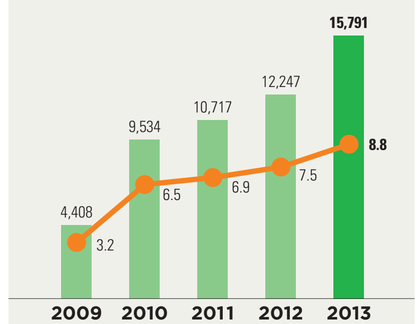
Operating Income in Fiscal 2013
(Millions of yen)

¥15,791 million
(Up ¥3,543 million, 28.9% year-on-year)

Consolidated operating income increased 28.9% to ¥15,791 million due to the effects of increased sales from actively investing in marketing with the aim of expanding our domestic market share and the resulting benefits of a reduced manufacturing cost ratio due to an improved capacity utilization ratio.

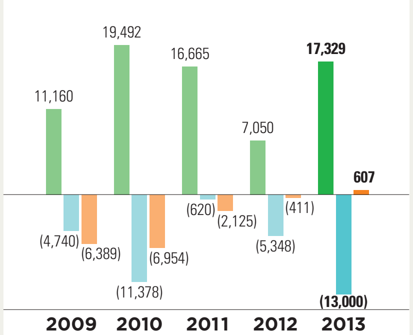


Operating Income / Operating Margin
(Millions of yen / %)



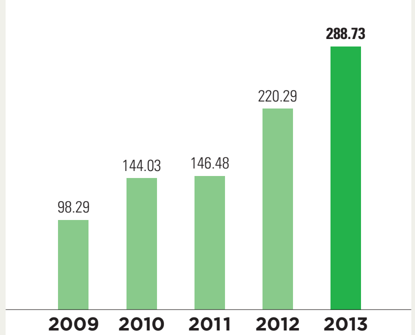
Operating Income
Operating Margin

Cash Flows
(Millions of yen)

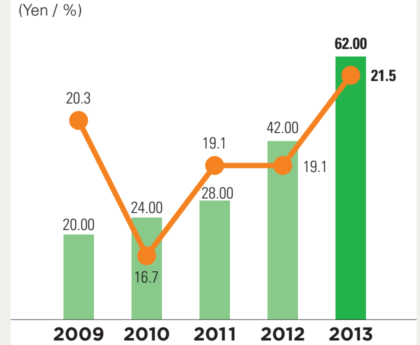


Net Cash Provided by Operating Activities
Net Cash Used in Investing Activities
Net Cash Provided by (Used in) Financing Activities

Net Income per Share
(Yen)



Cash Dividends Applicable to the Year Per Share / Dividend Payout Ratio
(Yen / %)



Cash Dividends Applicable to the Year Per Share
Dividend Payout Ratio

We are accelerating our drive to establish Calbee's presence in markets all over the world.

Akira Matsumoto
Chairman of the Board & CEO,
Representative Director

Four Consecutive Years of Record Sales and Earnings

In the four years since I assumed my role at Calbee, the business environment has certainly not made things easy for our company. It is therefore particularly pleasing to report Calbee's fourth consecutive year of record sales and profit. This is the outcome of our firm management commitment to the twin pillars of cost reduction and innovation.

Not everything about our year was such good news, however. In November 2012 there was a serious incident where fragments of glass made their way into one of our products, causing a customer to sustain an injury. We responded immediately to protect consumers, undertaking a swift recall of all suspect items, and making full disclosure concerning the circumstances of the accident. Fortunately, there were no further injuries, and we have been able to identify and rectify the cause of the problem. We deeply regret this incident and have intensified our efforts to ensure the safety and peace of mind of all our consumers and business partners.

As we enter fiscal 2014 we are again pursuing ambitious goals for Calbee, aiming to realize continued growth and a highly profitable business structure.

The Twin Pillars of Calbee's Approach

Targeting Continued Growth and High Profitability

Cost Reduction

Innovation

Growth Strategies

Expand Overseas Business
- Overseas sales ratio to over 30%

Boost New Product Development
Develop Megabrands
- Continuously launch new products

Expand Domestic Market Share
- Snack food market Over 60%
- Potato chip market Over 70%

Strengthen Alliance with PepsiCo Group

Pursue Licensing and Acquisition Opportunities

Develop New Business

Progress in Fiscal 2013

Expand Overseas Business
- Overseas sales ratio 5%
- Business alliance with PepsiCo Group in North America
- Started joint operation with the Tingyi Group in China and Taiwan

Boost New Product Development
Develop Megabrands
- Strong growth in sales of new product *Vegips*
- *Fruit Granola* achieves clear dominance in Japan's cereal market

Expand Domestic Market Share
- Snack food market 52.3%*
- Potato chip market 67.4%*

Strengthen Alliance with PepsiCo Group
- Business alliance with PepsiCo Group in North America

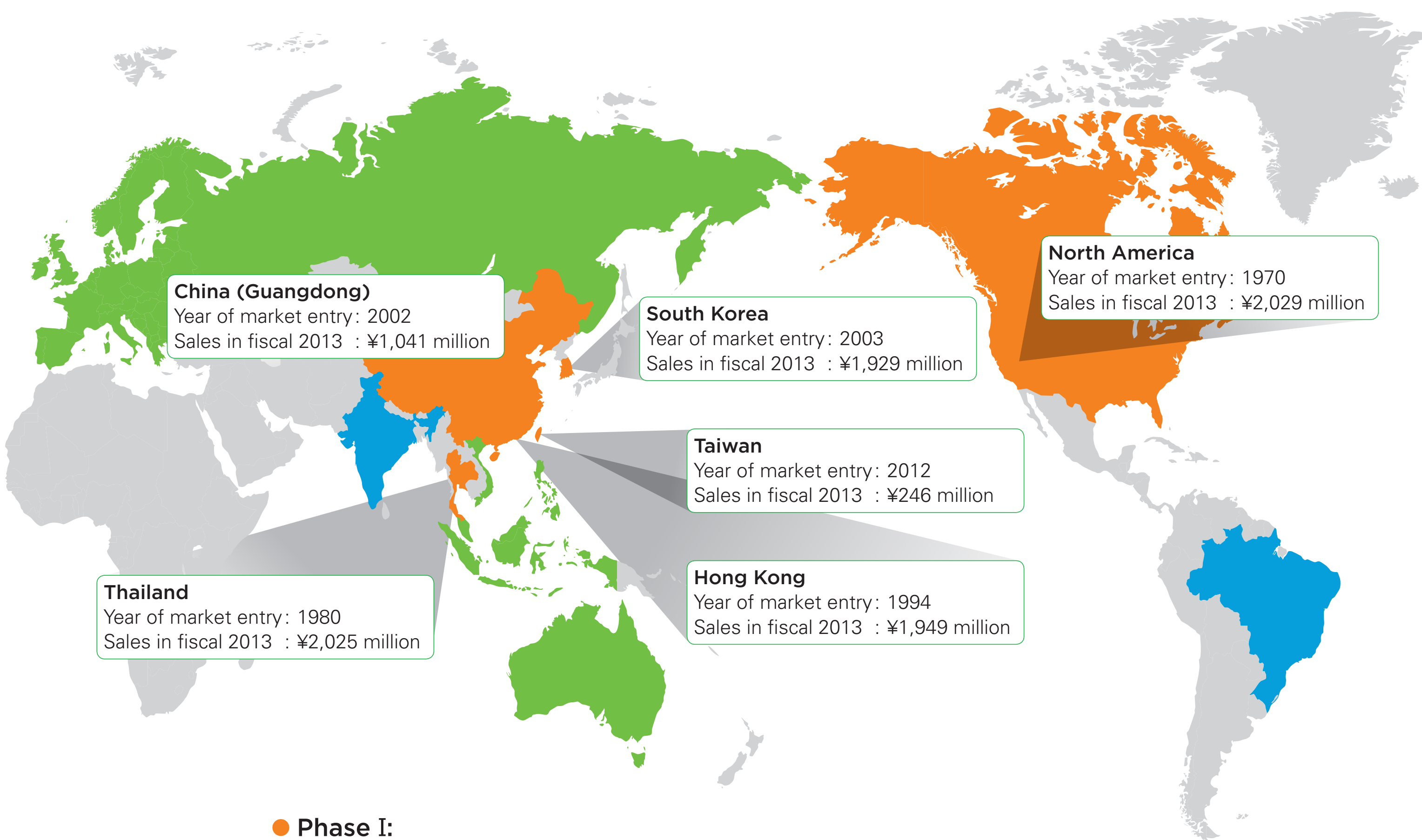
Develop New Business
- Opened antenna shops

* Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.
Market share source: Intage SRI (nationwide, all retail formats)
Base: Sales value, April 2012-March 2013

Building Calbee's Presence in Overseas Markets

Overseas expansion is our most important strategic initiative for medium- to long-term growth. There is little prospect for significant growth in the size of Japan's snack food market, due to falling birthrates and disposable incomes. In contrast, many overseas markets present very real opportunities for expansion of the snack food market in general and Calbee's market share in particular.

In fiscal 2013, overseas sales accounted for 5% of Calbee's business. Over the medium- to long-term we aim to raise this figure to 30% or higher. We have a three-phase plan for overseas expansion, and we plan to execute it swiftly.



● **Phase Ⅰ:**
North America, China, South Korea, Thailand, Taiwan, Hong Kong

● **Phase Ⅱ (April 2012, Begin formulating strategies):**
Western Europe, Russia, Australia, Indonesia, Malaysia, Vietnam

● **Phase Ⅲ (April 2014, Begin formulating strategies):**
India, Brazil and other markets

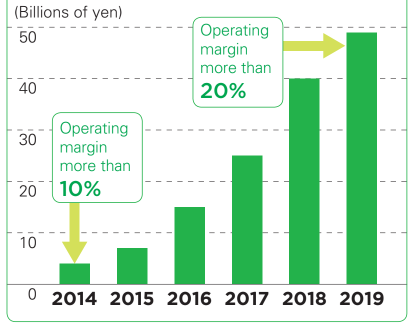
Phase Ⅰ: North America, China, South Korea, Thailand, Taiwan, Hong Kong

North America

North America is a strategically important market, alongside China, being the world's largest snack food market, at around ¥3 trillion, and having room for further growth.

With a view to strengthening our North American business, in July 2012 we unified all of our snack food operations in that market under Calbee North America, LLC, our joint venture with R.D. OFFUTT COMPANY, one of the largest potato growers in the United States. We regard the management team at Calbee North America—led by president Gene Jensen—as highly skilled and trustworthy, with a well-developed sense of cost-awareness. We also teamed up with PepsiCo Group in April 2013, commencing sales of *Jagabee* under the *Ruffles*® *Crispy Fries* brand.

North America: Sales / Profits Targets



Our goal in North America is to achieve sales of ¥50 billion within five years and an operating margin of 20% or higher, as part of which we intend to make maximum use of resources available to us locally.

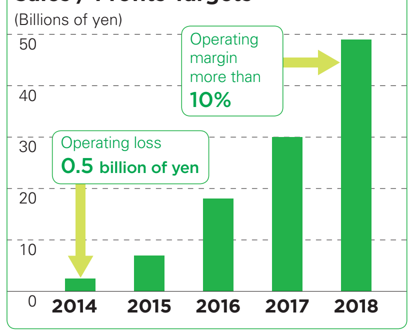
For further details about Calbee's North American operations, see the Special Feature Aiming for Further Global Expansion on page 26.

China

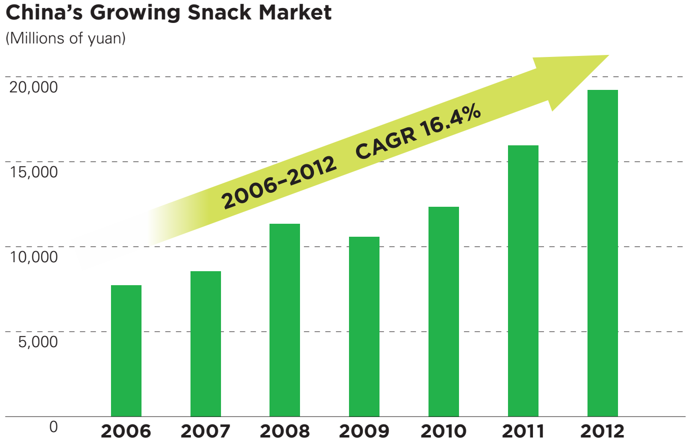
China is the most promising snack food market in Asia. Currently worth approximately ¥200 billion, in 15 years' time it is expected to overtake North America as the world's largest market for snack food. Our target is to secure a 10% market share in China, and as one step toward achieving this we have formed a joint venture, Calbee (HangZhou) Foods Co., Ltd., with ITOCHU Corporation and Tingyi Group subsidiary Master Kong Instant Foods Investment (China) Co., Ltd. The new company commenced operations in April 2013 from headquarters in HangZhou City, Zhejiang Province.

We intend to draw on the Tingyi Group's strong marketing capabilities in China to swiftly establish the Calbee brand. We have kicked off our product lineup in China with *Jagabee* and flour-based snacks, and will continue to roll out other products. By aggressively expanding our operational footprint we aim to achieve sales of ¥50 billion within the next five years, with an operating margin of at least 10%.

China: Sales / Profits Targets

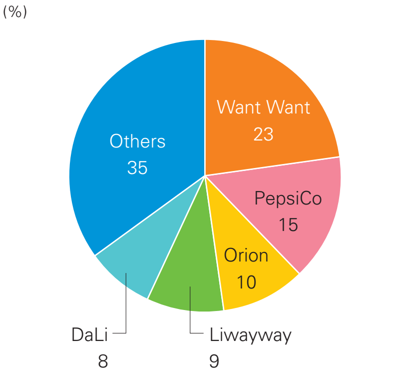


China's Growing Snack Market



Source: Nielsen

Snack Companies' Market Share in China



▶ Taiwan

In Taiwan, another promising Asian snack food market, we have formed a joint venture with Wei Chuan Foods Corporation, a Tingyi Group company with a strong local sales presence. The company started operations in December 2012 and is already reporting brisk sales of *Jagabee*. Our goal in Taiwan is to achieve a market share of 10% within five years, and an operating margin of 10% or higher.

Phase Ⅱ: Western Europe, Russia, Australia, Indonesia, Malaysia, Vietnam

In Indonesia, we decided in November 2012 to establish a joint venture with PT. Mitrajaya Ekaprana, a Wings Group company with strong sales and brands in the Indonesian market. Preparations are being made to commence operations in March 2014, by which time we will also have firmed up strategies for the other Phase 2 markets.

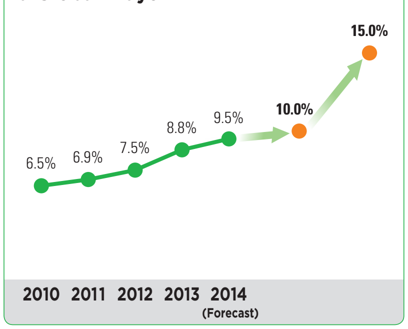
Phase Ⅲ: India, Brazil and other markets

We know from experience that snack food consumption grows as income levels rise. Accordingly, from April 2014 we will begin developing plans for expansion into India, Brazil, and other markets where economic growth is projected.

Aiming for Profitability on a Par with Global Peers

Through concerted cost reduction, we have expanded our operating profit at a compound annual growth rate of 38% over the past four years, improving our operating margin from 3.2% to 8.8%. We began our cost reduction drive by lowering variable costs through centralized procurement, and returning those savings to our customers. Because our products combine keen pricing with high quality, sales volumes have grown, leading to increased capacity utilization and lower fixed costs. By persisting with cost reductions, our short-term goal is to lift the operating margin to 10%.

Aiming at Operating Margin as a Global Player

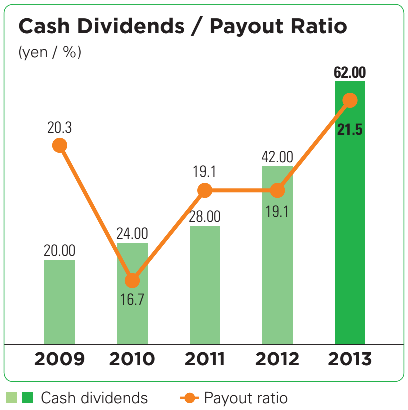


Our longer term objective is to deliver a margin of 15%, on a par with global food companies. While reaching this figure will not be easy, it is certainly achievable if we continue to develop innovative new products and pursue efficiency, including considering factory consolidation and other structural reforms as may be appropriate.

Commitment to Shareholders

Calbee strives to be a company that is respected, admired and loved by all stakeholders.

We have built a corporate governance structure that meets global standards of excellence in terms of transparency, based on the fundamental principles of governance. The responsibilities of all directors and executive officers are clearly defined, and outside directors with a high degree of independence monitor the management.



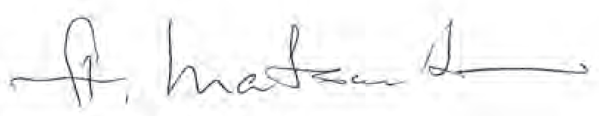
Calbee recognizes that the distribution of profits to shareholders is an important matter for management. Our approach is to ensure that Calbee remains highly profitable and financially sound while returning profits to investors on a consistent yet progressively increasing scale, in tandem with improvements in earnings. In fiscal 2013 we increased our year-end dividend by ¥20 to ¥62 per share, for a dividend payout ratio of 21.5%. With each passing fiscal year, we plan to continue raising the annual dividend and dividend payout ratio.

We believe diversity is an absolute imperative if Calbee is to achieve continued growth. There is no future for a company that does not practice diversity, and for this reason Calbee promotes hiring and utilization of people from a variety of backgrounds.

We are also committed to contributing to society. We do this through various initiatives, such as offering dietary education programs, promoting the employment of people with disabilities, and jointly running the Great East Japan Earthquake Orphans' Fund, which was set up to enable children orphaned by the earthquake to continue their education.

Since its founding in 1949 Calbee has been a Japanese market leader, a position underpinned by ongoing development of innovative snack food products. Now we are turning our attention to the global stage. Our remit from shareholders is to grow Calbee into a stronger company capable of competing with the best in domestic and global markets. We have only just embarked on this challenge, and look forward to earning your ongoing support for our endeavors.

Akira Matsumoto



Chairman of the Board & CEO,
Representative Director

COO Message

We aim to continue expanding our domestic market presence through innovation and cost reduction.

Shuji Ito
President & COO,
Representative Director

New Records for Sales and Profits

In fiscal 2013, as the domestic snack food market edged up 0.9% year on year to ¥410.2 billion, we threw all our resources into actively promoting the twin pillars of innovation (growth strategies) and cost reduction. As a consequence, we increased our share of the domestic potato chip market to 67.4%, up 4.2 percentage points from fiscal 2012, and our share of the domestic snack foods market to 52.3%, up 3.4 percentage points. We also achieved greater-than-planned improvement in cost of goods sold. Both sales and profit outstripped our initial expectations and showed a significant increase over the previous fiscal year, when Calbee was impacted by the Great East Japan Earthquake.

Sales increased 9.9% year on year to ¥179,411 million, supported by growth in sales of potato-based snacks, the new product *Vegips*, and *Fruit Granola*, as well as expansion in overseas operations.

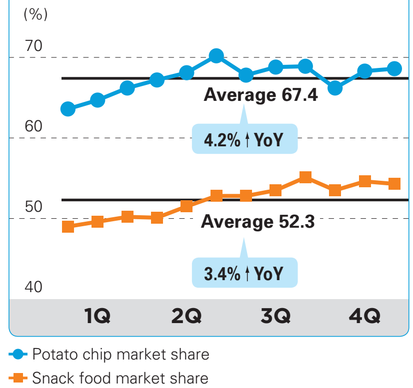
At the profit level, operating income rose 28.9% to ¥15,791 million, on the strength of sales growth stemming from aggressive investment in sales promotions aimed at expanding our domestic market share, and the resulting benefits of improved capacity utilization and a reduced manufacturing cost ratio. The operating margin rose 1.3 percentage points, to 8.8%. Net income increased 33.0% year on year to ¥9,441 million, despite a ¥371 million loss from the voluntary recall of *Kata-Age Potato*. We are deeply sorry for the inconvenience caused by the recall, and will prioritize quality and safety by implementing thorough measures to prevent such an incident from occurring again.

For detailed information about the Japanese market, please see Management's Discussion and Analysis on page 49.

Performance in Fiscal 2013
(Millions of yen)

	Fiscal 2011	Fiscal 2012	**Fiscal 2013**
Net Sales	¥155,529	¥163,269	**¥179,411**
Operating Income	10,717	12,247	**15,791**
Net Income	4,253	7,097	**9,441**

Calbee's Domestic Market Share (Fiscal 2013)



Source: Intage SRI (nationwide, all retail formats)
Base: Sales value
Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

Sales Growth Supported by Steady Demand for Potato-Based Snacks, *Vegips*, and *Fruit Granola*; Also by Ongoing Expansion Overseas

Sales in fiscal 2013 grew by ¥16,143 million, on the back of brisk demand for *Potato Chips*, *Jagarico* and other potato-based snacks, our new product *Vegips*, and *Fruit Granola*. Potato-based snacks accounted for roughly half of this increase, at ¥8,019 million. Growth in the potato chips category benefited from upsizing campaigns for core products (*Usushio*, *Consome Punch*, *Norishio*), and the relaunch of *Kata-Age Potato* in a lower price band and limited-area and limited-time products. In the previous fiscal year Calbee scored a notable hit with a limited-time version of *Jagarico Tarako Butter* (cod roe and butter flavor). This product is now available year-round, albeit only at convenience stores, and contributed to the *Jagarico* series' fiscal 2013 sales, as did the limited-edition *Jagarico for Adults*.

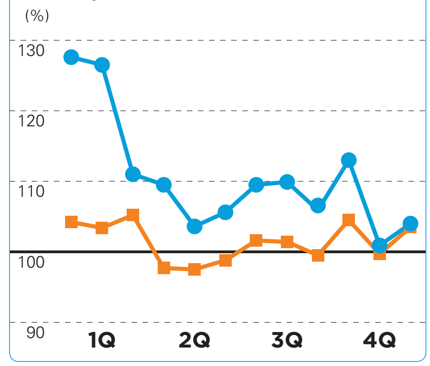
Sales of new snack products grew by ¥2,844 million. This owed much to the October 2012 nationwide launch of *Vegips*, after we had started the new production lines. Sales of cereal products increased by ¥2,322 million, with sales of *Fruit Granola* rising sharply on the back of vigorous PR and promotional campaigns, and accompanying growth in recognition.

In overseas markets, sales increased year on year in all markets, rising 28.9% to ¥9,222 million in total. Sales in North America advanced 23.0% year on year to ¥2,029 million, reflecting brisk sales of *Snapea Crisps*. In South Korea, sales surged 57.4% year on year to ¥1,929 million, due to robust demand for *Jagabee* and the fact that fiscal 2012 had been a nine-month reporting period.

Sales Contribution by Product in Fiscal 2013
(Millions of yen)

Net sales	**+16,143**
Potato-based snacks total	+8,019
New products (*Vegips*, etc.)	+2,844
Overseas	+2,067
Cereals	+2,322
Others	+ 890

Monthly Sales Year on Year (Fiscal 2013)

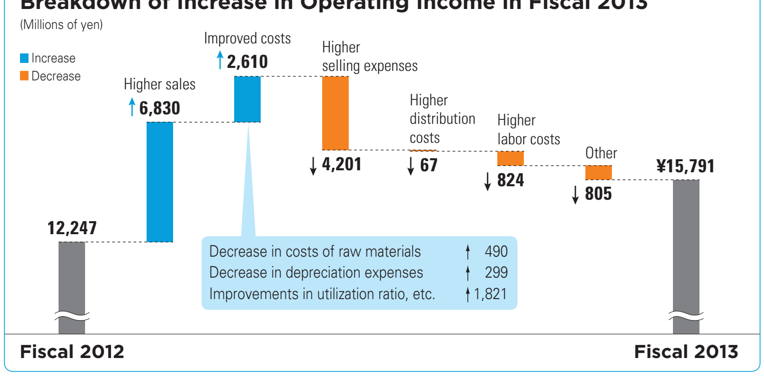


Calbee consolidated net sales year on year
Snack food market growth
Snack food market growth source: Intage SRI (nationwide, all retail formats)
Base: Sales value

Profit Growth Fueled by Sales Growth and Steady Progress in Cost Reduction

We continued making strong headway with cost reduction efforts in fiscal 2013. On the strength of aggressive promotional spending as a means of growing sales and market share, we succeeded both in increasing sales and improving capacity utilization. In total, we achieved ¥2,610 million in cost reductions, comprising ¥1,821 million in benefits from higher capacity utilization, ¥490 million from a decrease in raw material costs, and ¥299 million from a decline in depreciation expenses following curbs on capital expenditure. As a consequence, the cost of sales ratio for fiscal 2013 was 56.2%, beating our target by one percentage point, and the prior-year figure by 1.5 percentage points.

Breakdown of Increase in Operating Income in Fiscal 2013



With the yen's depreciation expected to drive up prices for edible oils and other raw materials, we will continue seeking ways to reduce costs across the entire group. In one such effort we are aiming for better coordination between production and marketing, as a means of standardizing production activities.

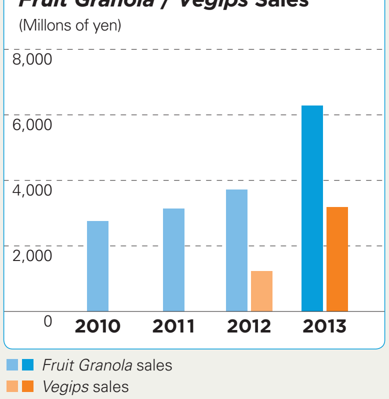
Cultivating Megabrands

In our strategy for continued growth, strengthened new product development is only surpassed in importance by expansion of overseas businesses. By continuously coming up with innovative new products and developing these into megabrands, Calbee plans to increase the number of products that generate over ¥5 billion in annual sales from 7 items currently to 20 items. In fiscal 2013, we scored major hits with *Fruit Granola* and *Vegips*. Calbee has always managed to grow without cannibalization between new products and existing products. Once again with *Fruit Granola* and *Vegips*, we have succeeded in growing our customer base by cultivating new demographics outside of our conventional snack food customer demographic, namely women and senior citizens.

Since launching in 1991, *Fruit Granola* has registered steady growth in sales, becoming Japan's top cereal brand. From January 2012 we have stepped up PR and promotional activities, garnering greater recognition for the brand and substantially growing sales. As a result, *Fruit Granola* is now the clear favorite among cereal brands, with a market share of over 20%. As production facilities are regularly operating beyond capacity, we will invest in additional capacity with the aim of swiftly reaching sales of ¥10 billion.

Since the release of *Vegips* in 2010, we have progressively expanded the sales area for the brand in tandem with the addition of new production lines. Nationwide rollout was complete in October 2012, and since then we have used TV commercials and promotional campaigns to steadily increase sales. In June 2013, we added a third item to the series, with *Onion, Pumpkin & Potato* and *Sweet Potato & Pumpkin* now joined by *Taro, Carrot & Burdock*. We plan to further strengthen the brand with a view to elevating *Vegips* to blockbuster status, alongside *Jagabee*.

Fruit Granola / Vegips Sales

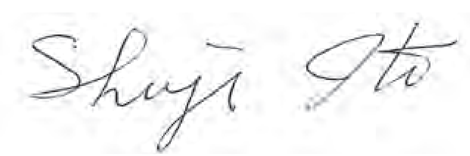


Aiming for Further Profit Growth

To realize continued growth and high profitability, Calbee has gone about its business with a focus on the twin pillars of innovation (growth strategies) and cost reduction, and the results speak for themselves. We will continue to cultivate a simple, transparent and decentralized corporate structure that enables all employees to act with increased autonomy and allows us to work even faster in our mission to strengthen and expand our business.

Thank you for your continued interest and support of Calbee.

Shuji Ito



President & COO, Representative Director

Special Feature

Building a Global Presence

How does Calbee plan to increase its share of the Japanese market, where scope for growth seems limited? And what steps are being taken to increase our market share in North America, which of all our markets appears to have the brightest growth prospects? In this special feature, we offer explanations from two persons integral to Calbee's future growth.

Masakazu Fujii

Senior Executive Officer
Controller of Regional Business Divisions and Sales Group

Joined CALBEE, Inc. in 1981. Appointed president & representative director of Oisia FOODS CO., LTD. in 2004. Appointed executive officer of CALBEE, Inc. in 2010, and served as general manager of East Japan Division, where the competition is toughest. Appointed to current role in 2012.

See pages 23–25, "Domestic Initiatives Drive Growth," for more information.

Gene Jensen

President
Calbee North America, LLC

Worked at FRITO-LAY NORTH AMERICA, INC. for 22 years. Responsible for potato procurement at FLNA Headquarters. Responsible for coordinating 24 manufacturing sites, potato suppliers, R&D, QC, and marketing operations. Appointed president of RDO-CALBEE FOODS, LLC (currently Calbee North America, LLC) in 2006.

See pages 26–29, "Aiming for Further Global Expansion," for more information.

Domestic Initiatives Drive Growth

With a view to further expanding market share and sales, we aim to create a decentralized corporate structure that will expedite our pursuit of innovation (growth strategies) and cost reduction.

Masakazu Fujii
Senior Executive Officer
Controller of Regional Business Divisions and Sales Group

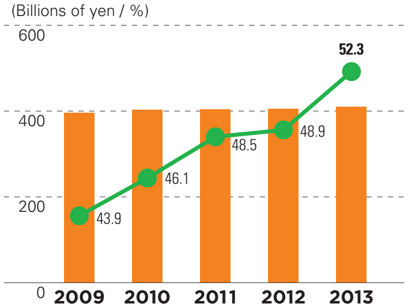
1. Market

- **Japan's snack food market is approximately ¥410 billion, with CAGR over the past four years of 0.9%.**
- **Calbee's market share in fiscal 2013 was 52.3%, an increase of 8.4 percentage points compared with four years ago.**

In fiscal 2013, snack food sales in Japan amounted to ¥410.2 billion. Over the past several years the market has continued to grow, but only modestly. There have been some structural changes—including an increase in customers aged in their 50s and 60s—but we believe the domestic market has weak growth prospects due to a declining birth rate and ongoing deflation.

Up until now, Calbee has consistently added to its market share by launching major new products every 10 years, and aggressively spending on sales promotions. In this manner we have established our position as the leading company in Japan's snack food market, where our share is already at 52.3%. We think it is possible to achieve additional growth in market share. Rather than being satisfied with the status quo, we will promote continuous innovation throughout our raw materials purchasing, production, and sales divisions as we urgently pursue further growth.

Domestic Snack Foods Market



■ Market
Source: All Nippon Kashi Association—Retail sales vaule

Calbee's Share
Source: Intage SRI (nationwide, all retail formats)
Base: Sales value
Snack food market share is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

➡ For detailed information about the Japanese market, please see Management's Discussion and Analysis on page 49.

2. Strategy

Regional Decentralization

- **In April 2010 four Regional Business Divisions were established.**
- **There is a need to decentralize administration in order to respond accurately to the changing market environment and sustain growth.**

In June 2009 we adopted a new management structure, embarking in April 2010 on a major overhaul founded on the principle of "greater simplicity, transparency, and decentralization." To facilitate innovation (growth strategies) and cost reduction, we divided Japan into four areas, establishing Regional Business Divisions for each area with control over local sales and production divisions. Customers with nationwide chains are now the responsibility of our Sales Group. In this manner we changed our previous centralized framework to a decentralized structure in which the Regional Business Divisions and Sales Group hold much of the authority, with the former spear-heading both sales promotions and product planning.

If we are to continue meeting customers' ever-changing needs with speed and precision, it is essential that we remain committed to further decentralization. We believe that this is necessary to the Company's future growth.

Sales Strategy

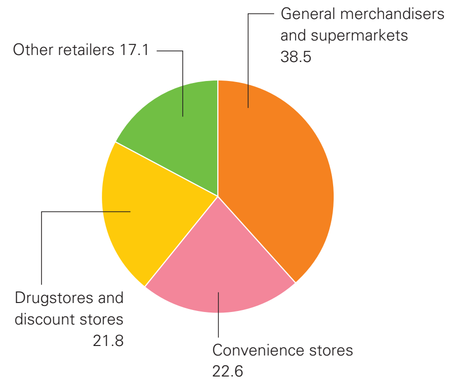
▶ **Strengthen individually customized initiatives to expand market share and increase sales**

General merchandisers and supermarkets constitute our primary sales channel, accounting for 38.5% of sales, followed by convenience stores at 22.6%, drugstores and discount stores at 21.8%, and other retailers at 17.1%. However, we are in a new era where the retail business is becoming increasingly borderless and multi-faceted, and to survive we must maintain a firm grasp on the particular needs of individual customers, dealing with each in a personalized manner. This kind of finely-customized approach will be critical, we think, to our pursuit of greater market share. As part of this, we have also been active in the area of private brand development, which we view as another important means of growing market share.

There is of course no point in growing market share without also growing earnings. Our goal is to increase profits at a faster rate than sales. In Japan, we are targeting continued growth every year of 5% for net sales and 10% for operating income.

Composition by Sales Channel (Fiscal 2013)

(%)



Cost Reduction

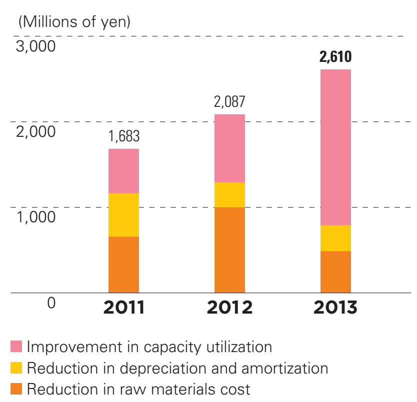
▶ **Improve capacity utilization of factories**

▶ **Begin review of distribution cost**

Calbee has been actively engaged in reducing costs as a means of increasing price competitiveness. Three years ago, low capacity utilization at factories had become a source of major concern for Calbee. Since then, we have striven to improve the cost of sales ratio by adopting new sales methods to achieve sales expansion, enabling us to boost capacity utilization without investing in new manufacturing equipment and personnel. This increase in capacity utilization over the past three years has contributed ¥3.1 billion to earnings, with the cost of sales ratio improving from 64.8% in fiscal 2009, to 56.2% in fiscal 2013.

Over the past three years we have concentrated on lowering the cost of manufacturing. Going forward, we aim to further strengthen innovation in our sales departments to reduce distribution costs.

Cost Reduction Amount



Aiming for Further Global Expansion

North American Business—

As a professional specialist in the snack foods business, I am working to develop Calbee's presence in the North American market.

Gene Jensen
President of Calbee North America, LLC

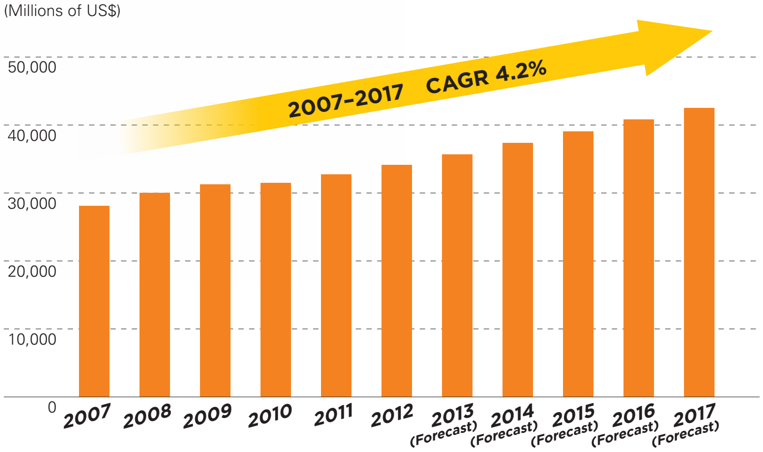
1. Market and Business Structure

- **Attractive market of 300 million people—the largest snack food market in the world**
- **Aiming to expand business through a joint venture with RDO**

With a population of around 300 million, the U.S. is the world's largest snack food market. It's an attractive market with prospects for Calbee's future growth. U.S. consumers are looking for foods that are good for them, tasty, and convenient. Calbee's offerings fit those criteria very well, and I am confident that they have what it takes to compete in the North American market.

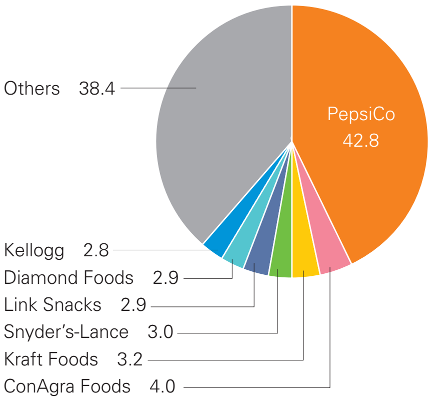
Calbee North America, LLC (CNA) is a joint venture of Calbee and R.D. OFFUTT COMPANY (RDO). It was established in 2006 to export dough for *Jagabee* to Japan and other parts of Asia. In 2012, however, CNA assumed all snack business operations for North America from Calbee's U.S. subsidiary Calbee America, Inc. (established in 1970). Today CNA's operations include manufacture and exports of dough, marketing of *Ruffles*® *Crispy Fries* through FRITO-LAY NORTH AMERICA (FLNA) of

Snack Market Trends in the US
(Millions of US$)



Source: Euromonitor Sweet and Savoury Snacks

Snack Companies' Market Share in the U.S.
(%)



the PepsiCo Group, and sales of *Harvest Snaps* such as *Snapea Crisps*, *Lentil Snaps*, and *Shrimp Flavored Chips* in North America.

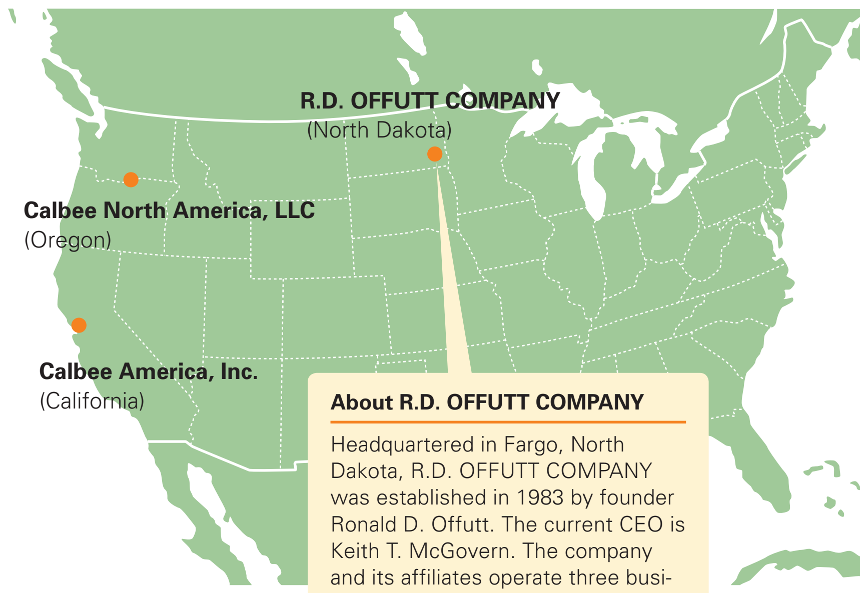
As president of CNA, my role is to provide leadership to realize Calbee and RDO's business objectives.

RDO is the ideal partner to help Calbee grow its North American business. RDO provides a consistent quality potato supply, assuring CNA the ability to meet the production needs for quality dough. In addition, RDO provides key support to CNA's operations in terms of financial, legal, IT, benefits, insurance, and business networks.

RDO is the leader in potato production. They supply very high quality potatoes, and they have a strong supply capability. This means there is no limitation on keeping up with Calbee's growth.

Then there is the aspect of business support. That is a very real and important aspect of getting our company off the ground in America. Calbee is well known in Japan, but not yet known in the U.S. RDO's strong reputation in the U.S. is a powerful aid in helping to attract senior executives to the company and being able to work with top-draw suppliers and service vendors.

I plan to combine Calbee's outstanding products and RDO's raw material supply power and knowhow to expand our sales in the North American market.



About R.D. OFFUTT COMPANY

Headquartered in Fargo, North Dakota, R.D. OFFUTT COMPANY was established in 1983 by founder Ronald D. Offutt. The current CEO is Keith T. McGovern. The company and its affiliates operate three business units: production agriculture, food processing and manufacturing, and contract sales of agricultural and construction equipment. RDO farms over 100,000 acres in the U.S and Canada, and is North America's largest producer of potatoes with 65,000 acres of center pivot irrigated land in potato production. Each business unit is vertically integrated for optimal efficiency and to maximize high-quality output.

Organizational Structure for North America

Calbee — Shareholding 50%

R.D. OFFUTT COMPANY — Shareholding 50%

Calbee North America

Manufacture and sale of *Snapea Crisps* and *Shrimp Flavored Chips*

Production of *Ruffles®* *Crispy Fries* (*Jagabee*) for the North American market

Production of *Jagabee* potato dough and export to Japan and Asia

• Launch	: May 20 (convenience store)
• Shipping	: April 19
• Retail Price	: $1.09 (1.4 oz)
• Sales Target (FY2014)	: US$12 million

2. Product Strategy

Ruffles® Crispy Fries

- **A unique product without competition**
- **Business alliance with Frito-Lay to expand sales**

Ruffles® Crispy Fries is the North American brand name for *Jagabee*. In April 2013 CNA formed a business alliance with FLNA, which has enormous marketing power in North America. Under the alliance, FLNA will have exclusive rights in North America to market and sell *Ruffles® Crispy Fries* manufactured by CNA. *Ruffles® Crispy Fries* are a unique product without competition in the U.S. snack food market. FLNA will market and distribute the product. CNA's focus is the timely delivery of quality product to meet sales orders. We also work closely with FLNA to execute new packaging and seasoning launches to expand sales and extend our marketing reach. The operation has only just started, but it is already running extremely well.

By entering this partnership with Frito-Lay, we have not only avoided the need to compete with them, but we have immediately obtained national distribution for the product. I was directly involved in negotiating the agreement between Calbee and FLNA on *Ruffles® Crispy Fries*. It took many months, but since I had worked at FLNA for 22 years, we knew and understood each other well. I think my involvement helped the negotiations to go very smoothly.

Harvest Snaps

- **Enhanced the lineup and introduced new packaging**
- **Expanded sales through Costco and Walmart, promoted expansion through new channels**

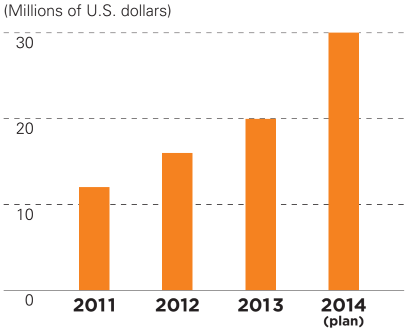
CNA develops, manufactures, markets, and sells the *Harvest Snaps* lineup. Until recently, we sold two varieties of *Snapea Crisps* (launched in 2002), but from April 2013 we aim to expand sales by increasing our lineup to include four varieties of *Snapea Crisps* and two varieties of *Lentil Snaps*, all under the name *Harvest Snaps*.

From 2011 sales grew strongly as we commenced sales through Costco and Walmart. This sales growth was greatly assisted by new personnel who joined CNA. Currently the sales and marketing team is led by vice-president Steve Kneepkens, who has worked hard to secure his position with his rich experience and knowledge of sales and marketing. For example, he successfully stabilized Costco as a sales channel. Two years previously our sales surged when we filled our first big order of *Harvest Snaps* for Costco. But Costco's business model involves aggressive stock rotation, and once *Harvest Snaps* were rotated out, CNA's sales fell sharply. Since then, Steve has been instrumental in negotiating further orders, and making them stick.

We are growing sales by expanding the sales and distribution network, and conducting innovative promotions through the existing sales network.

CNA began selling *Harvest Snaps* through convenience stores in 2013, starting in July with 7-Eleven. Prior to that, *Harvest Snaps* had been sold through grocery stores. Going forward we will expand our reach by adding even more grocery stores.

Harvest Snaps Sales

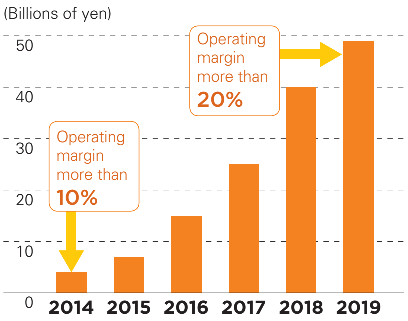


3. Our Vision

With the support of Calbee and RDO, CNA is targeting net sales of ¥50 billion and an operating income ratio of 20% or higher in the North American market in five years' time.

We currently have several market tests underway in North America, with a view to introducing new products. Calbee has many delicious and successful products in Japan that hold great promise in North America. Among these are established snack products such as *Jagarico*, *Vegips*, and *Fruit Granola*. We are also looking at several new products. The market tests results will help us to determine which product we should roll out next.

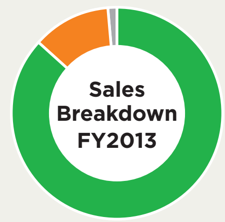
North America: Sales / Profits Targets



At a Glance

In the production and sale of snacks and other foods business, the Calbee Group mainly produces and sells potato-based snacks, flour-based snacks, corn-based snacks, other snacks, processed bread and cereals. In fiscal 2013 (ended March 31, 2013), net sales in the production and sale of snacks and other foods business totaled ¥176,994 million, an increase of 10.1% year on year.

In other businesses, net sales declined 3.1% year on year to ¥2,417 million.



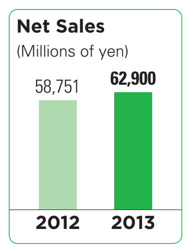
Snack Foods

Potato-based Snacks (Composition of Net Sales 57.8%)

▶ Potato Chips (launched in 1975)

Composition of Net Sales

35.1%



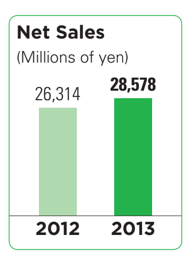
Although we were relative latecomers to the market, our potato procurement system allowed us to supply *Potato Chips* nationwide throughout the year. Our TV advertising campaign also proved successful, promoting *Potato Chips* as the top brand in the Japanese market. In addition to our range of conventional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

In fiscal 2013, *Potato Chips* sales increased 7.1% year on year to ¥62,900 million, bolstered by a strong response to an "extra-volume" campaign in our core products, and a renewal of the *Kata-Age Potato* series in a lower price band.

▶ Jagarico (launched in 1995)

Composition of Net Sales

15.9%



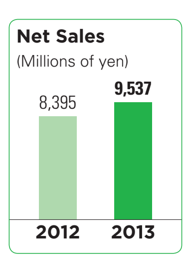
Jagarico is our second megabrand after *Potato Chips*. Three years after launch, annual sales reached ¥10 billion, growing to ¥20 billion eight years later. Today, sales continue to expand. *Jagarico* was Japan's first snack-in-a-cup, and it has proven popular with a wide range of customers thanks to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

In fiscal 2013, *Jagarico* sales rose 8.6% year on year to ¥28,578 million, supported by strong sales of the core product due to the introduction of large size packages, and contributions from limited-time products.

▶ Jagabee (launched in 2006)

Composition of Net Sales

5.3%



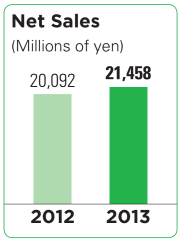
Jagabee is made from unpeeled potatoes processed into stick shapes that maintain the original flavor of the potatoes. Their unique texture also sets them apart from *Jagarico*.

In fiscal 2013, *Jagabee* sales rose 13.6% year on year to ¥9,537 million, spurred by an enhanced product lineup and other factors.

Flour-based Snacks

Composition of Net Sales

12.0%



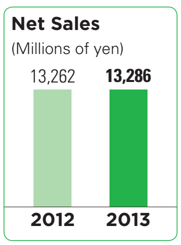
Launched in 1964, *Kappa Ebisen* (prawn crackers) is a long-selling snack product made from whole natural prawns.

In fiscal 2013, sales of flour-based snacks increased 6.8% year on year to ¥21,458 million, reflecting strong sales of *Kappa Ebisen* driven by limited-area and limited-time products.

Corn-based Snacks

Composition of Net Sales

7.4%



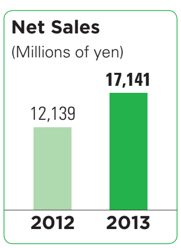
Mike Popcorn Butter Shoyu (butter and soy sauce) flavor was launched in 1983. It has become a long-selling product. Our corn-based snack business also include *Doritos* and *Cheetos*, two global megabrands developed by FRITO-LAY.

In fiscal 2013, sales of corn-based snacks amounted to ¥13,286 million, up 0.2% year on year. This increase was underpinned by brisk sales in core products.

Other Snacks (Including overseas business)

Composition of Net Sales

9.6%



Vegips were launched in 2010 as a vegetable chip seasoned only with salt, allowing consumers to enjoy the original flavor of the vegetables and a unique texture.

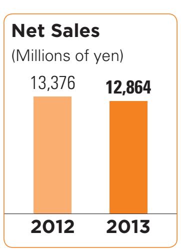
In fiscal 2013, other snacks sales rose 41.2% year on year to ¥17,141 million, due to the nationwide rollout of *Vegips* in Japan, accompanied by growth in operations overseas.

Other Food Products

Processed Bread

Composition of Net Sales

7.2%



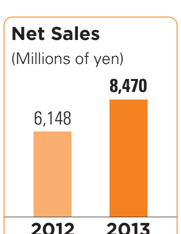
We manufacture sweet buns and bread with savory fillings for supply to retailers.

In fiscal 2013, processed bread sales declined 3.8% to ¥12,864 million.

Cereals

Composition of Net Sales

4.7%



Fruit Granola is the undisputed leader in Japan's cereal market with a market share of over 20%. *Fruit Granola* has proven popular among a broad range of customers, mainly women, who see it as a ready source of fiber, iron and vitamins.

In fiscal 2013, sales of cereals rose 37.8% year on year to ¥8,470 million, mainly as a result of a stronger publicity campaign for *Fruit Granola.*

Corporate Social Responsibility

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

Social Contribution Activities

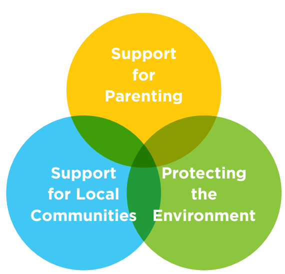
Basic Policy

The Calbee Group has Social Contribution Committees in each region to facilitate employee-driven activities that tie in closely with local communities. Our activities are based on our Social Contribution Mission Statement and Key Themes.

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

Specific activities include food-related events, such as confectionery and snack food contests, efforts to plant greenery and clean up around the Group's factories and providing offices and support for sports events. Through these activities, the Calbee Group strives to fulfill its responsibility to local communities and contribute to the global society.

Key Themes



Support for Areas Affected by the Great East Japan Earthquake

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

The Great East Japan Earthquake Orphans' Fund

The Great East Japan Earthquake Orphans' Fund was jointly established by Calbee, KAGOME CO., LTD. and ROHTO Pharmaceutical Co., Ltd. as a vehicle for supporting children orphaned in the Great East Japan Earthquake over the next 25 years.

In two years of operation the fund has helped a total of 217 high school students to advance to higher education.

In fiscal 2013, the Calbee Group donated a total of ¥40 million to the fund, including donations from 654 employees.

Second-year high school students who received support from the Great East Japan Earthquake Orphans' Fund

Volunteer Activities in Disaster-affected Regions

The Calbee Group is active in volunteer activities intended to support the recovery of disaster-affected areas. Management and employees both participate in the activities.

In June 2012 we held the Calbee Awards in Fukushima. This is an event for recognizing employees who have achieved outstanding results. The day after the event, a number of employees participated in volunteer activities. Moreover, in November, we held a drive to remove wreckage by hand from a site in Sendai, Miyagi Prefecture.

We have also been supporting efforts to revive agriculture in areas that were damaged by the tsunami. At an agricultural high school in Miyagi Prefecture, the fields used for students to practice were ruined by the tsunami. Calbee helped to restore them by providing seed potatoes, fertilizer, agrichemicals and other items, as well as supporting harvesting practice activities.

Food Communication

The Calbee Group is active in promoting proper understanding of snack foods. Our activities include providing useful information on enjoyable diets and offering consumers experiences. Our key focus in Food Communication activities is on supporting dietary education programs.

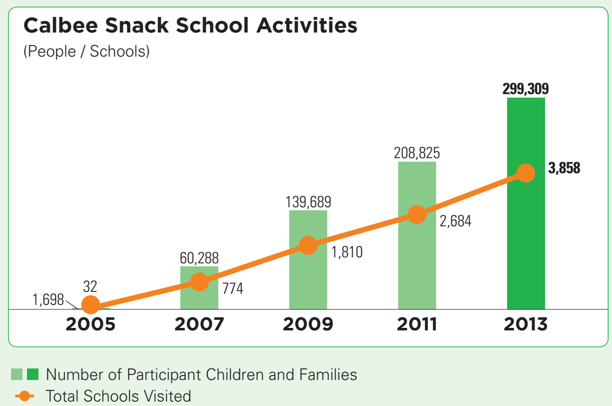
Food Communication Themes

1. Proposals for ways to enjoy snacks
2. Snack food communication
3. Initiatives to utilize nature's gifts
4. Initiatives for confidence and safety, and for the environment

Topics Calbee Snack School

Since 2003, the Calbee Group has run the Calbee Snack School, a program of elementary school visits that offers children throughout Japan a hands-on learning experience. The program is designed for children, who are the next-generation of society, and aims to use snack foods in children's day-to-day environments to help them learn how to have enjoyable diets by cultivating correct dietary habits and self-control.

The 2005 Basic Act on Food Education makes dietary education a compulsory subject in schools. Calbee has received invitations from many schools, and approximately 300,000 children and their families at around 4,000 schools have participated in the Calbee Snack School since its inception.



Programs

Program 1

Snack-size Guessing Game

Children learn about the appropriate amount and times for snacks in a day, using potato chips as an example.

Program 2

Video: How to Enjoy Snacking

This video uses animation and songs to teach children about the best way to eat snacks, along with the entire flow of operations from the potato chip manufacturing process to sales at stores.

Program 3

Learning About Labels on Snack Packaging

Children learn about the information on the labels of snack packaging, and how to read them in order to make the best choice for themselves.

Promoting Diversity

Basic Policy

"Calbee no growth without diversity."

The Calbee Group considers diversity to be an important management strategy and is promoting employment and deployment of diverse human resources.

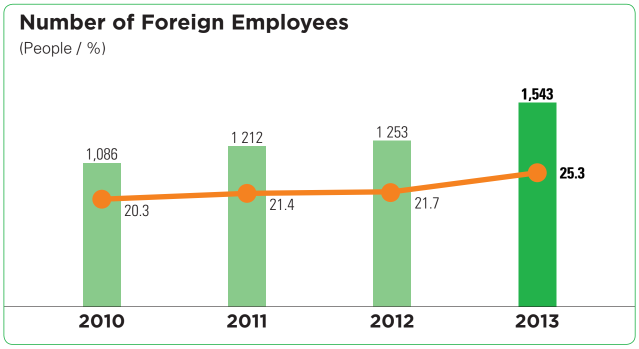
Diversity Promotion Committee Initiatives

We established a Diversity Promotion Committee in April 2010. The committee's tasks include providing career support to women, promoting support for employees aged 45 and above, and conducting diversity-awareness education activities. In November 2012, the committee arranged the Third Diversity Forum, which was attended by approximately 300 Calbee Group employees.

Discussion meeting between female employees and the CEO

Increasing Recruitment of Foreign Nationals

The Calbee Group's business is expanding more rapidly overseas. In line with this change, we are taking steps to energize our workplaces by embracing a diverse array of cultures and values through the recruitment of employees of various nationalities. In fiscal 2013, 10 of our 32 new recruits were international students. We have also had a drive to recruit local staff at overseas bases, so that our ratio of non-Japanese employees on March 31, 2013 stood at 25.3%. We will continue our policy of actively recruiting foreign nationals going forward.



Number of Foreign Employees
Foreign Employee Ratio
Note: Includes temporary employees

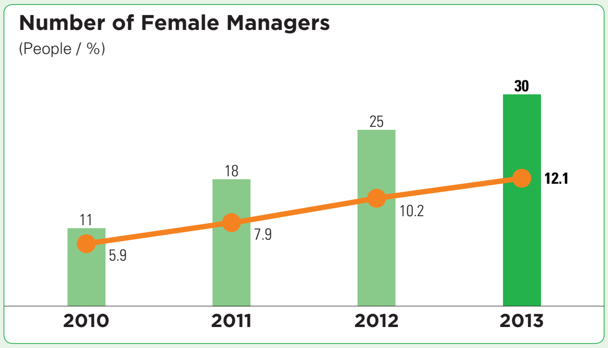
Providing Employment Opportunities for People of All Abilities

In November 2007, the Calbee Group established Calbee Eatalk Co., Ltd. in an effort to expand the Group's employment opportunities for people with disabilities. By providing work that matches workers' differing abilities, and workplaces equipped with facilities and equipment to meet various needs, Calbee Eatalk aims to create workplaces where anyone can unlock their full potential on the job, regardless of a disability.

Through these measures, the Calbee Group achieved an employment ratio for people with disabilities of 2.0% as of March 31, 2013. This was higher than the 1.8% statutory employment ratio for people with disabilities in Japan.

Topics Workplaces for Active Women

The Calbee Group believes that a company cannot grow without women playing an active role. We have an established goal of increasing the presence of women in management. In fiscal 2010, the ratio of female managers was 5.9%; by fiscal 2013, this had doubled to 12.1%. Moreover, the ratio of female executive officers stood at 16.7%. The target ratio for female managers over the long-term is 40%. To achieve these goals will require the entire Group to change its awareness over workplace equality. Calbee's policy is to continue actively promoting women in the workplace going forward.



Number of Female Managers
Ratio of Female Managers

Environmental Initiatives

Basic Policy

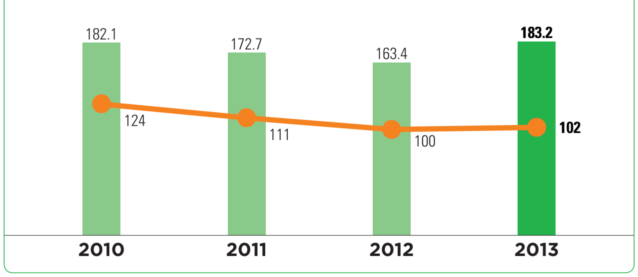
The Calbee Group formulated the Calbee Group Environmental Declaration in May 2012. The declaration calls for the Group to use nature's gifts carefully, and to return the Earth to its natural state as far as possible. As a member of today's global society, the entire Group will make a concerted effort to reduce CO_2 emissions, promote energy-saving, reduce waste emissions, save water and protect the environment.

Combating Global Warming

Calbee uses the Life Cycle Assessment (LCA) method to calculate and understand the CO_2 emissions inherent to its value chain, from procurement of raw materials, production and sales, to recycling of waste products. The Group has made improvements to its production schedule and promoted use of biodiesel fuel; however, the halting of nuclear power plant operations in Japan has caused an increase in CO_2 emissions from electricity use. As a result, the Group's total CO_2 emissions for fiscal 2013 totaled 183.2 thousand tons (up 12.1% year on year), while CO_2 emissions per ¥100 million of net sales were 102 tons (up 2.0% year on year).

At our Shin-Utsunomiya Factory, we have installed a heat pump energy recovery system in our wastewater processing facility. This measure to reduce CO_2 emissions was highly regarded by Japan's Ministry of Economy, Trade and Industry, which presented Calbee with an award.

CO_2 Emissions and Emissions per ¥100 Million of Net Sales
(Thousands of tons / tons)



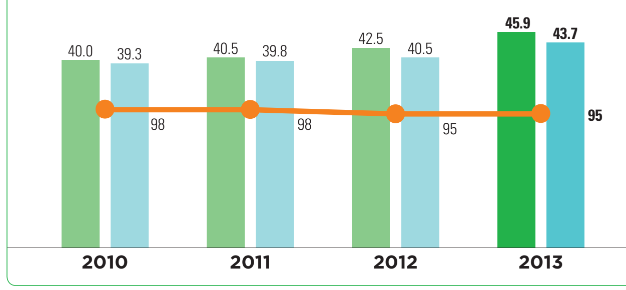
CO_2 Emissions
Emissions per ¥100 Million of Net Sales (Tons of CO_2 / ¥100 Million of Net Sales)
Source: Calbee Group companies in Japan

Using Resources Efficiently

The Calbee Group is promoting initiatives to reduce and recycle waste to help realize a recycling-oriented society. At our factories, we promote zero emissions and recycling. Specific initiatives include separation and collection of waste, limiting the creation of waste, and using leftover vegetable matter for animal feed.

In fiscal 2013, the Group's factories generated a combined 45.9 thousand tons of waste, of which 43.7 thousand tons were recycled. The recycling rate at the Group's 15 main factories stood at 95%.

Waste Volume, Reused Waste Volume and Recycling Ratio
(Thousands of tons / %)

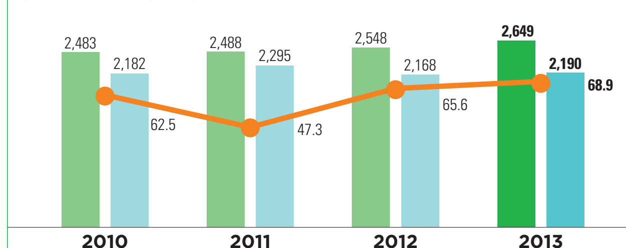


Waste Volume
Reused Waste Volume
Recycling Ratio
Source: Calbee Group companies in Japan

Use of Water Resources

The Calbee Group is working to implement water recycling and reuse. In fiscal 2013 we employed a wastewater purification process that uses microbes. Following a 12.4% year-on-year increase in production, water volume usage in fiscal 2013 was 2,649 thousand m^3 (up 4.0% year on year) and waste water volume was 2,190 thousand m^3 (up 1.0% year on year). We will continue our efforts to reduce the volume of water that we use, and to use it more efficiently going forward.

Water Volume Usage, Wastewater Volume and COD (Chemical Oxygen Demand)
(Thousands of m^3 / tons)



Water Volume Usage
Wastewater Volume
COD
Source: Calbee Group companies in Japan
Figures for 2010 do not include the factory of the R&D Group
Does not include recycled wastewater at the Hiroshima Factory, West Building

Corporate Governance

Dialogue between an Institutional Investor and Outside Audit & Supervisory Board Members

Akitsugu Era
Vice President,
Corporate Governance Team, Investments Group
BlackRock Japan Co., Ltd.

Tadashi Ishida, CPA
Audit & Supervisory Board Member
Senior Research Fellow at
the Japan Association for CFOs

Yoji Inaba
Audit & Supervisory Board Member
Professor, Faculty of Law,
Nihon University

Tomomi Yatsu, Attorney-at-law & CPA
Audit & Supervisory Board Member
Partner, Sakai Mimura Aizawa—Foreign Law Joint Enterprise

Maximizing Shareholder Value through Disciplined Management

Akitsugu Era of BlackRock Japan Co., Ltd. spoke with Calbee's three highly independent outside members of the Audit & Supervisory Board about the ideal corporate governance structure, Calbee's current state of corporate governance, and issues to be addressed.

1. Ideal Corporate Governance Structure for a Listed Company

—**Era:** Disciplined management is an essential concept for investors to invest in a company with confidence. A company might have significant technologies and/or sales power, but it will not be able to demonstrate its full potential if its management lacks discipline. A systematic design for disciplined management is the most fundamental element in forming corporate governance. That is not to say that simply creating the structure alone is sufficient. Corporate governance is a means to an end—namely, maximizing corporate value and optimizing shareholder value. The actual corporate governance structure itself should not come to be seen as the goal. There is no single best practice for corporate governance that will suit all companies. Naturally, corporate governance practices will differ by firm. On the other hand, however, variation in practices tends to make them difficult to understand. This is why it is important to explain the background and philosophy behind the selection of any given system, to make it easily comprehensible for outsiders.

From that perspective, I would very much like to hear the reason why Calbee decided to adopt a company with an Audit & Supervisory Board structure.

Strengthening corporate governance is a measure to help maximize shareholder value.

—Akitsugu Era

—**Inaba:** The Audit & Supervisory Board structure used in Japan is an excellent system that can exert strong control over management. As Audit & Supervisory Board members it is our primary responsibility to apply the brakes in a timely fashion if management begins to run the company recklessly. The term for Audit & Supervisory Board members in Japan is four years, and it requires at least a two-thirds majority of voting rights of the shareholders present at the General Meeting of Shareholders to remove an Audit & Supervisory Board member from office. In this way, the position has been strengthened by law.

In the case of Calbee, while it is a company with an Audit & Supervisory Board, it also has a nominating and remuneration committee, which I think enables us to maintain the same level of management transparency and separation of oversight and execution as a company with committees.

—**Yatsu:** Calbee lacked the institutional setting for nominating successors and determining remuneration from an objective standpoint. The Audit & Supervisory Board and the outside directors recommended the creation of such a body, and so the Advisory Board was established in April 2012, with five directors, including three outside directors.

2. Calbee's Corporate Governance Structure

—**Era:** Compared with other Japanese companies, Calbee's governance system has a higher proportion of outside officers; five of the seven directors are outside directors, and three of the four Audit & Supervisory Board members are outside members. Are the respective roles of the outside directors and outside Audit & Supervisory Board members very different? Do you consider that the overall governance structure is functioning well?

—**Ishida:** While I am an outside Audit & Supervisory Board member, I am also the standing member. I'd say that other companies who use the Audit & Supervisory Board system don't usually have someone in my position. I think this hints at a strong awareness of the importance of corporate governance within Calbee's management. When I was appointed as an Audit & Supervisory Board member, I said to Chairman Matsumoto, our CEO, "I'll wait not at the exit, but at the entrance." What I meant was, rather than supervising results, I want to get actively involved in the internal discussions of the Company, and play an advisory role of identifying risks ahead of time and countering them. He replied, "Please do, by all means. And I hope you will speak your mind to us, even if it is something that we are not happy to hear about."

I had served as an Audit & Supervisory Board member in several companies previously, and this was the first time that I had ever met a CEO who said something like that.

Calbee has an extremely open corporate atmosphere. As an Audit & Supervisory Board member I am allowed to sit not only in the Board of Directors' meetings, but also in the Management Council and any other meetings that I need to attend. This makes it very easy to gather any information I need.

Rather than merely fulfilling the role of supervising results, I want to get involved in the internal discussions of the Company, and play an active advisory role in order to enhance the effectiveness of business execution.

—Tadashi Ishida

—Yatsu: Whatever corporate governance structure a company decides to adopt, in order for it to work effectively the outside directors and Audit & Supervisory Board members must be truly independent both mentally and financially, and the management must be willing to listen to the opinions of the outside directors and Audit & Supervisory Board members. In reality, this is extremely difficult to achieve, but Calbee has achieved both.

Outside directors have voting rights in the Board of Directors' meeting, so they are actively involved in the management decision-making process, and play a role in enhancing the effectiveness of business execution. Meanwhile, outside Audit & Supervisory Board members do not have voting rights, but they are able to obtain a significant volume of information from the standing Audit & Supervisory Board member and from interviews and other audit procedures. This enables them to act in a supervisory capacity even for issues that haven't actually been included in the agenda of the Board of Directors' meeting. In addition, outside directors have to attend only one Board of Directors' meeting per month in principle, so Calbee's Audit & Supervisory Board members are expected to provide them with useful additional information.

—Inaba: The majority of directors on Calbee's board are outside directors, but I think this structure is the natural result of adhering to the principle of separation of supervision and business execution. I think that corporate governance at Calbee is extremely rational.

I will fulfill my role as supervisor and advisor for business execution that has been entrusted to me by shareholders. In doing so I hope to contribute to increasing shareholder value.

—Yoji Inaba

At the Board of Directors' meetings, both the Audit & Supervisory Board members and the directors actively bring their respective experience as business managers or their high level of knowledge into the discussions without regard to their title or position. This kind of animated Board of Directors' meeting is probably rather rare among Japanese corporations.

Originally the role of the Audit & Supervisory Board member was to oversee directors to ensure that their execution of business is compliant with the law. Recently, however, we are also conducting validity audits too, which means that in terms of supervising the execution of duties, the role of the Audit & Supervisory Board members is the same as that of the outside directors.

3. Strengthening Corporate Governance Even Further

—Ishida: Whether or not corporate governance actually works in a company comes down to the stance of executive management and Audit & Supervisory Board members, I think. The executive management at Calbee has the right attitude towards corporate governance, and the Audit & Supervisory Board members are also working in an environment that allows them to exercise their capabilities in full. So as the standing Audit & Supervisory Board member, I intend to continue striving to do my best with high motivation going forward. Since my fields of expertise are in accounting and finance, I intend to continue actively giving my opinions on these matters.

The current executive management and we the Audit & Supervisory Board members will each step down at some point in the future. I sincerely hope that the next generation will maintain the outstanding level of our current corporate governance system.

—Inaba: I really want Chairman of the Board & CEO Matsumoto and President & COO Ito to remember that they must devote themselves to "building a clock" rather than "telling the time." What I mean is, rather than focusing on becoming charismatic business leaders, I want them to create an organization and structure that can function properly even in their absence. I think that the very fact that I can say this without hesitation is important in itself. Success builds success, and this can increase the charisma of our CEO and COO so that people in the Company may begin to find it difficult to speak up to them. This will make the role of outside Audit & Supervisory Board members all the more important.

I have been watching with particular care to ensure that investment proposals are profitable enough, and that there is no infringement of the compliance rules. I am strongly committed to accomplishing what the shareholders expect me to do and contributing to increasing shareholder value. I will also give ongoing suggestions and guidance with regard to timely and appropriate disclosure of Calbee's information as a listed company.

Another thing to remember is that all citizens of a country are potential shareholders of the listed companies. I am performing my duties not only because I am obviously expected to do so by the existing shareholders, but because I want Calbee to be the kind of company that will inspire other stakeholders to become shareholders, particularly our customers and employees.

—**Yatsu:** When there are a lot of outside directors and Audit & Supervisory Board members, there is generally a tendency for the braking function on business execution to work a little too well. So if we are to increase corporate value, I think it's important for the accelerator to be used in appropriate balance as well. This means our current governance structure requires our executive management to demonstrate stronger leadership than usual. In Calbee's case, I think that the balance between leadership of our executive management and governance is extremely good.

Calbee is currently performing strongly and has no major issues on that front. Looking ahead, however, we may see results hit a ceiling at some point. Even if that does happen, I believe that we should maintain our current principled and proactive management approach, and keep a good balance between our accelerator and our brake. As an Audit & Supervisory Board member of Calbee, I will perform my duties to the best of my ability, making use of my expertise, knowledge and experience in the legal aspects of business.

I will perform my supervisory role as an expert in legal issues to protect Calbee's corporate value from being degraded.

—Tomomi Yatsu

—**Era:** Many Japanese companies have built well-thought-out, robust corporate governance systems. However, it is unfortunate that a lack of explanation of these systems often leaves people on the outside unaware of their initiatives and the thinking behind them. Making an effort to actively explain each company's own corporate governance system would also surely help improve the public evaluation of corporate governance in Japanese companies overall.

This is the first time I have had the opportunity of meeting with the outside members of an Audit & Supervisory Board like this, but I believe such communication between institutional investors and companies is a good way to help strengthen corporate governance.

Corporate Governance System

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

Basic Approach

As stated in our corporate philosophy, "We are committed to harnessing nature's gifts, to bringing taste and fun, and to contributing to healthy lifestyles." Based on this thinking, we aim to win the trust and meet the expectations of customers, business partners, local communities, shareholders and all our other stakeholders, and increase corporate value, which encompasses value for shareholders, customers and employees. To this end, we will strive to reinforce and enhance corporate governance.

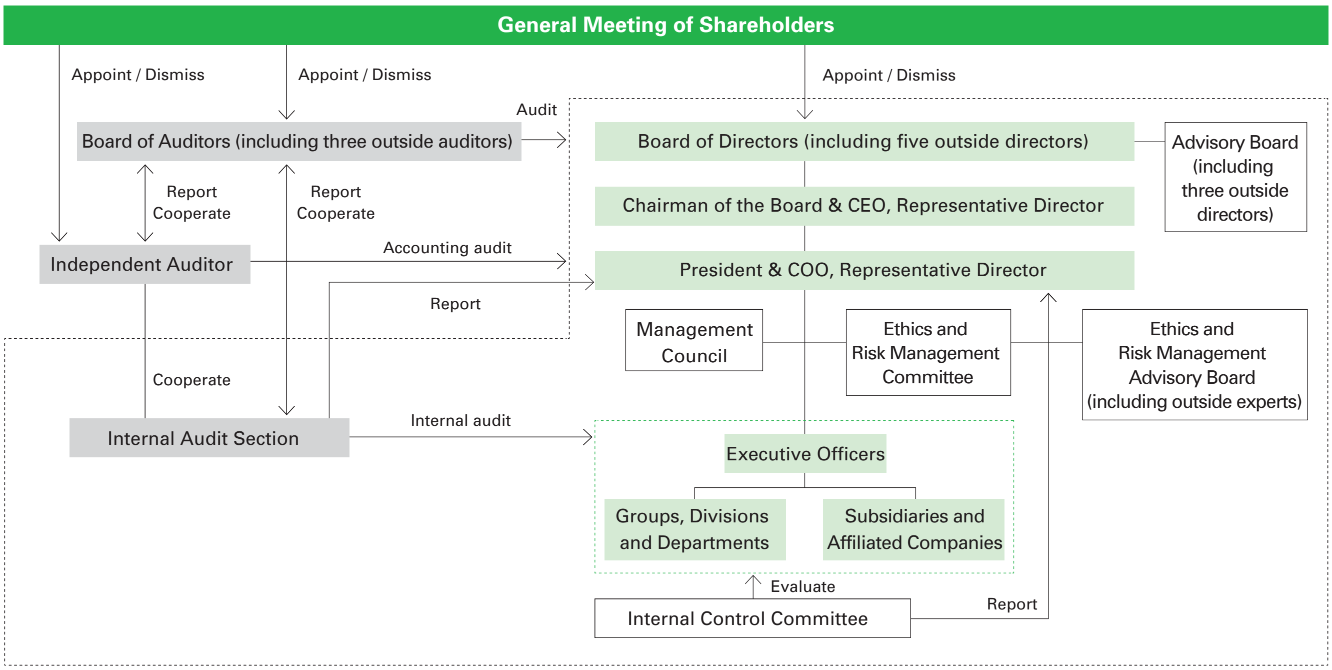
Matters Concerning Organizational Form and Organizational Management

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

Calbee's Changing Corporate Governance System

2001	**Separated Supervision from Business Execution**	Introduced the executive officer system, appointed outside directors, separated business execution and management supervision functions
2009	**Strengthened Supervisory and Monitoring Functions**	Reduced the number of in-house directors from nine to two, increased the number of outside directors from two to five, thereby adopting a structure where highly independent outside directors comprise the majority of the Board of Directors
2009	**Promoted Diversity**	Appointed first non-Japanese director Of the seven current directors, one is a woman and two are non-Japanese. One of the four Audit & Supervisory Board members is a woman.
2012	**Enhanced Transparency and Soundness**	Established the Advisory Board for discussing and proposing nominating and remuneration

Corporate Governance System



Management and Execution Structure

To enhance management transparency, we have appointed outside directors with a high degree of independence and introduced an executive officer system. This separation of business execution and supervisory functions aimed at actively strengthening the monitoring of the Board of Directors is a key characteristic of the Calbee Group's corporate governance system.

The Board of Directors is comprised of two in-house directors and five highly independent outside directors for a total of seven directors. As a general rule, the Board meets once every month to discuss resolutions on matters stipulated by law, formulate and make decisions on key management policies and strategies, and supervise business execution. All the outside directors have extensive management experience or knowledge and perform a business execution supervisory role from an independent standpoint. Calbee has also been promoting greater diversity in the Board of Directors; two of the seven directors are non-Japanese, and one of the directors is a woman.

Discussion and proposals concerning nominating and remuneration are the responsibility of the Advisory Board. The board meets four times a year in principle, and has five regular members, including three outside directors.

Business execution is carried out by 24 executive officers who have been given authority to manage specific organizations within the Group. This devolution of authority is part of efforts to create a management system that speeds up decision-making and clarifies business execution responsibility. Among the executive officers, senior executive officers are entrusted with especially important and wide-ranging duties and do not hold employee status. To promote rapid and appropriate decision-making by the directors, important business matters are discussed in the Management Council by a total of eleven regular members (nine senior executive officers, the chief financial officer, and the general manager of the Strategic Planning Group) prior to discussion by the Board of Directors.

Outside Directors

Name	Reason for Appointment	Attendance at Board of Directors' Meetings
Yuzaburo Mogi	Yuzaburo Mogi serves as director and honorary chairman of Kikkoman Corporation. He has also served as a director and an Audit & Supervisory Board member at many companies. Calbee judged that Mr. Mogi would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager.	92.3%
Koji Kioka	Koji Kioka has served as president and as chairman of KAGOME CO., LTD. He also has expert knowledge of the food industry. Calbee judged that Mr. Kioka would make an important contribution to the Company's management based on his knowledge and experience as a corporate manager in the food industry.	100.0%
Kazuo Ichijo	Kazuo Ichijo has a high level of specialist knowledge, and Calbee judged that Mr. Ichijo would make an important contribution to the Company's management from a wide international and social perspective, based on his knowledge and experience.	92.3%
Ümran Beba	Ümran Beba has an expert knowledge of the global food industry gained through her long involvement in the snack business at PepsiCo Group and her current position as the Asia Pacific Region President at PepsiCo. Calbee judged that Ms. Beba would make an important contribution to the Company's management based on her knowledge and experience as a multinational corporate manager.	84.6%
Hong-Ming Wei	Hong-Ming Wei has served as Vice President of Tingyi (Cayman Islands) Holding Corp. and Calbee judged that Mr. Wei would make an important contribution to the Company's management based on his knowledge and experience.	—% (Mr. Wei assumed the post in June 2013)

Audit & Supervisory System

Calbee has adopted the Audit & Supervisory Board system. The Audit & Supervisory Board consists of four Audit & Supervisory Board members, including three outside Audit & Supervisory Board members (one of whom is a woman). All of the Audit & Supervisory Board members bring a high level of expertise and knowledge to their role of monitoring and auditing the management of Calbee.

As part of this auditing role, the Audit & Supervisory Board members actively participate in meetings of the Board of Directors and other management meetings, auditing and monitoring the activities of directors and executive officers to ensure no problems arise in business execution. The Audit & Supervisory Board members also conduct systematic audits at Group companies in coordination with the Audit & Supervisory Board members at each company and Calbee's Internal Audit Section.

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

Outside Audit & Supervisory Board Members

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

Executive Remuneration

Remuneration for Calbee directors and executive officers comprises basic remuneration commensurate with executive duties, bonuses paid in accordance with the Company's business results for each fiscal year, executive retirement benefits linked to performance during the period of appointment, and stock options.

Outside directors and part-time Audit & Supervisory Board members receive only a fixed basic remuneration due to the importance of their supervisory function from an independent perspective.

The basic remuneration paid to members of the Board of Directors and the Audit & Supervisory Board is within the total allowance for annual remuneration decided by resolution of the General Meeting of Shareholders. Directors' bonuses and retirement benefits for members of the Board of Directors and the Audit & Supervisory Board are set after approval of the General Meeting of Shareholders.

Total Remuneration by Executive Classification, Type of Remuneration, and Number of Eligible Recipients

Executive classification	Total remuneration by type (millions of yen)	Total remuneration (millions of yen)				Number of eligible executives
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	230	120	—	73	37	2
Auditors (excluding outside auditors)	46	21	—	9	15	1
Outside directors and auditors	127	113	—	9	5	8

Total Remuneration Paid to Individual Directors

Name	Total remuneration (millions of yen)	Executive classification	Total remuneration by type (millions of yen)			
			Basic remuneration	Stock options	Bonuses	Retirement benefits
Akira Matsumoto	115	Chairman of the Board & CEO, Representative Director	60	—	37	18
Shuji Ito	115	President and COO, Representative Director	60	—	37	18

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

Compliance

Calbee considers compliance with the law and with social norms to be the supporting pillar of its business activities. In 2006 we formulated the Calbee Group Code of Conduct, and established the Group Conduct Guidelines. We are also working to embed and increase compliance awareness by distributing Ethics Cards and Compliance Guidebooks to all employees, and through measures such as position-specific training, e-learning courses, and management training.

Calbee has also established the Ethics and Risk Management Committee, headed by the President and COO, which promotes compliance and risk management activities throughout the entire Calbee Group. In addition, Calbee has established the Ethics and Risk Management Advisory Board to complement activities conducted by the Ethics and Risk Management Committee. The board provides advice and proposals to the Ethics and Risk Management Committee from an objective standpoint.

Ethics and Risk Management Advisory Board

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

Ethics and Risk Management Committee

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

Risk Management

To address risk management, the Ethics and Risk Management Committee was set up to comprehensively and accurately identify and assess all risks that could have a major impact on the Group's operations in order to minimize any losses. The committee analyses risks facing the Group and examines measures to mitigate any impact, maintains relevant regulations, and submits proposals to the Board of Directors where necessary. Moreover, in October 2012 we launched a crisis management project. The objective was to formulate plans for minimizing damage and swiftly recovering business operations in the event of crisis situations that could have a major impact on management. Through this project we have formulated action plans to deal with misconduct, product contamination, and the event of a major earthquake striking Tokyo.

In November 2012 Calbee announced a product recall after discovering some products were contaminated with fragments of glass. We sincerely apologize for the inconvenience that this caused to our stakeholders. In executing the recall our basic policies were: 1. Put customers first (do not allow any more people to be affected), 2. Disclosure (swiftly disclose the latest information), 3. Lead from the top (top management takes the initiative in resolving the issue), 4. Speed (put top priority on recovering the recalled product), and 5. Prevent reoccurrence (implement protocols to prevent such accidents from happening again). To prevent reoccurrence, we removed the equipment that had caused the problem and undertook full inspections of all plants. We also revised the frequency for inspections.

IR Activities

Disclosure Policy

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

Communication with Securities Analysts and Institutional Investors

Calbee holds earnings presentations every quarter. At the presentations, senior management explains the Company's future management plans and performance. In addition, we also respond to around 250 inquiries from securities analysts and institutional investors in and outside of Japan each year.

Calbee is also proactive in communicating with overseas institutional investors and regularly conducts investor relations activities overseas. In the year ended March 2013, we held three meetings in Europe, North America, and Hong Kong, respectively.

Information Disclosure on Company Website

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

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

Board of Directors, Auditors and Executive Officers

(As of June 26, 2013)

Directors

Akira Matsumoto

Chairman of the Board & CEO, Representative Director
65

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

Shuji Ito

President & COO, Representative Director
56

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

Yuzaburo Mogi

Director (Independent Director)
78, Elected 2009

1958	Joined Kikkoman Corporation
1995	Appointed Representative Director, President and CEO, Kikkoman
2004	Appointed Representative Director, Chairman and CEO, Kikkoman
2009	Appointed Director, CALBEE, Inc. (current position)
2011	Appointed Honorary CEO and Chairman of the Board of Directors, Kikkoman (current position)

Koji Kioka

Director (Independent Director)
71, Elected 2009

1964	Joined KAGOME CO., LTD.
2002	Appointed Representative Director, President, KAGOME
2009	Appointed Representative Director, Chairman, KAGOME
2009	Appointed Director, CALBEE, Inc. (current position)
2011	Appointed Director, Chairman, KAGOME
2012	Corporate Adviser, KAGOME (current position)

Kazuo Ichijo

Director (Independent Director)
54, Elected 2009

1984	Received MA, Graduate School of Social Sciences, Hitotsubashi University
1995	Received PhD in Business Administration, Graduate School of Business Administration, University of Michigan
2003	Appointed Adjunct Professor, Organizational Behavior and Management, IMD (current position)
2007	Appointed Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (current position)
2009	Appointed Director, CALBEE, Inc. (current position)

Ümran Beba

Director
48, Elected 2010

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

Hong-Ming Wei

Director
35, Elected 2013

2003	Manager, Wei Chuan Foods Corporation
2006	Assistant Vice President, Tingyi (Cayman Islands) Holding Corp.
2007	Board Director, Wei Chuan Foods Corporation (current position)
2008	Observer on the Board, Ting Hsin (Cayman Islands) Holding Corp. (current position)
2008	Vice President, Tingyi (Cayman Islands) Holding Corp.
2013	Appointed Director, CALBEE, Inc. (current position)

Auditors

Tadashi Ishida

Statutory Auditor
(Independent Auditor)
69, Elected 2011

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

Isao Hirakawa

Statutory Auditor
57, Elected 2012

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

Yoji Inaba

Statutory Auditor
(Independent Auditor)
64, Elected 2007

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

Tomomi Yatsu

Statutory Auditor
(Independent Auditor)
53, Elected 2009

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

Executive Officers

Executive Vice President

Haruhiko Sekiguchi

Executive Managing Officer

Masatoshi Aki
General Manager of R&D Group

Senior Executive Officers

Shoji Tobayama

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

Takeshi Taniguchi
General Manager of Operation Group

Masakazu Fujii

Yoshihiko Hosokawa
General Manager of New Business Development Group

Executive Officers

Naoya Iwasaki
General Manager of Hokkaido Division

Naosuke Takaoka
General Manager of East Japan Division

Tomoko Fukuyama
General Manager of Central Japan Division

Masaru Komada
General Manager of West Japan Division

Hiroaki Yamasaki
General Manager of Marketing Group

Hideki Ishibe
General Manager of Sales Group

Hideo Abe
General Manager of Engineering Department

Akira Imoto
General Manager of Quality Assurance Group

Koichi Kikuchi
Chief Financial Officer and General Manager of Information System Group

Chisa Hayakawa
General Manager of IR Group

Shinobu Egi
General Manager of Human Resource and General Affairs Group

Kaoru Ishigaki
General Manager of Administration Division

Satoshi Eguchi
General Manager of Strategic Planning Group

Sho Keiei
General Manager of Overseas Business Division I

Yutaka Okabe
General Manager of Overseas Business Division II

Financial Section

Contents

Five Years Summary

Years ended March 31, 2009, 2010, 2011, 2012 and 2013

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2013	2012	2011	2010	2009	2013
For the Year:						
Net sales	¥ 179,411	¥ 163,269	¥ 155,529	¥ 146,453	¥ 137,377	$1,907,616
Operating income	15,791	12,247	10,717	9,534	4,408	167,896
Operating margin (%)	8.8	7.5	6.9	6.5	3.2	—
Net income	9,441	7,097	4,253	4,017	2,524	100,379
Net income margin (%)	5.3	4.3	2.7	2.7	1.8	—
ROE (%)	11.4	9.6	6.5	7.1	5.0	—
Research and development costs	2,288	1,811	2,213	3,097	3,064	24,331
Capital expenditures	7,299	5,423	4,050	3,390	5,079	77,605
Depreciation and amortization	6,319	6,676	7,244	7,915	8,325	67,185
Per Share (¥/$) (Note 3):						
Net income	288.73	220.29	146.48	144.03	98.29	3.07
Net assets	2,658.22	2,386.63	2,200.55	2,117.76	2,008.93	28.26
Cash dividends	62.00	42.00	28.00	24.00	20.00	0.66
Payout ratio (%)	21.5	19.1	19.1	16.7	20.3	—
At Year-End:						
Total assets	124,793	108,475	99,394	93,658	92,170	1,326,880
Net assets	92,685	80,418	72,925	63,770	53,932	985,489
Working capital	36,303	25,211	16,132	123	(5,663)	385,992
Interest-bearing debt	7	7	300	7,493	19,984	75
Equity ratio (%)	70.2	71.6	70.7	65.2	56.0	—
Debt to equity ratio (times)	0.0	0.0	0.0	0.1	0.4	—
Number of consolidated subsidiaries	21	18	18	18	17	—
Number of employees (consolidated)	3,352	3,053	2,911	2,864	2,657	—
Cash Flows:						
Net cash provided by operating activities	17,329	7,050	16,665	19,492	11,160	184,251
Net cash used in investing activities	(13,000)	(5,348)	(620)	(11,378)	(4,740)	(138,223)
Net cash providing by (used in) financing activities	607	(411)	(2,125)	(6,954)	(6,389)	6,459
Cash and cash equivalents at end of year	25,332	19,449	18,238	4,469	3,365	269,345

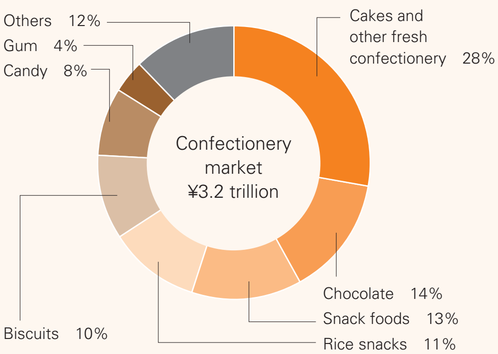
Notes:
1. Consolidated financial statements prepared from 2009.
2. U.S. dollar amounts are the yen equivalent, calculated for convenience only, at a rate of ¥94.05 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2013.
3. A 50-to-1 stock split was conducted on January 14, 2011. Per share figures were retroactively adjusted to reflect this stock split.

Management's Discussion and Analysis

Domestic Confectionery Market

Composition by Category in 2012

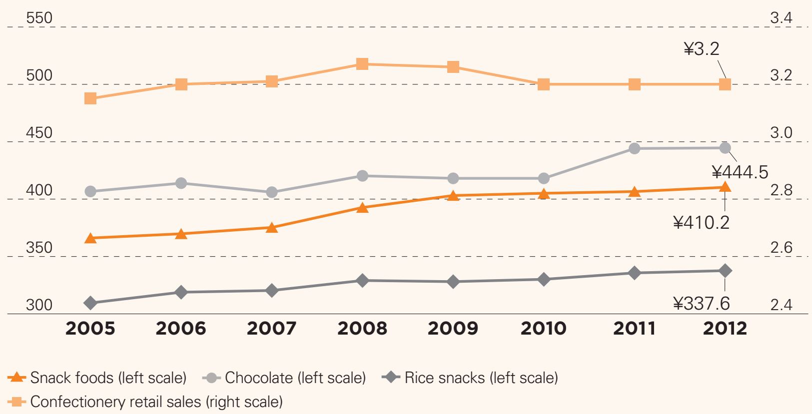
(%)



Source: All Nippon Kashi Association – Retail sales value

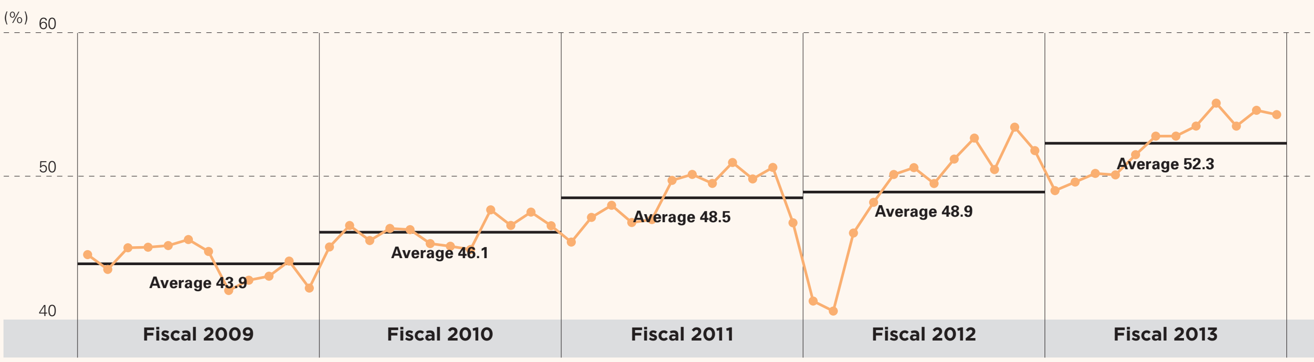
Confectionery Market in Japan

(Billions of yen) (Trillions of yen)



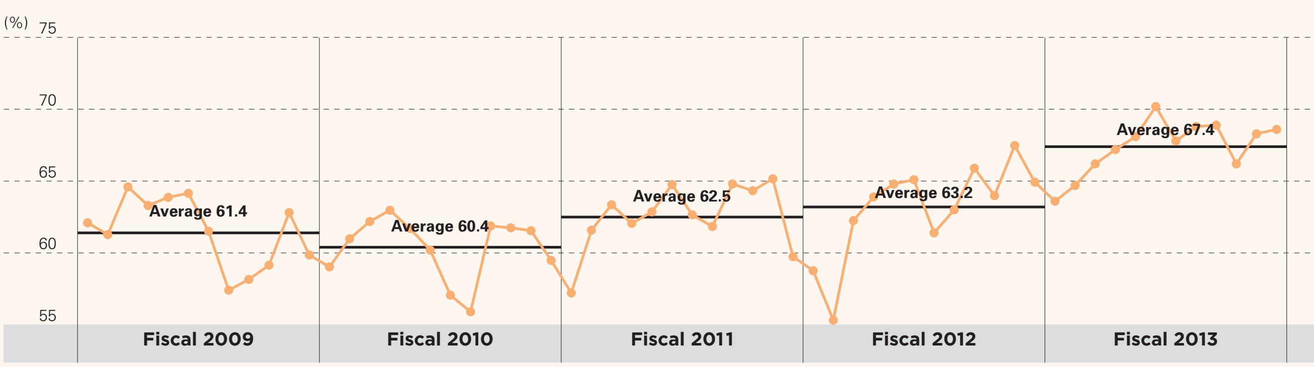
Source: All Nippon Kashi Association

Calbee's Snack Food Market Share



Notes:
1. Market share source: Intage SRI (nationwide, all retail formats), Base: sales value, April 2008 – March 2013
2. Snack food market share after April 2009 is the total for CALBEE, Inc. and Japan Frito-Lay Ltd.

Calbee's Potato Chip Market Share



Note:
Market share source: Intage SRI (nationwide, all retail formats), Base: sales value, April 2008 – March 2013

Operating Results

Net Sales

In the fiscal year ended March 31, 2013 (fiscal 2013) consolidated net sales increased ¥16,143 million (9.9%) year on year to ¥179,411 million. The main contributing factor was strong sales in the production and sale of snacks and other foods business, driven by aggressive promotional expenditure aimed at increasing domestic market share.

Net sales in the production and sale of snacks and other foods business totaled ¥176,994 million, an increase of 10.1% year on year.

Snack Foods

In snack foods, sales rose 10.2% year on year to ¥155,660 million, due to sales of potato-based snacks and the new product *Vegips*, along with growth in the overseas business. Sales of *Vegips* in particular increased following a nation-wide launch completed in October 2012, and television advertisements and storefront promotions.

1. Potato-based Snacks

Sales of potato-based snacks rose 8.4% year on year to ¥103,774 million. *Potato Chips* gained domestic market share through extra-volume sales campaigns for core products (*Usushio* (lightly salted), *Consome Punch* (consommé), and *Norishio* (salted nori laver), a renewal of the *Kata-Age Potato* series in a lower price band, and launches of limited-area and limited-time products. Meanwhile, sales also benefitted from brisk sales of *Jagarico* core products such as salad and cheese flavors, the development of buttered cod roe flavor into a core product (sold only at convenience stores), and the limited-time release of *Jagarico for Adults*. Sales of *Jagabee* grew as a result of enhancing the product lineup.

2. Flour-based Snacks

Sales of flour-based snacks rose 6.8% year on year to ¥21,458 million, boosted by strong sales of limited-area and limited-time editions of *Kappa Ebisen* (prawn crackers) products and other factors.

3. Corn-based Snacks

Sales of corn-based snacks increased 0.2% year on year to ¥13,286 million, driven by strong sales of core products such as *Mike Popcorn* and *Cheetos*.

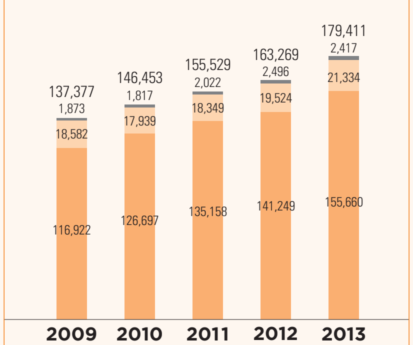
4. Other Snacks

Sales of other snacks climbed 41.2% year on year to ¥17,141 million on the back of *Vegips* sales and growth in overseas sales.

Other Food Products

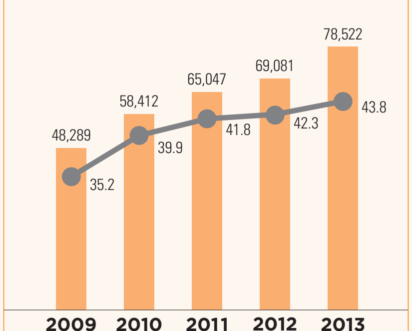
In other food products (processed bread, cereals), sales rose 9.3% year on year to ¥21,334 million. In cereals especially, sales greatly exceeded those of the previous fiscal

Net Sales
(Millions of yen)



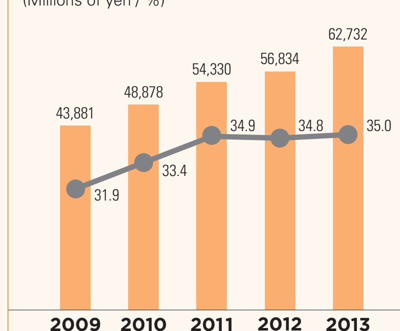
Snack foods Other foods Other businesses

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 year due to higher sales of *Fruit Granola*, which saw a higher rate of introduction in supermarkets and drug stores, among others, as a result of enhanced publicity for the product.

Other Businesses

In other businesses, sales decreased 3.1% to ¥2,417 million due to a decrease in sales of promotional sales tools and despite strong sales in the distribution business.

Gross Profit

Gross profit increased ¥9,441 million year on year to ¥78,522 million, mainly reflecting higher profits on higher sales, and the effect of cost reductions achieved through better capacity utilization. The gross margin improved 1.5 percentage points to 43.8%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased ¥5,898 million year on year to ¥62,732 million. The increase was mainly due to aggressive spending on sales promotion aimed at boosting domestic market share.

Operating Income

As a result of the above, operating income rose ¥3,543 million (28.9%) year on year to ¥15,791 million. The operating margin increased by 1.3 percentage points to 8.8%.

Other Income (Expenses)

Other income declined ¥498 million year on year. The main factors were recording an impairment loss of ¥314 million, product recall related costs of ¥371 million, and a loss on revision of outsourcing agreement of ¥323 million. The losses were partially offset by foreign exchange gains of ¥1,115 million.

Net Income

As a result of the above, net income rose ¥2,344 million (33.0%) year on year to ¥9,441 million.

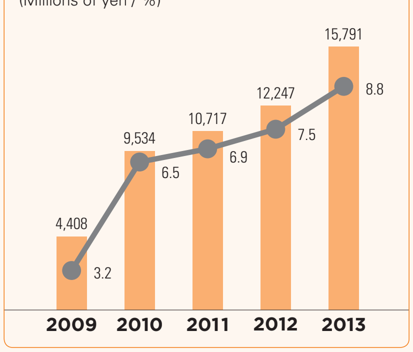
Net income per share was ¥288.73. ROE improved 1.8 percentage points to 11.4%.

Financial Position

Assets, Liabilities and Net Assets

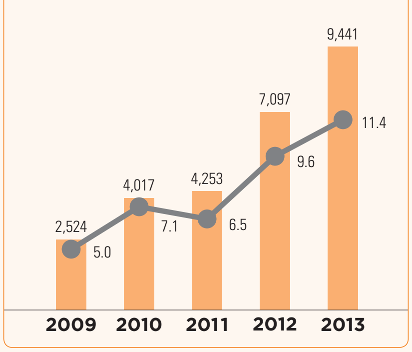
As of March 31,2013, total assets stood at ¥124,793 million, an increase of ¥16,318 million from the end of the previous fiscal year. The primary contributing factors were an increase in marketable securities and property plant and equipment, net. Marketable securities increased due to acquisition of negotiable deposits, funds in trust and commercial paper. Property, plant and equipment, net increased due to acquisition of factories in North America, China, and Taiwan, in line with strategic expansion of overseas operations.

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



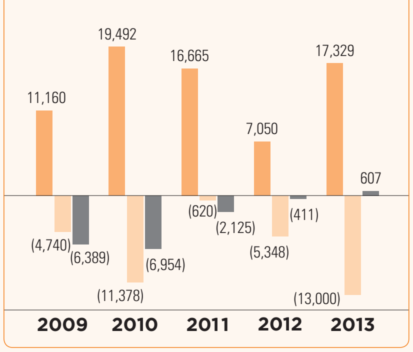
Operating income — Operating margin

Net Income / ROE
(Millions of yen / %)



Net income — ROE

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

Current liabilities increased ¥3,832 million to ¥26,468 million due to increases in income taxes payable and others.

Total non-current liabilities increased ¥219 million to ¥5,640 million, mainly because of an increase in allowance for employees' retirement benefits.

Total net assets increased ¥12,268 million to ¥92,685 million due to increases in retained earnings and minority interests.

As a result, the equity ratio fell 1.4 percentage points to 70.2%. Net assets per share was ¥2,658.22.

Cash Flows

As of March 31, 2013, cash and cash equivalents were ¥25,332 million, up ¥5,883 million compared with the end of the previous fiscal year.

Cash flows and the main factors behind them during fiscal 2013 were as follows.

1. Cash Flows from Operating Activities

Operating activities provided net cash of ¥17,329 million, compared with net cash provided of ¥7,050 million in the previous fiscal year. The main positive factors were income before income taxes and minority interests of ¥15,980 million and depreciation and amortization of ¥6,319 million. Factors having a negative effect on cash included income taxes paid of ¥6,148 million.

2. Cash Flows from Investing Activities

Investing activities used net cash of ¥13,000 million, compared with net cash used of ¥5,348 million in the previous fiscal year. The main uses of cash were ¥7,299 million for acquisition of property, plant and equipment and intangible fixed assets, ¥3,000 million for acquisition of marketable securities, and ¥3,010 million in proceeds from withdrawal of time deposits.

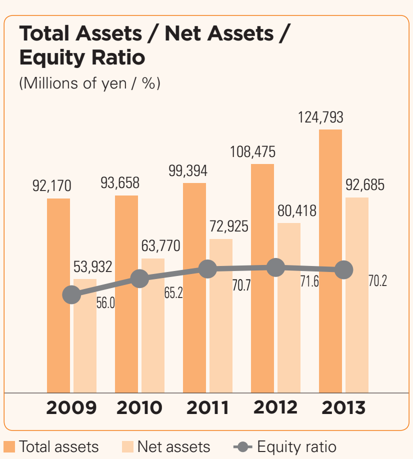
3. Cash Flows from Financing Activities

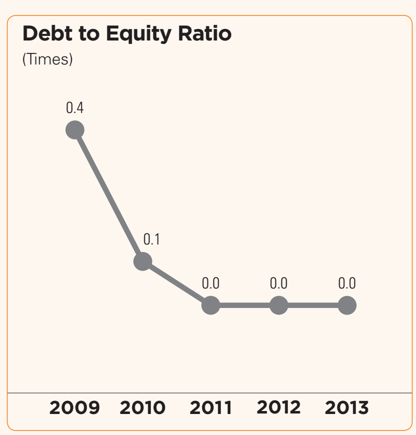
Financing activities provided net cash of ¥607 million, compared with net cash used of ¥411 million in the previous fiscal year. The main factors were ¥1,615 million in proceeds from stock issuance to minority shareholders, while cash outflows included cash dividends paid of ¥1,523 million.

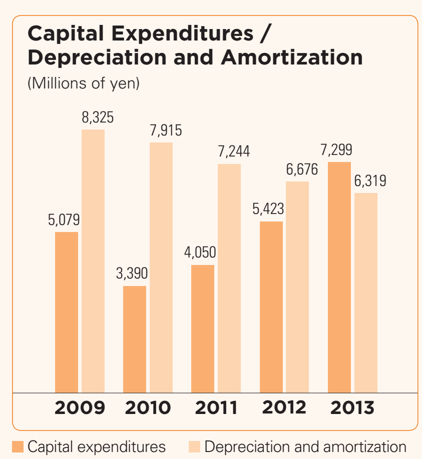
Capital Expenditures

In fiscal 2013, capital expenditures totaled ¥7,299 million, of which ¥3,857 million was for domestic operations and ¥3,442 million was for overseas operations. The main component of domestic capital expenditure was ¥1,104 million for production facilities for *Vegips*, while overseas capital expenditures included ¥2,216 million for fryers, buildings, land, and other items for *Ruffles® Crispy Fries* (*Jagabee*) in North America, ¥380 million for the new HangZhou Factory and other items in China, and ¥454 million for the new Taipei Factory in Taiwan.

The Company did not sell or dispose of any major facilities during fiscal 2013.







Business Risks

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

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

1. Product Development

The Group conducts research and development activities to provide customers with unique, value-added products that maximize the nutritional content and flavor of natural ingredients.

Meanwhile, there is considerable change underway in the Group's operating environment owing to diversifying customer tastes, growing health awareness, and Japan's low birthrate and ageing society.

The ability to rapidly respond to these changes and develop high value-added products is becoming an increasingly important factor in the Group's business expansion. As such, the Group conducts research and development activities in accordance with annual plans in the areas of new product development, existing product improvement, cost reduction, and analysis of ingredients and nutrients.

However, there is no guarantee that investment in these development activities will result in the successful launch of new products, and any divergence between research and development themes and market needs could have an impact on the Group's operating results and financial position.

2. Ingredient Procurement

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

Moreover, changes in demand trends and fluctuations in the price of crude oil could 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 the Group's operating results and financial position.

3. Product Safety

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

Furthermore, in April 2002, the Swedish government released the results of research showing that grilling or frying foods with high carbohydrate content can generate acrylamide, a carcinogen.

Japan's Ministry of Health, Labour and Welfare has said it does not foresee any health impact from this substance for people who consume average amounts of this type of food, and at this point, there has been no impact on the Group's operating results. Nevertheless, this issue could develop in the future to the point where it has an impact on the entire snack foods industry.

4. Competitive Risk

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

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

5. Global Expansion

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

6. Relationship with Major Shareholder

As of March 31, 2012, FRITO-LAY GLOBAL INVESTMENTS B.V. (FLGI), a wholly owned subsidiary of PepsiCo, Inc., owned 20.00% of Calbee, Inc. shares (after full dilution) making Calbee (the Company) an equity-method affiliate of PepsiCo. FLGI, which directly owns the shares of the Company, is a wholly owned PepsiCo subsidiary, so PepsiCo effectively makes all decisions regarding the exercise of common share voting rights. PepsiCo is one of the world's largest food and beverage makers and is listed on the New York Stock Exchange. Also, PepsiCo operates globally in the same snack foods field as the Company via group companies, primarily its subsidiary FRITO-LAY NORTH AMERICA, INC.

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

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

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

a. Personnel Relationship

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

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

b. Business Relationship

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

Group company. In addition, from April 2013 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 20.00% of the Company's shares. In future, PepsiCo's ownership ratio in the Company may be subject to change, owing to changes in the management policies or business strategies of PepsiCo or the Company, or as a result of other factors such as changes in the Company's internal or external business environment.

7. Legal Regulations

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

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

8. Natural Disaster Risk

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

9. Risks Related to Noncurrent Asset Impairment Losses

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

10. Risks Related to Intellectual Property Rights

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

11. Environmental Risk

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

Consolidated Balance Sheets

CALBEE, Inc. and Consolidated Subsidiaries
March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
Assets	**2013**	2012	**2013**
Current assets:			
Cash and deposits (Notes 5 and 13)	**¥ 17,343**	¥ 19,449	**$ 184,398**
Notes and accounts receivable (Note 5)	**19,787**	18,764	**210,389**
Marketable securities (Notes 5 and 6)	**13,999**	14	**148,851**
Inventories (Note 7)	**5,662**	4,921	**60,200**
Deferred tax assets (Note 9)	**2,791**	2,163	**29,671**
Others	**3,193**	2,540	**33,948**
Allowance for doubtful accounts	**(4)**	(2)	**(38)**
Total current assets	**62,771**	47,848	**667,419**
Property, plant and equipment:			
Land (Note 17)	**10,791**	10,722	**114,734**
Buildings and structures (Note 17)	**54,008**	52,247	**574,253**
Machinery and vehicles (Note 17)	**75,295**	72,183	**800,589**
Lease assets	**503**	473	**5,345**
Construction in progress	**2,702**	1,370	**28,728**
Others (Note 17)	**3,787**	3,409	**40,262**
	147,086	140,404	**1,563,909**
Accumulated depreciation	**(97,632)**	(92,862)	**(1,038,086)**
Property, plant and equipment, net	**49,454**	47,542	**525,823**
Investments and other assets:			
Investment securities (Notes 5 and 6)	**1,347**	1,253	**14,327**
Investments in affiliates (Notes 5 and 6)	**12**	12	**124**
Long-term loans	**294**	175	**3,126**
Prepaid pension cost (Note 11)	**2,291**	2,421	**24,363**
Deferred tax assets (Note 9)	**538**	362	**5,722**
Goodwill (Note 12)	**3,955**	4,539	**42,050**
Others	**4,235**	4,418	**45,026**
Allowance for doubtful accounts	**(104)**	(94)	**(1,102)**
Total investments and other assets	**12,569**	13,085	**133,637**
Total assets	**¥124,793**	¥108,475	**$ 1,326,880**

Liabilities	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 4) 2013
Current liabilities:			
Notes and accounts payable (Note 5)	¥ 6,672	¥ 6,595	$ 70,938
Lease obligations (Note 8)	113	118	1,201
Other payables	3,892	3,142	41,381
Income taxes payable	5,032	3,886	53,498
Deferred tax liabilities (Note 9)	96	85	1,020
Allowance for bonuses	3,644	3,287	38,750
Allowance for directors' bonuses	193	211	2,048
Allowance for loss on disaster	—	57	—
Others	6,827	5,255	72,591
Total current liabilities	26,468	22,637	281,427
Non-current liabilities:			
Long-term debt (Note 8)	7	7	75
Lease obligations (Note 8)	145	196	1,545
Deferred tax liabilities (Note 9)	269	370	2,862
Allowance for employees' retirement benefits (Note 11)	3,973	3,611	42,249
Allowance for directors' retirement benefits	528	498	5,609
Asset retirement obligations	632	623	6,718
Others	85	115	905
Total non-current liabilities	5,640	5,420	59,964
Net assets (Note 10):			
Shareholders' equity:			
Common stock:			
Authorized 2012 and 2013—44,000,000 shares			
Issued 2012—32,540,950 shares	—	11,252	—
Issued 2013—32,937,450 shares	11,587	—	123,195
Additional paid-in capital	11,155	10,820	118,603
Retained earnings	64,216	56,142	682,782
Total shareholders' equity	86,957	78,214	924,580
Accumulated other comprehensive income:			
Unrealized holding gain on securities	98	10	1,042
Foreign currency translation adjustments	500	(560)	5,318
Total accumulated other comprehensive income (loss)	598	(551)	6,360
Subscription rights	51	85	537
Minority interests	5,080	2,669	54,012
Total net assets	92,685	80,418	985,489
Total liabilities and net assets	¥124,793	¥108,475	$1,326,880

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	**2013**
Net sales	**¥179,411**	¥163,269	**$1,907,616**
Cost of sales (Notes 7 and 15)	**100,889**	94,188	**1,072,718**
Gross profit	**78,522**	69,081	**834,898**
Selling, general and administrative expenses (Notes 14 and 15)	**62,732**	56,834	**667,002**
Operating income	**15,791**	12,247	**167,896**
Other income (expenses):			
Interest and dividend income	**95**	78	**1,013**
Interest expense	**(2)**	(6)	**(25)**
Foreign exchange gains (losses)	**1,115**	(103)	**11,855**
Gain on sale of property, plant and equipment (Note 16)	**115**	261	**1,220**
Gain on receipt of subsidy	**—**	231	**—**
Gain on negative goodwill	**—**	538	**—**
Reversal of provision for loss on disaster	**—**	163	**—**
Loss on disposal of property, plant and equipment (Note 16)	**(191)**	(166)	**(2,035)**
Impairment loss (Note 17)	**(314)**	(34)	**(3,338)**
Loss on disaster	**—**	(259)	**—**
Loss on liquidation of subsidiary	**—**	(130)	**—**
Product recall related costs	**(371)**	(54)	**(3,941)**
Loss on revision of outsourcing agreement	**(323)**	—	**(3,430)**
Other	**65**	167	**690**
Income before income taxes and minority interests	**15,980**	12,935	**169,906**
Income taxes (Note 9)**:**			
Current	**(7,258)**	(5,705)	**(77,174)**
Deferred	**943**	171	**10,032**
	(6,315)	(5,534)	**(67,142)**
Income before minority interests	**9,665**	7,400	**102,764**
Minority interests	**(224)**	(304)	**(2,386)**
Net income	**¥ 9,441**	¥ 7,097	**$ 100,379**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	**2013**
Income before minority interests	**¥ 9,665**	¥7,400	**$102,764**
Other comprehensive income (Note 18)			
Unrealized holding gain on securities	**88**	72	**940**
Foreign currency translation adjustments	**1,788**	99	**19,013**
Total other comprehensive income	**1,877**	171	**19,953**
Comprehensive income	**¥11,542**	¥7,571	**$122,717**
Comprehensive income attributable to the owners of the Company	**¥10,589**	¥7,306	**$112,594**
Comprehensive income attributable to minority interests	**¥ 952**	¥ 266	**$ 10,123**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Shareholders' equity			
Common stock:			
Balance at beginning of the year	¥11,252	¥10,744	$119,639
Issuance of stock (exercise of subscription rights)	334	508	3,556
Balance at end of the year	¥11,587	¥11,252	$123,195
Additional paid-in capital:			
Balance at beginning of the year	¥10,820	¥10,313	$115,047
Issuance of stock (exercise of subscription rights)	334	508	3,556
Balance at end of the year	¥11,155	¥10,820	$118,603
Retained earnings:			
Balance at beginning of the year	¥56,142	¥49,939	$596,935
Cash dividends paid	(1,367)	(894)	(14,532)
Net income	9,441	7,097	100,379
Balance at end of the year	¥64,216	¥56,142	$682,782
Total shareholders' equity:			
Balance at beginning of the year	¥78,214	¥70,996	$831,621
Net changes during the year	8,743	7,218	92,959
Balance at end of the year	¥86,957	¥78,214	$924,580
Accumulated other comprehensive income:			
Unrealized holding gain (loss) on securities:			
Balance at beginning of the year	¥ 10	¥ (62)	$ 104
Net changes during the year	88	72	939
Balance at end of the year	¥ 98	¥ 10	$ 1,042
Foreign currency translation adjustments:			
Balance at beginning of the year	¥ (560)	¥ (697)	$ (5,959)
Net changes during the year	1,061	137	11,277
Balance at end of the year	¥ 500	¥ (560)	$ 5,318
Total accumulated other comprehensive income (loss):			
Balance at beginning of the year	¥ (551)	¥ (760)	$ (5,855)
Net changes during the year	1,149	209	12,215
Balance at end of the year	¥ 598	¥ (551)	$ 6,360
Subscription rights:			
Balance at beginning of the year	¥ 85	¥ 103	$ 904
Net changes during the year	(35)	(18)	(367)
Balance at end of the year	¥ 51	¥ 85	$ 537
Minority interests:			
Balance at beginning of the year	¥ 2,669	¥ 2,586	$ 28,383
Net changes during the year	2,410	84	25,629
Balance at end of the year	¥ 5,080	¥ 2,669	$ 54,012
Total net assets:			
Balance at beginning of the year	¥80,418	¥72,925	$855,053
Net changes during the year	12,268	7,493	130,436
Balance at end of the year	¥92,685	¥80,418	$985,489

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 15,980	¥12,935	$ 169,906
Depreciation and amortization	6,319	6,676	67,185
Impairment loss	314	34	3,338
Goodwill amortization	621	596	6,598
Gain on negative goodwill	—	(538)	—
Increase (decrease) in allowance for bonuses	351	193	3,735
Increase (decrease) in allowance for employees' retirement benefits	347	277	3,687
Interest and dividend income	(95)	(78)	(1,013)
Interest expense	2	6	25
Foreign exchange losses (gains)	(1,153)	(40)	(12,264)
Gain on receipt of subsidy	—	(231)	—
Gain on sale of property, plant and equipment	(65)	(231)	(693)
Decrease (increase) in notes and accounts receivables	(729)	(7,627)	(7,751)
Decrease (increase) in inventories	(630)	(645)	(6,697)
Increase (decrease) in notes and accounts payable	(56)	932	(600)
Increase (decrease) in other payables	494	(538)	5,255
Others	1,646	602	17,497
Subtotal	23,344	12,322	248,211
Interest and dividends received	130	82	1,382
Interest paid	3	(7)	28
Subsidy received	—	231	—
Payment related to loss on disaster	—	(1,311)	—
Income taxes paid	(6,148)	(4,267)	(65,370)
Net cash provided by operating activities	17,329	7,050	184,251
Cash flows from investing activities			
Acquisition of property, plant and equipment	(6,945)	(5,102)	(73,844)
Proceeds from sale of property, plant and equipment	275	426	2,925
Acquisition of intangible fixed assets	(354)	(321)	(3,761)
Acquisition of marketable securities	(3,000)	—	(31,898)
Acquisition of shares in affiliates	—	(400)	—
Payment of loans receivable	(197)	(100)	(2,090)
Collection of loans receivable	83	109	881
Payment into time deposits	(6,020)	—	(64,009)
Proceeds from withdrawal of time deposits	3,010	—	32,005
Payment of security deposit	(93)	(147)	(994)
Collection of security deposit	205	313	2,176
Others	36	(126)	387
Net cash used in investing activities	(13,000)	(5,348)	(138,223)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	—	(102)	—
Repayment of long-term debt	(1)	(185)	(8)
Inflow from exercise of stock options	634	998	6,745
Repayment for lease obligations	(118)	(110)	(1,252)
Cash dividends paid	(1,367)	(894)	(14,532)
Proceeds from stock issuance to minority shareholders	1,615	—	17,169
Cash dividends paid to minority shareholders	(156)	(118)	(1,663)
Net cash used in financing activities	607	(411)	6,459
Effect of exchange rate changes on cash and cash equivalents	947	(80)	10,064
Net increase (decrease) in cash and cash equivalents	5,883	1,210	62,552
Cash and cash equivalents at beginning of year	19,449	18,238	206,794
Cash and cash equivalents at end of year (Note 13)	¥ 25,332	¥19,449	$ 269,345

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

CALBEE, Inc. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2013

1. Basis of Presentation

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

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

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

2. Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The consolidated financial statements consist of the Company and its 21 (18 in 2012) significant subsidiaries as listed below.

Consolidated subsidiaries

- Calbee Shokuhin Co., LTD.
- CALBEE POTATO INC.
- Snack Food Service Co., Ltd.
- Garden Bakery, Inc.
- Tower Bakery, Inc.
- Star Bakery, Inc.
- Calnac Co., LTD.
- Oisia FOODS CO., LTD.
- Calbee Eatalk Co., Ltd.
- Japan Frito-Lay Ltd.
- ICS Investment Co., Ltd. (Note 3 and 4)
- Calbee America, Inc. (Note 4)
- Calbee North America, LLC (Note 1 and 4)
- Calbee Tanawat Co., Ltd. (Note 4)
- Calbee Four Seas Co., Ltd.
- CALBEE FOUR SEAS (SHANTOU) CO., LTD. (Note 4)
- QINGDAO CALBEE FOODS CO., LTD. (Note 4)
- YANTAI CALBEE CO., LTD. (Note 4)
- HAITAI-CALBEE Co., Ltd. (Note 4)
- Calbee (HangZhou) Foods Co., Ltd. (Note 2 and 4)
- Calbee (Taipei) Foods Co., Ltd. (Note 2 and 4)

Notes: 1. The name of RDO-CALBEE FOODS, LLC used in the consolidated financial statements for the year ended March 31, 2012 has changed to Calbee North America, LLC from the year ended March 31, 2013.
2. In the line of the global strategy of the Group, the Company established joint venture companies in August 2012 Calbee (HangZhou) Foods Co., Ltd. and Calbee (Taipei) Foods Co., Ltd. with aiming to increase sales and expand the market share of Calbee products. Both companies were included in the scope of consolidation from the year ended March 31, 2013.
3. In February 2013, the Company established ICS Investment Co., Ltd. with the aim of establishing a joint venture company in the Indonesian snack foods market, an important part of the Asian snack foods market. ICS Investment Co., Ltd. was included in the scope of consolidation from the year ended March 31, 2013.
4. The fiscal year-end of these subsidiaries is December 31.

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

For the year ended March 31, 2013 and 2012, all subsidiaries are consolidated and there is no affiliate which is accounted for by equity method.

For the years ended March 31, 2013 and 2012, three affiliates, Potato Foods Co., LTD., Hiroshima Agricultural Produce Distributors Cooperative, and Socio Kobo Co., Ltd., were not accounted for using the equity method as they were not significant in terms of net income and retained earnings of the consolidated financial statements.

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

(d) Allowance for doubtful accounts

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

(e) Marketable and investment securities

Marketable and investment securities are classified and valued as follows:

(1) Held-to-maturity debt securities

Amortized cost method (straight-line method)

(2) Available-for-sale securities

Securities for which fair values are readily available:

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

Securities for which fair values are not readily available:

Stated at cost based on the moving-average method.

(f) Inventories

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

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

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

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

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

(Accounting change which could not be distinguished from changes in accounting estimate)
In accordance with revisions to the Corporate Tax Act, effective April 1, 2012, the Company and its domestic consolidated subsidiaries adopted amortization methods revised based on the Corporation Tax Act for depreciation of property, plant and equipment (excluding building) acquired on or after April 1, 2012. As a result of this adoption, for the year ended March 31, 2013, operating income and income before income taxes and minority interests increased by ¥102 million ($1,090 thousand).

(h) Intangible assets (except for leases)

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

(i) Leases

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

(j) Allowance for bonuses

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

(k) Allowance for employees’ retirement benefits

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

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

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

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

Certain consolidated subsidiaries apply the simplified method.

(l) Allowance for directors' retirement benefits

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

(m) Consumption taxes

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

(n) Business commencement expenses

Business commencement expenses are expensed as incurred.

(o) Standards issued but not yet effective

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

These accounting standards were revised mainly on a processing method of unrecognized actuarial loss and unrecognized prior service cost, a calculation method of retirement benefit obligations and service cost and expansion of the disclosure based on a point of view that improved a financial report and an international trend.

The Company expects to apply the revised accounting standard from the end of the year ending on March 31, 2014. However, on the calculation method of retirement benefit obligations and service cost, it expects to apply from the beginning of the year ending on March 31, 2015.

The Company is in the process of measuring the effects of applying the revised accounting standard at the making of the accompanying consolidated financial statements.

3. Additional Information

Changes to China business strategy

As disclosed in subsequent event, note to the consolidated financial statements for the year ended March 31, 2012, regarding establishment of a joint venture company in China, the Company had proceeded towards establishing Calbee (Tianjin) Foods Co., Ltd. in accordance with the contract for establishing a joint venture company. However, in order to push forward rationalization of management and accelerate expansion in the Chinese market, Calbee (Tianjin) Foods Co., Ltd. of Tianjin City, was not established as a subsidiary as planned and instead a Tianjin branch office was organized under Calbee (HangZhou) Foods Co., Ltd. in Zhejiang Province and business has commenced.

Absorption of consolidated subsidiary

At a meeting of the Board of Directors held on March 27, 2013, it was resolved that the Company would merge consolidated subsidiary Oisia FOODS CO., LTD. to improve management efficiency of the Group and strengthen the cereal business, and a merger agreement with an effective date of July 1, 2013 was concluded. The company is subsisted and Oisia FOODS CO., LTD. is extinguished. There is no change in shares issued and capital with regards to the merger without merger subsidy, because Oisia FOODS CO., LTD. is a 100% owned subsidiary of the Company.

4. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by converting Japanese yen amounts at the rate of ¥94.05 = $1, the approximate rate in effect on March 31, 2013. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

5. Financial Instruments

(1) Policy for financial instruments

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

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

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

Marketable securities, consist of certificates of deposit and jointly-managed money trusts, are highly safe financial instruments held for short-term investment. The Company considers their credit risk insignificant.

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

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

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

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

The contract amount of derivative transactions shown in Note 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, 2013 and 2012 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Notes 2 below).

	Millions of yen		
(As of March 31, 2013)	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	¥17,343	¥17,343	—
(2) Notes and accounts receivable	19,787	19,787	—
(3) Marketable and investment securities			
Held-to-maturity	13,999	13,999	¥(0)
Available-for-sale	1,336	1,336	—
Total assets	52,465	52,465	(0)
Notes and accounts payable	(6,672)	(6,672)	—
Total liabilities	(6,672)	(6,672)	—
Derivative transactions			
Hedge accounting not applied	612	612	—
Total derivative transactions	612	612	—

	Thousands of U.S. dollars		
(As of March 31, 2013)	Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	$184,398	$184,398	—
(2) Notes and accounts receivable	210,389	210,389	—
(3) Marketable and investment securities			
Held-to-maturity	148,851	148,848	$(3)
Available-for-sale	14,206	14,206	—
Total assets	557,843	557,840	(3)
Notes and accounts payable	(70,938)	(70,938)	—
Total liabilities	(70,938)	(70,938)	—
Derivative transactions			
Hedge accounting not applied	6,508	6,508	—
Total derivative transactions	6,508	6,508	—

(As of March 31, 2012)	Millions of yen Carrying amount	Estimated fair value	Difference
(1) Cash and deposits	¥19,449	¥19,449	—
(2) Notes and accounts receivable	18,764	18,764	—
(3) Marketable and investment securities			
Available-for-sale	1,236	1,236	—
Total assets	39,449	39,449	—
Notes and accounts payable	(6,595)	(6,595)	—
Total liabilities	(6,595)	(6,595)	—
Derivative transactions			
Hedge accounting not applied	99	99	—
Total derivative transactions	99	99	—

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

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

Assets

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

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

(3) Marketable and investment securities

Fair values of equity securities are based on the quoted prices on stock exchanges, and fair values of debt securities are based on the prices quoted by financial institutions. As for certificate of deposit, the carrying amount approximates fair value due to the short maturities.

Liabilities

Notes and accounts payable

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

Derivative transactions

Refer to Note 20 Derivative Financial Instruments.

2. Unlisted shares with carrying value of ¥11 million ($121 thousand) and ¥30 million at March 31, 2013 and 2012, 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 losses are recognized unless there is sufficient evidence for their recoverability. During the years ended March 31, 2013 and 2012, impairment losses recognized on unlisted shares amounted to ¥19 million ($199 thousand) and nil, respectively.

Investments in affiliates with carrying value of ¥12 million ($124 thousand) and ¥12 million at March 31, 2013 and 2012, respectively, are also excluded from the above table as their market value is not readily available.

3. Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2013.

(As of March 31, 2013)	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	¥17,318	—	—	—
Notes and accounts receivable	19,787	—	—	—
Marketable securities				
Held-to- maturity				
Certificate of deposit	6,000	—	—	—
Jointly-managed money trust	5,000	—	—	—
Commercial paper	3,000	—	—	—
Total	¥51,105	—	—	—

(As of March 31, 2013)	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	$184,134	—	—	—
Notes and accounts receivable	210,389	—	—	—
Marketable securities				
Held-to- maturity				
Certificate of deposit	63,796	—	—	—
Jointly-managed money trust	53,163	—	—	—
Commercial paper	31,898	—	—	—
Total	$543,380	—	—	—

6. 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, 2013 and 2012 is as follows:

Held-to-maturity

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
Description	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with carrying value not exceeding acquisition cost)						
Certificate of deposit	¥ 6,000	¥ 6,000	—	$ 63,796	$ 63,796	—
Jointly-managed money trust	5,000	5,000	—	53,163	53,163	—
Commercial paper	2,999	2,999	¥(0)	31,892	31,889	$(3)
Total	¥13,999	¥13,999	¥(0)	$148,851	$148,848	$(3)

Available-for-sale

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
Description	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	¥ 688	¥ 368	¥ 320	$ 7,316	$ 3,910	$ 3,406
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	648	813	(165)	6,890	8,649	(1,759)
Total	¥1,336	¥1,181	¥ 155	$14,206	$12,559	$ 1,647

Available-for-sale

	Millions of yen		
	2012		
Description	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥ 553	¥ 354	¥ 199
Debt securities	14	13	0
Subtotal	¥ 567	¥ 367	¥ 199
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	¥ 670	¥ 847	¥(177)
Debt securities	—	—	—
Subtotal	¥ 670	¥ 847	¥(177)
Total	¥1,236	¥1,214	¥ 22

Note: Unlisted shares with carrying values of ¥11 million ($121 thousand) and ¥30 million at March 31, 2013 and 2012, respectively, are not included in the above table as their market value is not readily available.

(2) Sales of available-for-sale securities

Information on the available-for-sale securities sold during the year ended March 31, 2013 and 2012 are not disclosed as the amount was not material.

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

The Company recognizes impairment loss for the full amount of securities when the fair value declines below 50% of the acquisition cost, and for amounts deemed necessary after consideration of recoverability when the fair value declines by 30 to 50% of the acquisition cost. During the years ended March 31, 2013 and 2012, impairment losses recognized on equity securities classified as available-for-sale securities amounted to ¥19 million ($199 thousand) and ¥7 million, respectively.

7. Inventories

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Finished goods and commercial goods	**¥1,753**	¥1,568	**$18,636**
Work in process	**1,418**	1,126	**15,074**
Raw materials and supplies	**2,491**	2,226	**26,490**
	¥5,662	¥4,921	**$60,200**

Valuation losses due to declines in profitability included in cost of sales for the years ended March 31, 2013 and 2012 were ¥1 million ($12 thousand) and ¥19 million, respectively.

8. Short-Term Borrowings and Long-Term Debt

(1) The outstanding balance of long-term debt, lease obligations and other interest-bearing liabilities as at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2013	2012	**2013**	**2013**	2012
Current portion of lease obligations	**¥113**	¥118	**$1,201**	**—**	—
Long-term debt, excluding current portion	**7**	7	**75**	**6.5%**	6.5%
Lease obligations, excluding current portion	**145**	196	**1,545**	**—**	—
Other interest-bearing liabilities	**38**	37	**400**	**2.0**	1.6
Total	**¥303**	¥358	**$3,221**	**—**	—

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

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

	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	Long-term debt		Lease obligations	
2014	—	—	¥113	$1,201
2015	¥7	$75	69	739
2016	—	—	42	448
2017	—	—	22	233
2018 and thereafter	—	—	12	125

9. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes: corporate tax, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 37.8% and 40.4% for the fiscal years ended March 31, 2013 and 2012. 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, 2013 is not disclosed as differences in amounts between the statutory tax rate and corporate tax rate following application of the tax effect accounting were less than 5%.

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

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

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for doubtful accounts	¥ 3	¥ 1	$ 30
Allowance for bonuses	1,493	1,352	15,879
Accrued expenses	745	378	7,923
Enterprise tax payable	385	280	4,090
Allowance for employees' retirement benefits	551	385	5,863
Allowance for directors' retirement benefits	196	131	2,088
Share-based payment expense	18	30	190
Depreciation	146	125	1,553
Impairment loss	348	242	3,696
Asset retirement obligations	231	182	2,458
Unrealized holding loss on securities	—	1	—
Others	593	450	6,305
Subtotal	4,710	3,557	50,076
Less valuation allowances	(704)	(539)	(7,483)
Total deferred tax assets	4,006	3,018	42,593
Deferred tax liabilities:			
Unrealized holding gain on securities	(44)	—	(466)
Reserve for accelerated depreciation	(605)	(628)	(6,434)
Asset retirement obligations	(63)	(76)	(673)
Others	(330)	(245)	(3,509)
Total deferred tax liabilities	(1,042)	(948)	(11,082)
Net deferred tax assets	¥ 2,964	¥2,069	$ 31,511

Net deferred tax assets are included in the consolidated balance sheets as of March 31, 2013 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets—deferred tax assets:	¥2,791	¥2,163	$29,671
Investments and other assets—deferred tax assets:	538	362	5,722
Current liabilities—deferred tax liabilities	(96)	(85)	(1,020)
Non-current liabilities—deferred tax liabilities	(269)	(370)	(2,862)
Net deferred tax assets	¥2,964	¥2,069	$31,511

10. Net Assets

(1) Movements of number of common stock issued and outstanding during the year ended March 31, 2013 and 2012 are as follows:

	Shares	
	2013	2012
Balance at beginning of year	32,540,950	31,917,450
Increase	396,500	623,500
Decrease	—	—
Balance at end of year	32,937,450	32,540,950

Note: The increase during the year ended March 31, 2013 and 2012 resulted from an exercise of subscription rights.

(2) As of March 31, 2013 and 2012, the outstanding balance of subscription rights provided for as stock options was ¥51 million ($537 thousand) and ¥85 million, respectively.

(3) Cash dividends

The following appropriation of retained earnings at March 31, 2013 and 2012 was approved at the annual meeting of the Company's shareholders held on June 26, 2013 and June 27, 2012, respectively.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash dividends	¥2,042	¥1,367	$21,713

Cash dividends attributable to the year ended March 31, 2012 of ¥1,367 million ($14,532 thousand) were paid during the year ended March 31, 2013 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 27, 2012.

11. Retirement Benefits for Employees

The Company and its 3 (3 in 2012) domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans as defined benefit pension plan. Other domestic consolidated subsidiaries and certain foreign consolidated subsidiaries have only lump-sum payment plans. The Company adopts defined contributions pension plans and prepaid retirement allowance plans.

The following table summarizes the funded status and amounts recognized in the consolidated balance sheets for the Company's plan at March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Retirement benefit obligations	¥(14,050)	¥(11,701)	$(149,387)
Fair value of plan assets	9,738	9,052	103,541
Unfunded retirement benefit obligations	(4,312)	(2,649)	(45,846)
Unrecognized actuarial loss	2,028	1,499	21,559
Unrecognized prior service cost	602	(41)	6,401
Net book value on the consolidated balance sheets	(1,682)	(1,191)	(17,885)
Prepaid pension cost	2,291	2,421	24,363
Allowance for employees' retirement benefits	¥ (3,973)	¥ (3,611)	$ (42,249)

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

The components of net periodic retirement benefit expenses for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 721**	¥ 693	**$ 7,665**
Interest cost	**219**	210	**2,330**
Expected return on plan assets	**(90)**	(89)	**(953)**
Amortization of actuarial loss	**251**	213	**2,670**
Amortization of prior service cost	**8**	(14)	**87**
Retirement benefit expense	**1,110**	1,014	**11,798**
Contributions paid to defined contribution pension plan	**115**	113	**1,225**
Additional retirement payments	**158**	88	**1,685**
Total	**¥1,383**	¥1,214	**$14,709**

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

Assumptions used in determining retirement benefit obligations for the years ended March 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	**1.2 to 1.5%**	1.5 to 2.0%
Expected rate of return	**1.0%**	1.0%
Amortization period of prior service cost	**5 years**	5 years
Amortization period of actuarial gains/losses	**12 years**	12 years

Note: Although the discount rate used for the Company and certain subsidiaries at the beginning of the period was 2.0%, it was determined at the end of the period that changes to the discount rate during the period had affected the amount of retirement benefit obligation. The discount rate was therefore adjusted to 1.2% for the Company and 1.3% for the certain subsidiaries.

12. Goodwill

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

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Goodwill	**¥3,955**	¥4,542	**$42,050**
Negative goodwill	**—**	(3)	**—**
Total goodwill	**¥3,955**	¥4,539	**$42,050**

13. Supplemental Cash Flow Information

The reconciliation between cash and cash equivalents in the consolidated statements of the cash flows and cash and deposits in the consolidated balance sheet items as of March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥17,343**	¥19,449	**$184,398**
Fixed deposit exceeding 3-months deposit period	**(3,010)**	—	**(32,005)**
Certificate of deposit included in the Marketable securities	**3,000**	—	**31,898**
Commercial paper included in the Marketable securities	**2,999**	—	**31,891**
Jointly-managed money trust included in the Marketable securities	**5,000**	—	**53,163**
Cash and cash equivalents	**¥25,332**	¥19,449	**$269,345**

14. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales promotion expenses	**¥21,723**	¥17,936	**$230,974**
Advertisement expenses	**3,912**	3,589	**41,596**
Freight expenses	**9,993**	9,907	**106,255**
Salaries and other allowances	**10,092**	10,141	**107,302**
Provision for directors' retirement benefits	**97**	106	**1,027**
Provision for employees' bonuses	**2,344**	1,642	**24,919**
Provision for directors' bonuses	**193**	211	**2,048**
Retirement benefit expense	**939**	828	**9,979**
Allowance for doubtful accounts	**12**	—	**131**

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing expenses for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Selling, general and administrative expenses	**¥2,286**	¥1,810	**$24,302**
Manufacturing expenses	**3**	1	**29**
Total	**¥2,288**	¥1,811	**$24,331**

16. Sale and Disposal of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Machinery and vehicles	**¥ 8**	¥ 1	**$ 88**
Land	**106**	258	**1,127**
Other	**0**	2	**4**
Total	**¥115**	¥261	**$1,220**

Loss on sale of property, plant and equipment for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**¥34**	—	**$365**
Machinery and vehicles	**3**	¥ 2	**35**
Land	**12**	27	**127**
Other	**—**	0	**—**
Total	**¥50**	¥30	**$527**

Loss on disposal of property, plant and equipment for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**¥ 43**	¥ 32	**$ 455**
Machinery and vehicles	**87**	121	**928**
Land	**—**	3	**—**
Lease assets	**2**	0	**20**
Construction in progress	**50**	5	**529**
Intangible fixed assets	**4**	—	**37**
Other	**6**	4	**65**
Total	**¥191**	¥166	**$2,035**

17. Impairment Loss

For the years ended March 31, 2013, the Company recognized impairment losses of ¥314 million ($3,338 thousand) on real estate for which there is no intended use in the future and whose market values significantly declined.

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

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

The details of impairment loss recognized are as follows:

(For the year ended March 31, 2013)

Location	Purpose of use	Type of asset	Amount: Millions of yen	Amount: Thousands of U.S. dollars
Utsunomiya City, Tochigi, Prefecture, Japan, one other	Idol assets	Building and machinery, etc. Land	¥314	$3,338

The carrying value of these assets is written down to their net realizable value based on the net selling price. The valuation of land is based on appraisal by a real estate appraiser. Assets which can be sold or used for other purposes are regarded as having no value.

(For the year ended March 31, 2012)

Location	Purpose of use	Type of asset	Amount: Millions of yen
California, USA	Retail stores	Building, etc.	¥34

The carrying value of these assets is written down to their net realizable value based on the net selling price or zero if it is not likely that above assets can be sold or used for other purposes.

18. Adjustments and Income Tax in Other Comprehensive Income

Adjustments and income tax in other comprehensive income for the year ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Other comprehensive income			
Unrealized holding gain (loss) on securities			
Amount during the term	**¥ 138**	¥119	**$ 1,463**
Adjustments	**(5)**	(1)	**(52)**
Prior income tax adjustment	**133**	119	**1,411**
Income tax	**(44)**	(47)	**(471)**
Total	**¥ 88**	¥ 72	**940**
Foreign currency translation adjustments			
Amount during the term	**¥1,788**	¥ (31)	**$19,013**
Adjustments	**—**	130	**—**
Prior income tax adjustment	**1,788**	99	**19,013**
Income tax	**—**	—	**—**
Total	**¥1,788**	¥ 99	**$19,013**
Total other comprehensive income	**¥1,877**	¥171	**$19,953**

19. Leases

Future minimum lease payments subsequent to March 31, 2013 and 2012 for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due in 1 year or less	—	¥ 87	—
Due over 1 year	—	42	—
Total	—	¥129	—

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

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥128	¥103	¥26	$1,364	$1,090	$274
Other	31	24	7	325	251	74
Total	¥159	¥126	¥33	$1,689	$1,341	$348

	Millions of yen		
	2012		
Leased assets	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥342	¥295	¥47
Other	152	138	15
Total	¥495	¥433	¥61

Future minimum lease obligations under finance lease transactions subsequent to March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due in 1 year or less	¥18	¥29	$187
Due over 1 year	15	33	161
Total	¥33	¥61	$348

Lease payments for the years ended March 31, 2013 and 2012 were ¥29 million ($305 thousand) and ¥71 million, respectively.

20. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2013 and 2012 is as follows:

	Millions of yen			
	2013			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
US dollars	**¥3,597**	**¥1,628**	**¥612**	**¥612**
Total	**¥3,597**	**¥1,628**	**¥612**	**¥612**

	Thousands of U.S. dollars			
	2013			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Purchase				
US dollars	**$38,247**	**$17,310**	**$6,508**	**$6,508**
Total	**$38,247**	**$17,310**	**$6,508**	**$6,508**

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

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

21. Business Combinations

Common control transaction

(Company separation among consolidated subsidiaries)

On July 2, 2012, the Group made the company split, which formed from the division of Calbee America, Inc. (a consolidated subsidiary) with Calbee North America, LLC (a consolidated subsidiary) as the surviving entity.

In the line of the global strategy of the Group, and in order to further strengthen business of the Group in North America, the Group separated all production and sale of snacks from that of snacks and other foods of Calbee America, Inc. and transferred under Calbee North America, LLC, consolidating all of the North American snack business under Calbee North America, LLC. The Group will fully utilize local resources through Calbee North America, LLC, while endeavoring to expand business of the Group in North America.

The company split was accounted for as a transaction under common control in accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," issued on December 26, 2008.

22. Stock Options

As of March 31, 2013, the Company has the following stock option programs.

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

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

(1) Number and price information

(As of March 31, 2013)

	Shares	
Date of resolution	February 15, 2005	June 24, 2009
Unvested stock options		
Outstanding as of March 31, 2012	—	—
Granted	—	—
Expired	—	—
Vested	—	—
Outstanding as of March 31, 2013	—	—
Vested stock options		
Outstanding as of March 31, 2012	670,500	283,500
Vested	—	—
Exercised	281,500	115,000
Expired	—	—
Outstanding as of March 31, 2013	389,000	168,500

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

	Yen	U.S. dollars	Yen	U.S. dollars
Date of resolution	February 15, 2005		June 24, 2009	
Exercise price (*)	¥1,600	$17.01	¥1,600	$17.01
Average stock price at exercise	¥6,215	$66.08	¥7,017	$74.61
Fair value at grant date	—	—	¥ 300	$ 3.19

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

(2) Estimate of fair value of stock option

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

(3) Estimate of number of vested stock options

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

(4) Intrinsic value of stock option

	Yen	U.S. dollars
	2013	2013
Total intrinsic value at end of period	¥1,016,055,000	$10,803,349.28
Total intrinsic value on the exercise date of the stock options exercised during the year	¥ 650,755,000	$ 6,919,245.08

23. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2013 and 2012.

(1) For the year ended March 31, 2013

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.02%	Exercise of subscription rights (Note 2-1)	¥12 million ($128 thousand)
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 2-2)	¥32 million ($340 thousand)
Officer and his/her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.05%	Exercise of subscription rights (Note 2-1)	¥12 million ($128 thousand)
Officer and his/her close family member	Takayoshi Naganuma	Executive Vice President of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-1)	¥12 million ($128 thousand)
Officer and his/her close family member	Haruhiko Sekiguchi	Executive Vice President of the Company	Direct 0.01%	Exercise of subscription rights (Note 2-2)	¥32 million ($340 thousand)
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.10%	Exercise of subscription rights (Note 2-1)	¥12 million ($128 thousand)
Officer and his/her close family member	Takeshi Taniguchi	Senior Executive Officer of the Company	Direct 0.05%	Exercise of subscription rights (Note 2-2)	¥12 million ($128 thousand)

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

2-1: The exercise of stock options granted by resolution at the extraordinary shareholders' meeting held on February 15, 2005, pursuant to Article 280-20, 280-21 and 280-27 of the pre-Commercial Code revision (revised in 2001). The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

2-2: The exercise of stock options granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act. The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

(2) For the year ended March 31, 2012

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Masahiko Matsuo	Advisor of the Company	Direct 0.09%	Exercise of subscription rights (Note 2-1)	¥24 million
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO, Representative Director of the Company	Direct 0.19%	Exercise of subscription rights (Note 2-2)	¥80 million
Officer and his her close family member	Shuji Ito	President & COO, Representative Director of the Company	Direct 0.06%	Exercise of subscription rights (Note 2-1)	¥12 million
Officer and his her close family member	Takayoshi Naganuma	Executive Vice President of the Company	Direct 0.04%	Exercise of subscription rights (Note 2-1)	¥24 million
Officer and his her close family member	Haruhiko Sekiguchi	Executive Vice President of the Company	Direct 0.03%	Exercise of subscription rights (Note 2-1 and 2-2)	¥24 million
Officer and his/her close family member	Masatoshi Aki	Executive Managing Officer of the Company	Direct 0.07%	Exercise of subscription rights (Note 2-1)	¥12 million

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

2-1: The exercise of stock options granted by resolution at the extraordinary shareholders' meeting held on February 15, 2005, pursuant to Article 280-20, 280-21 and 280-27 of the pre-Commercial Code revision (revised in 2001). The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

2-2: The exercise of stock options granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act. The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

24. Per Share Information

Per share information as of and for the years ended March 31, 2013 and 2012 is as follows:

	Yen		U.S. dollars
	2013	2012	**2013**
Net assets per share	**¥2,658.22**	¥2,386.63	**$28.26**
Net income per share			
Basic	**¥ 288.73**	¥ 220.29	**$ 3.07**
Diluted	**¥ 283.65**	¥ 215.91	**$ 3.02**

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

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2013	2012	2013
Total net assets (Millions of yen)	¥92,685	¥80,418	$985,489
Net assets attributable to common stock (Millions of yen)	87,555	77,663	930,940
Major components of the difference			
Subscription rights	51	85	537
Minority interests	5,080	2,669	54,012
Number of common stock issued and outstanding (Shares)	32,937,450	32,540,950	32,937,450
Treasury stock of common stock (Shares)	—	—	—
Number of common shares used in calculation of net assets per share (Shares)	32,937,450	32,540,950	32,937,450

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

	Millions of yen, except share data		Thousands of U.S. dollars, except share data
	2013	2012	2013
Net income (Millions of yen)	¥9,441	¥7,097	$100,379
Net income attributable to common stock (Millions of yen)	9,441	7,097	100,379
Net income not attributable to common stock (Millions of yen)	—	—	—
Average number of shares outstanding during the year (Shares)	32,696,673	32,215,557	32,696,673
Adjustments to net income (Millions of yen)	—	—	—
Major dilutive factors included in calculating diluted net income per share (Shares)			
Subscription rights	585,419	653,326	585,419
Increase in number of common stock (Shares)	585,419	653,326	585,419

25. Segment Information

For the years ended March 31, 2013 and 2012, information on operating segments is not disclosed as the Company has only one reporting segment "Production and sale of snacks and other foods."

[Related information]

(For the year ended March 31, 2013)

(1) Sales by product and service

	Millions of yen			
	Snacks	Other foods	Other	Total
Sales to third parties	¥155,660	¥21,334	¥2,417	¥179,411

	Thousands of U.S. dollars			
	Snacks	Other foods	Other	Total
Sales to third parties	$1,655,077	$226,837	$25,703	$1,907,616

(2) Information by region

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

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

Japan	America	China	Other Asia	Total
¥40,334	¥4,956	¥920	¥3,243	¥49,454

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

Japan	America	China	Other Asia	Total
$428,855	$52,700	$9,786	$34,482	$525,823

(3) Sales by major customers

		Millions of yen	Thousands of U.S. dollars
	Related segment	Sales	
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	¥24,228	$257,605

(4) Impairment loss on fixed assets by reporting segment

	Millions of yen				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	¥314	¥314	—	—	¥314

	Thousands of U.S. dollars				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss	$3,338	$3,338	—	—	$3,338

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

	Millions of yen				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 621	¥ 621	—	—	¥ 621
Balance at end of year	3,955	3,955	—	—	3,955

	Thousands of U.S. dollars				
	Reporting segment				
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	$ 6,598	$ 6,598	—	—	$ 6,598
Balance at end of year	42,050	42,050	—	—	42,050

(For the year ended March 31, 2012)

(1) Sales by product and service

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

(2) Information by region

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

Property, plant and equipment by region — Millions of yen

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

(3) Sales by major customers

	Related segment	Millions of yen Sales
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	¥21,598

(4) Impairment loss on fixed assets by reporting segment

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

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

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

(6) Gain on negative goodwill by reporting segment

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

Independent Auditor's Report

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
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Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
CALBEE, Inc.

We have audited the accompanying consolidated financial statements of CALBEE, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CALBEE, Inc. and consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 26, 2013

Tokyo, Japan

Corporate History

1940s–1970s

Apr. 1949	Company established
Jan. 1964	*Kappa Ebisen* (prawn crackers) launched
Apr. 1968	Utsunomiya Factory (Tochigi) started operations
Nov. 1969	Chitose Factory (Hokkaido) started operations
Mar. 1970	Calbee America, Inc.* established in the US
Apr. 1972	Calbee Shokuhin Co., LTD.* established
Feb. 1975	Kagoshima Factory (Kagoshima) started operations
Sep. 1975	Shimotsuma Factory (Ibaraki) started operations
Sep. 1975	*Potato Chips* launched
Nov. 1976	Shiga Factory (currently Konan Factory; Shiga) started operations

1980s

Apr. 1980	Calbee Tanawat Co., Ltd.*, a joint venture with a local Thai company, established in Thailand
Oct. 1980	Potato Procurement Department spun off as CALBEE POTATO INC.*
Jul. 1983	Kakamigahara Factory (Gifu) started operations
Nov. 1986	Hiroshima-Nishi Factory (currently Hiroshima Factory, West Building; Hiroshima) started operations
Jul. 1989	Cereals launched throughout Japan.
	Kiyohara Factory (Tochigi) started operations

1990s

Apr. 1990	Snack Food Service Co., Ltd.* established
Jan. 1992	Calbee (International) Limited established in Hong Kong (Renamed CIL COMPANY LIMITED in July 2010, liquidated in September 2011)
Feb. 1994	Calbee Four Seas Co., Ltd.*, a joint venture with Four Seas Mercantile Holdings Ltd., established in Hong Kong
Jul. 1995	QINGDAO CALBEE FOODS CO., LTD.* established in China
Oct. 1995	*Jagarico* launched
Jun. 1996	Garden Bakery, Inc.* established
Jun. 1999	Ayabe Factory (Kyoto) started operations

2000s

Apr. 2000	Calnac Co., LTD.* established
Oct. 2002	CALBEE FOUR SEAS (SHANTOU) CO., LTD. (currently CFSS Co. Ltd.*) established in China
Apr. 2004	Cereal Manufacturing Department spun off as Oisia FOODS CO., LTD. (to be absorbed by merger with CALBEE, Inc. in July 2013)
Jul. 2004	R&DDE Center (currently R&D Group) started operations
Feb. 2006	Hiroshima Factory (currently Hiroshima Factory, East Building; Hiroshima) started operations
Apr. 2006	*Jagabee* launched
Aug. 2006	YANTAI CALBEE CO., LTD.* established in China
Aug. 2006	RDO-CALBEE FOODS, LLC (currently Calbee North America, LLC*), a joint venture with R.D. OFFUTT COMPANY, established in the U.S.
Oct. 2006	Acquired 80% of issued shares in Tower Bakery, Inc.*
Nov. 2007	Calbee Eatalk Co., Ltd.*, a company employing people with disabilities, established
Jul. 2009	Capital alliance formed with U.S. food and beverage manufacturer PepsiCo, Inc.
	Japan Frito-Lay Ltd.* made a wholly owned subsidiary to strengthen the Group's snack food business (corn-based snacks)

2010s

Mar. 2011	Listed on the First Section of the Tokyo Stock Exchange
Jul. 2011	HAITAI-CALBEE Co., Ltd.* established in South Korea as a joint venture with HAITAI Confectionery & Foods Co., Ltd.
Jul. 2012	All of Calbee America, Inc.'s snack food production and sales were split off and transferred to Calbee North America, LLC
Aug. 2012	Calbee (HangZhou) Foods Co., Ltd.*, a joint venture with Master Kong Instant Foods Investment (China) Co., Ltd. and ITOCHU Corporation, established in China
Aug. 2012	Calbee (Taipei) Foods Co., Ltd.*, a joint venture with Wei Chuan Foods Corporation, established in Taiwan

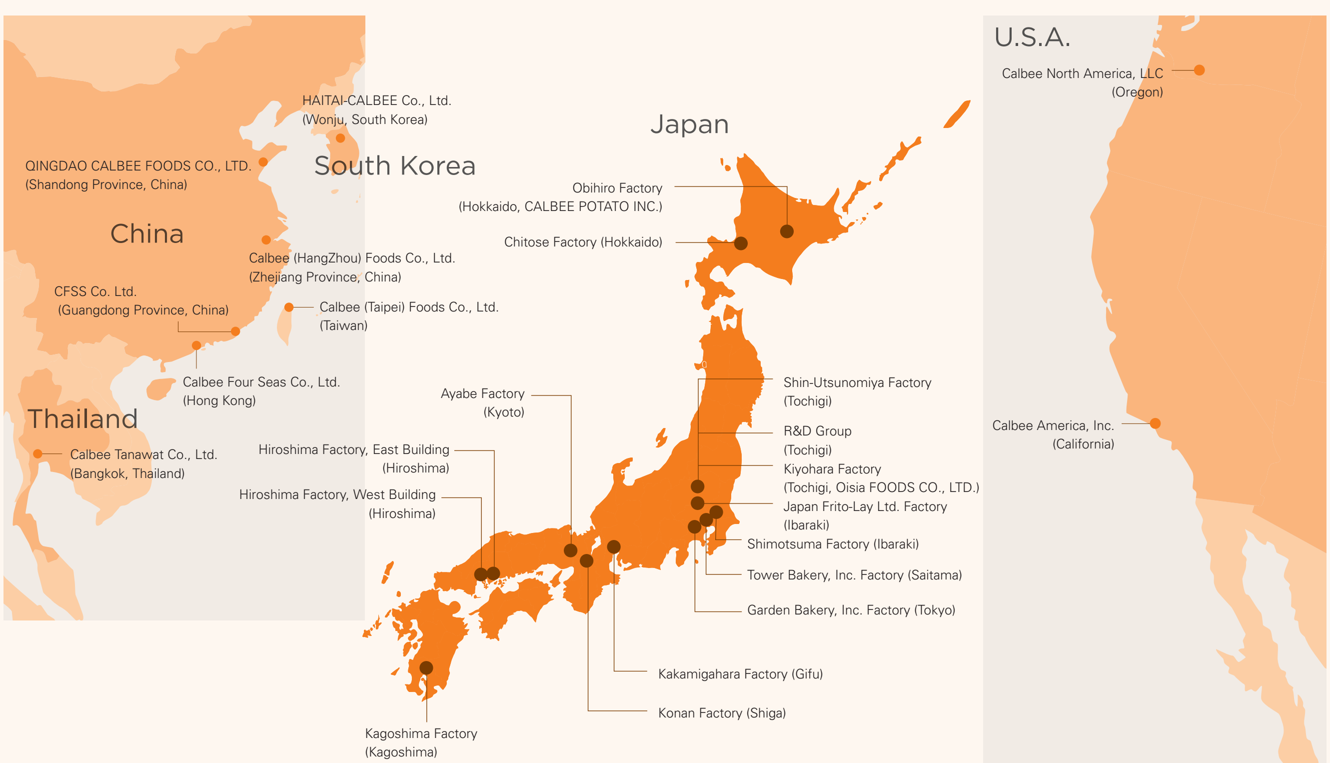
* Currently consolidated subsidiaries

Corporate Data

(As of March 31, 2013)

Company Name	CALBEE, Inc.
Date of Establishment	April 30, 1949
Head Office	Marunouchi Trust Tower Main, 22nd Floor 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-0005, JAPAN
Paid-in Capital	11,587 million yen
Representatives	Akira Matsumoto, Chairman of the Board & CEO Shuji Ito, President & COO
Number of Employees	3,352 (consolidated basis) 1,519 (parent basis)
Fiscal Year-end	March 31
Business	Production and sale of snacks and other foods
Independent Auditor	Ernst & Young ShinNihon LLC
Group Companies	Calbee Shokuhin Co., LTD. CALBEE POTATO INC. Snack Food Service Co., Ltd. Garden Bakery, Inc. Tower Bakery, Inc. Star Bakery, Inc. Calnac Co., LTD. Oisia FOODS CO., LTD. (to be absorbed by merger with CALBEE, Inc. in July 2013) Calbee Eatalk Co., Ltd. Japan Frito-Lay Ltd. ICS Investment Co., Ltd. Calbee America, Inc. Calbee North America, LLC Calbee Tanawat Co., Ltd. Calbee Four Seas Co., Ltd. CFSS Co. Ltd. (The company name was changed from CALBEE FOUR SEAS (SHANTOU) CO., LTD. in June 2013) QINGDAO CALBEE FOODS CO., LTD. YANTAI CALBEE CO., LTD. HAITAI-CALBEE Co., Ltd. Calbee (HangZhou) Foods Co., Ltd. Calbee (Taipei) Foods Co., Ltd.

Location of Factories



Investor Information

(As of March 31, 2013)

Common Stock Authorized: 44,000,000 shares
Issued: 32,937,450 shares

Number of Shareholders 5,772

Annual General Meeting June

Date of Listing March 11, 2011

Stock Listing First Section of the Tokyo Stock Exchange

TSE Code 2229

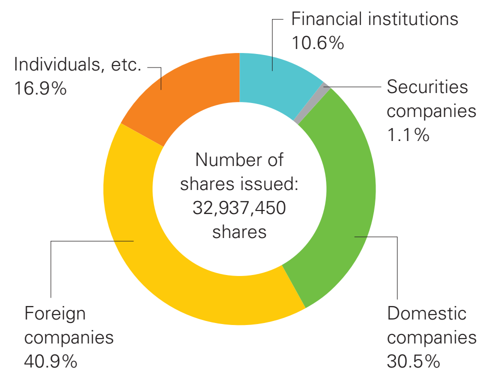
Share Register Mitsubishi UFJ Trust and Banking Corporation

Principal Shareholders

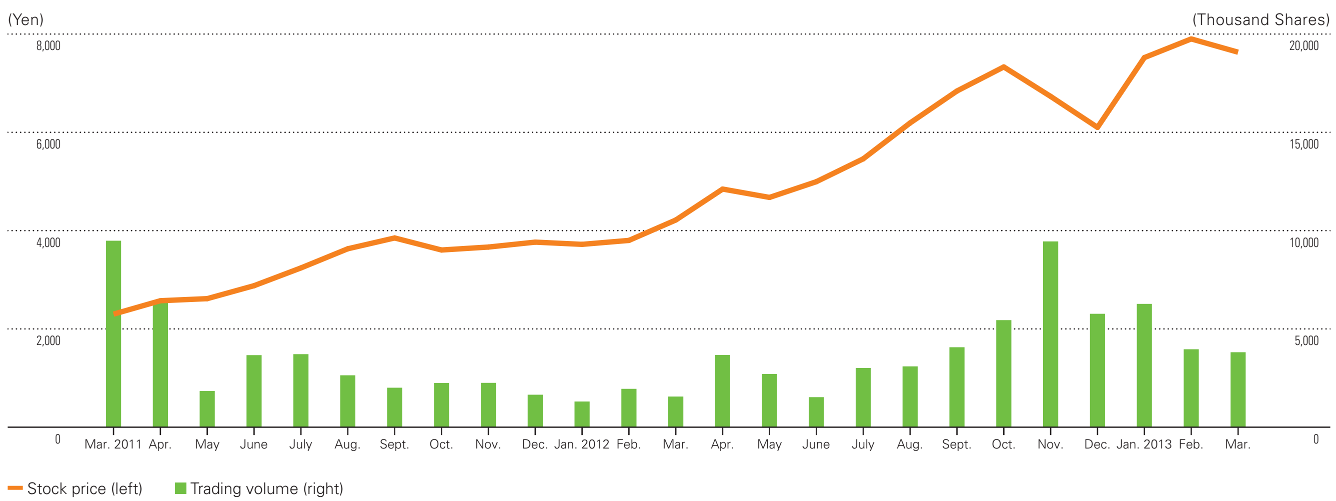
Shareholder	Number of shares (thousands)	Ownership ratio (%)
FRITO-LAY GLOBAL INVESTMENTS B.V. [1]	6,700	20.34
General Incorporated Association Miki-no-Kai [2]	6,480	19.68
Calbee Employees Shareholding Association	1,053	3.20
Japan Trustee Services Bank, Ltd. (Trust Account)	771	2.34
The Master Trust Bank of Japan, Ltd. (Trust Account)	686	2.08
STATE STREET BANK AND TRUST COMPANY	681	2.07
GOLDMAN, SACHS & CO. REG	542	1.65
THE CHASE MANHATTAN BANK 385036	499	1.52
BNY FOR GCM CLIENT ACCOUNTS (E) BD	498	1.51
THE TORIGOE CO., LTD.	484	1.47

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

Share Breakdown by Shareholder



Stock Price and Trading Volume



Contact

Investor Relations Group
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Calbee
Harvest the Power of Nature.

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

VEGETABLE OIL INK

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