kikkoman®
seasoning your life

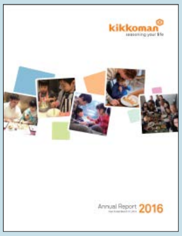
# Annual Report 2016
Year ended March 31, 2016

# Profile

Kikkoman Corporation takes pride in enriching the lives of consumers throughout the world with the distinctive qualities of its food seasonings. Kikkoman has grown from humble beginnings in the 17th century to become a company that provides a comprehensive range of foodstuffs, fine wines, superb dining, and effective biotechnology. We are constantly searching for new recipes to enhance the flavors of Western and Oriental cuisines, drawing on more than 300 years of natural brewing experience. Superseding these activities is a higher goal of contributing to the health and happiness of the communities in the over 100 countries in which we operate.

## Contents






**ON THE FRONT COVER**

**A word about the photographs used on the cover of this Annual Report**

As part of efforts to share the meaning of its corporate slogan of "seasoning your life" with customers everywhere, Kikkoman began holding a photography contest on its website from fiscal 2009, based on the theme of "delicious things you use to season your life."

During fiscal 2016, customers responded by submitting many wonderful photographs, all of which can be viewed on Kikkoman's website.

Some of the prize-winning submissions to this photography contest are featured on the cover of this Annual Report.

**Forward-Looking Statements:**
Statements made in this annual report with respect to the Kikkoman Group's present plans, outlook, strategies and projections regarding future business results inherently involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions, conditions in the Group's business domains and exchange rates. Please be aware that actual results could differ significantly from forecasts because of these risks and uncertainties.

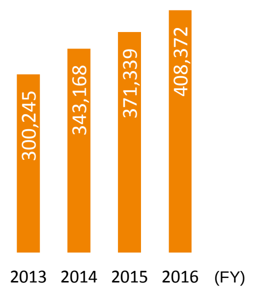
**Notes:**
1. Fiscal years in this report are April to March.
   Example: 2016 = April 2015 - March 2016
2. Certain domestic consolidated subsidiaries have changed their revenue recognition standards, effective from the fiscal year ended March 31, 2014. This change in accounting policy has been retroactively applied to results for the fiscal year ended March 31, 2013. The cumulative effect of the change in accounting policy on results up to the fiscal year ended March 31, 2012 is reflected in net assets at the beginning of the fiscal year ended March 31, 2013.

# Financial Highlights

Kikkoman Corporation and Consolidated Subsidiaries

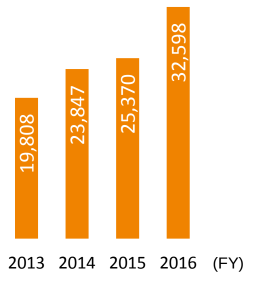
### Net Sales

Millions of yen



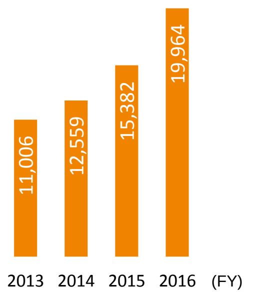

### Operating Income

Millions of yen



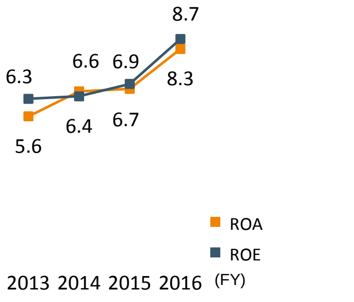

### Net income attributable to owners of parent

Millions of yen




### ROA / ROE

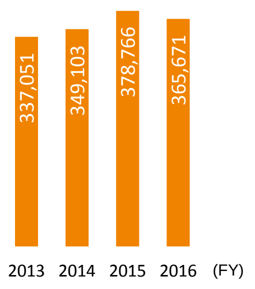
%




ROA=Ordinary income/Average total assets

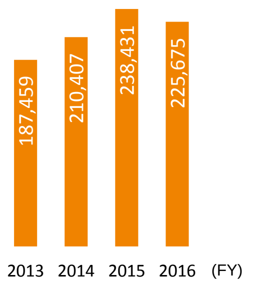
### Total Assets

Millions of yen



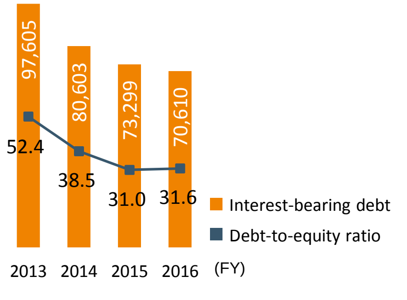

### Net Assets

Millions of yen



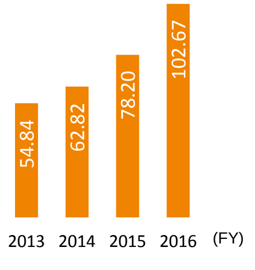

### Interest-Bearing Debt / Debt-to-Equity Ratio

Millions of yen / %



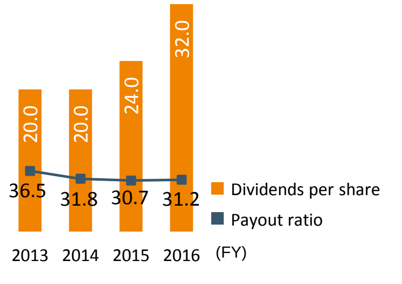

### Net Income per Share

Yen




### Dividends per Share / Payout Ratio

Yen / %




## KEY POINT ANALYSIS

### Net Sales

Net sales increased 10.0% year on year to ¥408,372 million, supported by higher sales of Soy Sauce, food products, beverages, and liquor and wine in Japan, and by steady growth in sales of Soy Sauce in North America, Europe, and Asia/Oceania. The Overseas Foods – Wholesale business also performed well.

### Operating Income

Operating income rose 28.5% year on year to ¥32,598 million, reflecting higher profits in Japan on the back of sales growth and improvements to the operating structure, and an increase in profits overseas driven by higher sales.

### Total Assets

Total assets declined ¥13,095 million to ¥365,671 million. Although trade notes and accounts receivable increased, current assets declined, mainly due to a drop in other current assets. Investments and other assets fell year on year, mainly reflecting a drop in goodwill and net defined benefit asset.

# Message from the Management

## Make Kikkoman Soy Sauce a truly global seasoning

**Yuzaburo Mogi**
Honorary Chief Executive Officer and
Chairman of the Board of Directors

**Noriaki Horikiri**
President and
Chief Executive Officer

## The Fiscal Year in Review

In fiscal 2016, ended March 31, 2016, growth in the global economy slowed slightly due to a loss of momentum in China and other emerging economies, despite a sustained moderate recovery in the U.S. and Europe.

The Japanese economy also recovered at a moderate pace, mirroring global economic trends.

Under these conditions, the Kikkoman Group's domestic sales of Soy Sauce, food products, beverages, and liquor and wine all increased year on year. In overseas operations, sales of Soy Sauce grew steadily in North America, Europe and Asia/Oceania. Sales were also strong in the Overseas Foods – Wholesale business, supporting an increase in overseas sales compared with the previous fiscal period.

As a result, consolidated net sales increased 10.0% to ¥408,372 million, operating income rose 28.5% to ¥32,598 million, and net income attributable to owners of parent increased 29.8% to ¥19,964 million.

## Management Principles and Business Fields

The management principles of the Kikkoman Group are based on the following three pillars:

1. To pursue the fundamental principle "consumer-oriented"
2. To promote the international exchange of food culture
3. To become a company whose existence is meaningful to global society

We believe that existence and prosperity of a company is realized only by customer satisfaction. Based on this conviction, the Kikkoman Group provides value-added products and services by listening to the opinions of consumers and closely observing markets.

Moreover, as a food company, our fundamental mission is to offer consumers a stable supply of safe and high-quality products at reasonable prices. Moving forward, we will continue to steadily carry out these fundamental activities.

The Kikkoman Group will pursue global operations in the following fields:

1. Manufacturing and marketing food products
2. Providing products and services related to food and health

## Medium-Term Management Plan

The Kikkoman Group has established a medium-term management plan that covers the period from fiscal 2016 to fiscal 2018.

Fiscal 2018 Medium-Term Plan targets

1. Net sales ¥440 billion
   (average annual growth rate of 5.2%)
2. Operating income ¥36 billion
   (for a 8.2% operating income margin)
3. Return on equity (ROE) 9.0% or more
   (Exchange rate assumptions: ¥115/USD, ¥125/EUR)

To address business challenges of the Medium-Term Management Plan, we set a group-wide objective of "improving profitability." Under this objective, we pursue "maintaining growth overseas" and "improving productivity in Japan."

Fiscal 2016 was the first year of the Medium-Term Management Plan, and it is going well.

In overseas operations, each business and each region performed well overall. In domestic operations, we also made steady progress with strengthening growth categories and improving the operating structure. We will continue to work towards the plan's targets in the years ahead.

## Business Outlook

We expect overseas operations, centered on the Soy Sauce business, to continue driving growth in the Kikkoman Group.

In North America, we will work to generate stable growth. For this purpose, we will raise the frequency of Soy Sauce use among existing users through initiatives such as offering products tailored to user needs. We will also cultivate demand among new and occasional users.

In Europe, we aim to focus on expanding sales of Soy Sauce and maintain double-digit growth by further cultivating existing markets and developing new markets.

In Asia, we will implement sales strategies tailored to each country and region, and aim to capture this region's fast-growing economies.

Amid the growing Japanese food market, our oriental food wholesale business will seek to establish a leading position by further improving its global network and its high-quality products and services, which are the Group's strength.

In Japan, we are targeting growth and improved profitability in Soy Sauce and across our entire range of Soy Sauce-based seasonings, such as *tsuyu* (Soy Sauce soup base) and *tare* (dipping and marinade sauce). Specifically, in Soy Sauce, we will work to continue expanding sales of the *Itsudemo Shinsen* (always fresh) series of Soy Sauce and add more value to our entire range of Soy Sauce products. We also plan to further reinforce the *Uchi-no-Gohan* series in the growing category of handy Japanese style seasoning mixes.

In Del Monte beverages, we will work to enhance the market presence of the Del Monte brand by improving product development and sales promotions. In soy milk beverages, we plan to build an even stronger position in the market by strengthening our production system and stimulating demand through marketing activities.

In liquor and wine, we will focus on expanding our market share in home-use *mirin* (sweet *sake* for cooking) and on supplying customers with value-added wines.

In biochemical products, we aim to enhance earnings capabilities by reviewing the business.

In terms of financial strategy, we need to make effective use of operating cash flow. We plan to use cash for capital investment, mainly in growing fields, returns to shareholders and investments in new businesses when opportunities arise.

Along with improving profitability and asset efficiency, capital efficiency is a key element of our management strategy as well, so we have set ROE as a target.

By implementing these initiatives, we will work to increase the Kikkoman Group's corporate value and presence.

August 2016

Yuzaburo Mogi
Honorary Chief Executive Officer and
Chairman of the Board of Directors

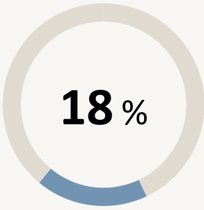
Noriaki Horikiri
President and Chief Executive Officer

# Kikkoman at a Glance

## OVERSEAS Foods–Manufacturing and Sales

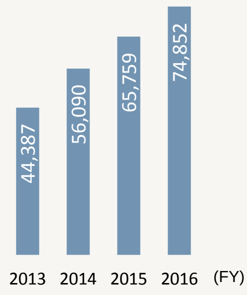
**Net Sales Composition**

Fiscal 2016



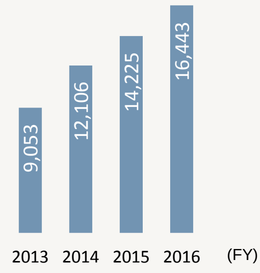

**Net Sales**

Millions of yen




**Operating Income**

Millions of yen




### Soy Sauce

Major Products:
Soy Sauce
*Teriyaki* Sauce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### Del Monte

Major Products:
Canned fruits
Canned corn
Tomato ketchup

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### Other Foods

Major Products:
Health foods


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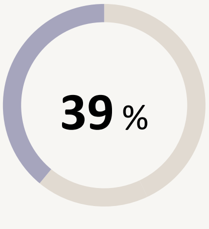
## OVERSEAS Foods–Wholesale

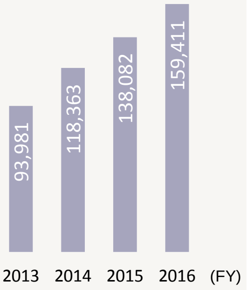
**Net Sales Composition**

Fiscal 2016



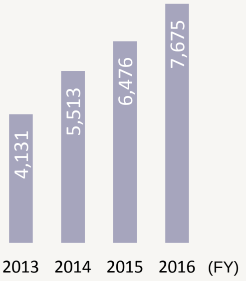

**Net Sales**

Millions of yen




**Operating Income**

Millions of yen





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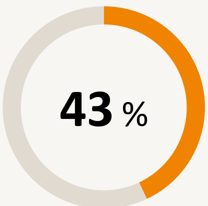
# DOMESTIC

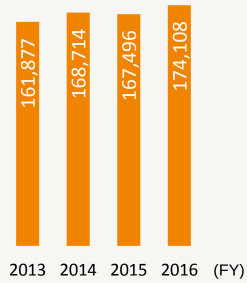
### Net Sales Composition

Fiscal 2016



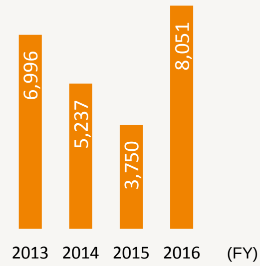

### Net Sales

Millions of yen




### Operating Income

Millions of yen




## Foods–Manufacturing and Sales

### Soy Sauce

Major Products:
Soy Sauce

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### Food Products

Major Products:
*Tsuyu* (Soy Sauce soup base)
*Tare* (dipping and marinade sauces)
Handy seasoning mixes
Del Monte seasonings

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### Beverages

Major Products:
Soy milk beverages
Del Monte beverages

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### Liquor and Wine

Major Products:
*Mirin* (sweet *sake* for cooking)
Wines

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## Others

This business segment covers the production and sale of clinical diagnostic reagents, hygiene inspection agents, processing enzymes and chemical products such as hyaluronic acid, as well as real estate rental, logistics and back-office support for the Kikkoman Group, and other businesses.

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* Graphs showing net sales exclude inter-segment transactions.

# Corporate Citizenship

## KIKKOMAN'S APPROACH TO CORPORATE SOCIAL RESPONSIBILITY

Since its establishment, Kikkoman has always regarded a connection with society as being of great importance. This attitude is reflected in our Management Principles. Now that we have come to supply a variety of products and services to customers in more than 100 countries worldwide, we recognize that our responsibilities to global society have grown together with the growth of our business.

We aim to become a company that is valued by people around the world and we will continue to implement activities that are aligned with our Management Principles.

The basics of our Management Principles are that we carry out our day-to-day business activities in a reliable and trustworthy manner and that we contribute to the realization of rich and healthy food lifestyles through our products and services. In addition, we aim to fulfill our responsibilities as a public entity and contribute to society through activities that are unique to Kikkoman. We believe that the cumulative pursuit of each and every one of these activities is our corporate social responsibility.

**Kikkoman Corporate Citizenship Framework**

### The Kikkoman Group Management Principles

1. To pursue the fundamental principle "consumer-oriented"
2. To promote the international exchange of food culture
3. To become a company whose existence is meaningful to the global society

| | Responsible Operations | Products / Services | Actions of global society |
|---|---|---|---|
| Key Aspects | Fundamental responsibilities of a corporate citizen<br>We carry out responsible business operations that respond to the trust and expectations of each of our stakeholders; that comply not only with the law but also with social norms and standards of propriety; and that are in harmony with the environment. | Fundamental functions of a food company<br>We deliver products and services of high quality and safety in a stable manner while promoting research and product development that create new value. We also propose new food lifestyles through the fusion of international food cultures. | Kikkoman's initiatives<br>We contribute to the sustainable development of global society mainly in the areas of "food and health" by promoting activities that are unique to Kikkoman. |
| Areas of Focus | ● Compliance<br>● Corporate governance<br>● Communication with stakeholders<br>● Environmental activities<br>● Building talent and fostering a positive workplace | ● Product and services innovations<br>● Food safety and quality<br>● Stable supplies<br>● Delivering new and healthy food experiences | ● Promotion of Japanese food culture<br>● Exchange of food cultures across the world<br>● *Shokuiku* (Food education)<br>● Commitment to society through food and health |

Below, we introduce the main activities and programs implemented under the Kikkoman Corporate Citizenship Framework.

# Reinforce Corporate Governance

Corporate Governance Overview (As of June 23, 2016)

### Organization

| | |
|---|---|
| Structure | Company with Audit & Supervisory Board |
| Corporate officer system | Yes |

### Key steps taken to reinforce corporate governance

| | Initiative | Purpose |
|---|---|---|
| March 2001 | Introduced corporate officer system | Clarified management responsibilities and accelerated decision-making and business execution |
| June 2002 | Appointed outside directors | Increased management transparency and strengthened management oversight |
| | Established Nominating Committee and Remuneration Committee | |
| October 2009 | Adopted holding company structure | Clarified roles and responsibilities of holding company and operating companies and created a structure to maximize Group synergies |

### Executives

| | Directors | Audit & Supervisory Board Members |
|---|---|---|
| Number | 11 | 4 |
| Outside appointments | 3 | 2 |
| Term of office | 1 year | 4 years |

* The Company has submitted independent director and auditor notifications to the Tokyo Stock Exchange for all its outside directors and outside audit & supervisory board members.

### Nominating Committee and Remuneration Committee

| | Composition | Role |
|---|---|---|
| Nominating Committee | 5 members (3 outside directors, 2 directors)<br>Committee chaired by an outside director | Recommends candidates for director, audit & supervisory board member and corporate officer posts to the Board of Directors |
| Remuneration Committee | 5 members (3 outside directors, 2 directors)<br>Committee chaired by an outside director | Develops remuneration proposals for directors, audit & supervisory board members and corporate officers |

## Directors, Audit & Supervisory Board Members and Corporate Officers

(As of June 23, 2016)

### Directors and Audit & Supervisory Board Members

Honorary Chief Executive Officer and Chairman of the Board of Directors

Yuzaburo Mogi

President

Noriaki Horikiri*

Directors

Kenichi Saito*

Katsumi Amano*

Koichi Yamazaki

Masanao Shimada

Toshihiko Shigeyama

Shozaburo Nakano

Toshihiko Fukui**

Mamoru Ozaki**

Takeo Inokuchi**

Audit & Supervisory Board Members

Takashi Ozawa

Koichi Mori

Motohiko Kogo***

Toru Kajikawa***

* Representative Director

** Outside Director

*** Outside Audit & Supervisory Board Member

### Corporate Officers

President and Chief Executive Officer

Noriaki Horikiri

Senior Executive Corporate Officers

Kenichi Saito

Katsumi Amano

Koichi Yamazaki

Masanao Shimada

Executive Corporate Officers

Shozaburo Nakano

Kazuo Shimizu

Asahi Matsuyama

Takashi Hamada

Osamu Mogi

Noboru Mimura

Kiminae Fujimura

Yoshiyuki Ishigaki

Corporate Officers

Takao Kamiyama

Shigehiro Kataoka

Yaichi Fukushima

Kazuki Usui

Hiroshi Miyake

Tsuyoshi Matsuzaki

Yoshiaki Asami

Yasuharu Nakajima

Yoshihisa Kitakura

Iwao Kawamura

Yasumasa Tajima

Ryohei Tsuji

Mitsunobu Nakamura

Hisato Nakano

Masami Oura

Atsushi Otsuyama

### Basic Approach

Our basic management approach is to increase corporate value by implementing the Kikkoman Group Management Principles.

To realize this objective, Kikkoman puts the highest priority on improving and reinforcing the Group's corporate governance framework. In line with this thinking, the Kikkoman Group is taking concrete steps to enhance corporate governance. Specifically, we are reinforcing management supervisory functions by appointing outside directors and outside audit & supervisory board members who satisfy the criteria for independent appointments and by establishing a Nominating Committee and Remuneration Committee on which over half the members are outside directors. We have also introduced a corporate officer system to speed up decision-making and business execution.

### Appointment of Outside Directors and Outside Audit & Supervisory Board Members

In June 2002, Kikkoman Corporation appointed outside directors and established the Nominating Committee and Remuneration Committee to achieve greater management transparency and strengthen management oversight. In fiscal 2016, 3 of 11 directors were outside directors, and 2 of 4 audit & supervisory board members were outside board members.

The role of the outside directors and outside audit & supervisory board members is to strengthen management oversight from an objective perspective on the basis of their wide-ranging experience and deep insight. In addition, the outside directors strive to increase management transparency by participating in the Nominating Committee and Remuneration Committee.

## Measures to Enhance Governance at Group Companies

The Kikkoman Group has prepared Authorization Guidelines, which set out the Company's internal decision-making standards. By abiding by these guidelines, holding company departments and Group companies engage in appropriate decision-making.

In addition, Kikkoman has established Administrative Rules and Regulations for Affiliated Companies to ensure compliance, ethical standards and reliable financial reporting at Group companies.

Under this system, Kikkoman Corporation directors and corporate officers responsible for Group companies issue instructions and provide supervision to ensure appropriate decision-making. These directors and corporate officers and the presidents of Group companies also submit regular business reports to the CEO and receive instructions at the CEO Briefing Meeting.

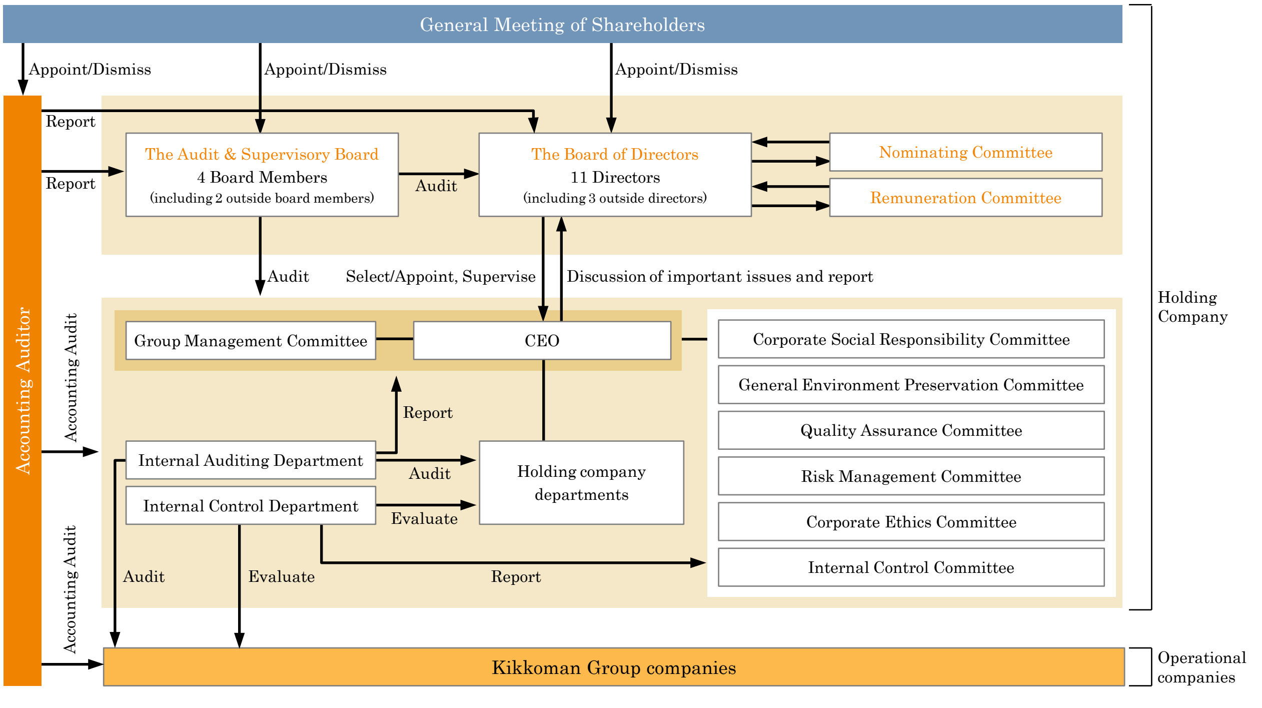
## Internal Control Systems

Establishing an internal control system that ensures proper execution of business practices is high on our corporate agenda. Accordingly, we have been making Group-wide efforts to develop an enhanced framework for ensuring effective and efficient operations as well as compliance with laws and regulations.

We review and make appropriate updates to the basic policy for Establishing an Internal Control System, which was adopted by the Board of Directors in May 2006. Kikkoman significantly updated this basic policy to comply with the enactment of the revised Corporation Law of Japan in May 2015.

In order to comply with the new internal controls reporting system mandated by the Financial Instruments and Exchange Act, which went into effect in April 2008, we established an Internal Control Committee and Internal Control Department in November 2008. To this same end, we have adopted a basic policy concerning internal controls as they relate to financial reporting and established a structure for strengthening internal controls related to financial reporting.

**The Corporate Governance System**
(As of June 23, 2016)



# Environmental Activities

The Kikkoman Group strives to conduct business activities while maintaining harmony with the environment in accordance with the company's environmental philosophy.

## Environmental Preservation System

The Kikkoman Group has established the General Environment Preservation Committee; as a decision-making body, it is responsible for environmental preservation throughout the Group. The President and CEO of Kikkoman Corporation serves as the chairperson of the Committee, whose responsibilities include drawing up, implementing, and managing the Medium and Long-Term Environment Policy.

The Environment Preservation Promotion Committee, whose membership includes environmental management officers from Group companies, operates beneath the General Environment Preservation Committee to manage and guide environmental preservation activities from a Group-wide perspective.

Environment Preservation Committees at each Group worksite take the lead in orchestrating specific activities, while environmental manager information exchange meetings, which link major companies, provide a venue for sharing information and technologies of importance to the entire Group.

### Environmental Philosophy

The Kikkoman Group will respect the working of nature, and contribute to the realization of a society comfortable to live in through our corporate activities while maintaining harmony with the environment.

### Action Guidelines

We act on our Environmental Philosophy
with vigor and creativity.

1. Each of us will try to keep in harmony with the environment in performing one's own duties in all sectors (development, procurement, production, sales and support).
2. In addition to observing laws, we will formulate and observe the rules and regulations of our own.
3. As a member of society, we will participate actively in environmental preservation activities in our local communities.
4. We will study the environment and deepen our understanding.
5. We will think and act from a global point of view.

## Medium-Term Environmental Preservation Goals

The Kikkoman Group is implementing the following initiatives in its Medium-Term Environmental Policy for fiscal 2016-18.

| Goal | objective |
|---|---|
| Low carbon society | To reduce $CO_2$ emissions in procurement of raw material |
| | To reduce $CO_2$ emissions in manufacturing |
| | To reduce $CO_2$ emissions in distributions |
| Recycling based society | To reduce waste from products and work in progress |
| | To reduce waste in general |
| | To reduce environmental load in containers and packaging |
| Symbiotic society | To enhance environmental assessment in raw material procurement |
| | To preserve water environment |
| | To reduce water consumption |
| Environmental management activity | To cooperate with local communities |
| | To response against environmental risks |
| | To keep improvement of the environmental management system |

# Compliance

## Basic Approach

The Kikkoman Group believes compliance goes beyond complying with laws and regulations to include company rules and regulations and social norms. Based on our view that compliance is about meeting the expectations of society, we are reinforcing the Group's compliance system as part of efforts to fulfill our responsibility as a corporate citizen.

## Compliance System

The Kikkoman Group adopted the Kikkoman Group Code of Conduct in August 2002 to codify standards of behavior and conduct expected of Group employees. To strengthen compliance in accordance with this Code of Conduct, we have established the Kikkoman Group Corporate Ethics Committee and the Corporate Ethics Hotline as an internal whistleblower system. We also conduct compliance training courses for new employees and managers/ supervisors and hold sessions at Group company worksites as part of a continuous compliance training program.

**CONTRIBUTE TO THE REALIZATION OF RICH AND HEALTHY FOOD LIFESTYLES**

# Aiming for higher quality and greater safety

In addition to providing safe and high-quality products through product quality assurance activities, the Kikkoman Group strives to utilize feedback from customers in initiatives to improve customer satisfaction.

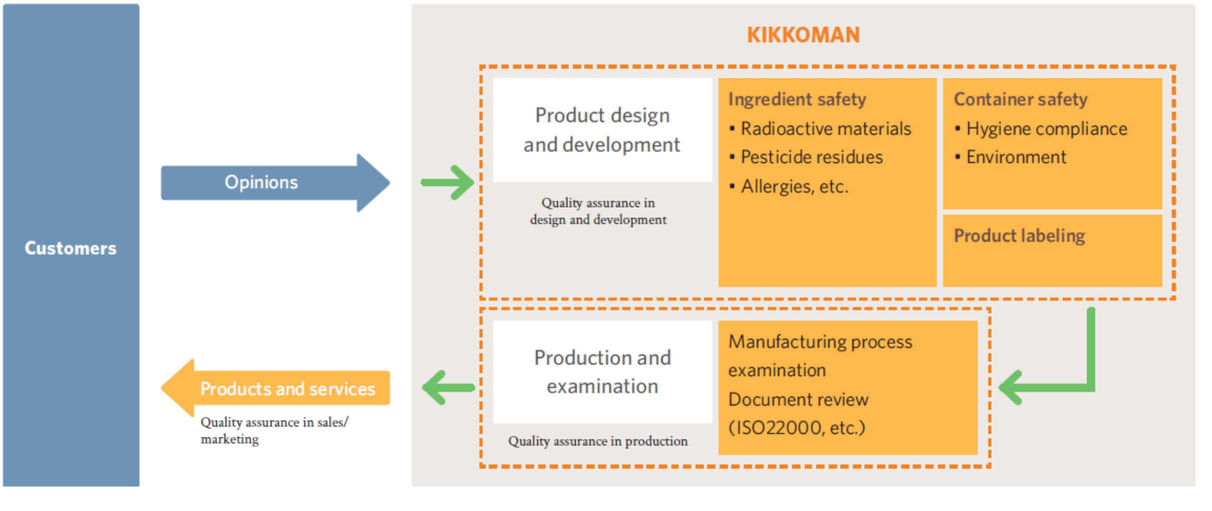
## Basic Approach

The Kikkoman Group believes that "food safety" is our most important responsibility as a company within the food industry. Our responsibility to food safety takes on an even greater importance as we pursue the goals of Global Vision 2020, and our business becomes more global and diverse. To ensure our customers receive only the safest products and services, the Kikkoman Group will continue striving to provide appropriate information and the highest level of safety.

## Quality Assurance Based on Safety and Peace of Mind

At the Kikkoman Group, we consider the safety of the products and services we provide to be our highest priority. To ensure safety, we conduct quality assurance inspections pursuant to strict control standards for all processes, from the selection of raw materials and ingredients to the final product stage, as part of our system for ensuring food safety. Our quality assurance inspections extend from product development to raw material safety, production regions, product manufacturing processes, sterilization conditions, product packaging, and labeling in accordance with the "Food Sanitation Act," the "Law Concerning Standardization, etc. of Agricultural and Forestry Products (JAS Law)," the "Food Labeling Act," and other regulations. We also examine product patentability, trademarks and related regulations, and the Quality Assurance Committee only approves the manufacture of a new product after it passes these inspections. At the same time, we place importance on delivering products that give peace of mind to customers. The Kikkoman Group believes that this comes from building relationships of deep trust with customers by communicating the safety of our products in an easy-to-understand manner. To ensure peace of mind, we actively disclose information to customers using product labeling, our website and other channels. We also ensure our product packaging and advertising complies with legal and industry standards, and we endeavor to make product labeling as clear and easy-to-understand as possible for customers.

**The Kikkoman Group's quality assurance flow**



## ACTIONS OF GLOBAL SOCIETY

# The Kikkoman Group’s *Shokuiku* Activities

The Kikkoman Group considers *Shokuiku* (food education) the special responsibility of companies involved with food and food products. Since we announced our ‘Commitment to *Shokuiku*’, we have developed a program integrated throughout our business based on our “*Shokuiku* Framework.”

### Basic Approach

Since we announced our ‘Commitment to *Shokuiku*’ in May 2005, the Kikkoman Group is promoting *Shokuiku* activities based on our Shokuiku Framework.

### Kikkoman’s key *Shokuiku* Activities – educating people about food

The Kikkoman Soy Sauce Academy

Kikkoman employees visit elementary schools in the role of Soy Sauce experts and assistants, using photos and illustrations to tell children about Soy Sauce ingredients and manufacturing processes in an easy-to-understand way.

The Kikkoman Academy

This is a program in which Kikkoman staff visit schools and other organizations to give lectures about a wide range of food-related topics.

Factory tours to see brewing processes first-hand

Kikkoman offers tours of Soy Sauce factories and Manns wineries in Japan. These tours include hands-on Soy Sauce-making courses for elementary school groups and other group visitors.

***SHOKUIKU* (FOOD EDUCATION)**

kikkoman
seasoning your life

Kikkoman’s *Shokuiku* Commitment
Expression of Corporate Attitude

The philosophy referred to as “Kikkoman’s Three Wishes”

Eating well nourishes the mind. We wish to nourish the mind with good food. Good food makes good health.
We wish good health to all, through good eating.
A smile shared over a meal endures forever.
We wish to share and exchange the joy of food worldwide.

Shokuiku Promotion Policies

1. **For families and children it means:**
well-balanced, nutritious homemade food; healthy growth, based on regular family meals where food itself is part of the family conversation; sharing good dietary rules via product labels, advertising and other means; and encouraging Kikkoman group employees and families to have food-centered lives making the best use of their family meals for better communication.

2. **In Japanese dietary culture it means:**
studying and developing our traditional food culture based on our experience of international food culture exchange; reasserting the positive aspects of the rice-centered diet in preventing lifestyle-related diseases and adapting to lifestyle changes; and enriching people’s lives through communal meals.

***Shokuiku* Activities**

**Kikkoman Holds Event at Japan Salone – Part of the Japanese Pavilion at Milan Expo 2015**

In July 2015, Kikkoman held an event to promote Japanese cuisine as part of the Milan Expo 2015 in Italy.

Called the Heart of Japanese Cuisine, the event included displays of Japanese food, workshops and food tastings to give local people and food industry representatives in Italy and across Europe an opportunity to experience Japanese cuisine. We also used the event to deepen understanding about the Kikkoman Group's efforts to raise awareness of Soy Sauce and Japanese food ingredients in Europe for over 30 years.

We invited nine leading chefs from Japan to prepare Japanese cuisine at the event, helping to spur greater interest in the depth and diversity of Japanese food and culture among visitors from Italy and other parts of Europe.

Going forward, we will continue to implement initiatives "To promote the international exchange of food culture,” one of the Kikkoman Group Management Principles.


For more information about the Kikkoman Group’s corporate citizenship activities, please read our Corporate Citizenship Report.
http://www.kikkoman.com/csr/e/report/index.shtml

# Financial Section

# Management's Discussion and Analysis

## OPERATING RESULTS

In fiscal 2016, ended March 31, 2016, the Kikkoman Group's domestic sales of Soy Sauce, food products, beverages, and liquor and wine all increased year on year.

In overseas operations, sales of Soy Sauce grew steadily in North America, Europe, and Asia/Oceania, and sales were also strong in the Overseas Foods – Wholesale business. This supported an increase in overseas sales and profits compared with the previous fiscal period.

As a result, on a consolidated basis, net sales increased 10.0% year on year to ¥408,372 million, operating income rose 28.5% to ¥32,598 million, and net income attributable to owners of parent increased 29.8% to ¥19,964 million.

### NET SALES

Millions of yen

| | **2016** | 2015 | Change | |
|---|---|---|---|---|
| Domestic Foods–Manufacturing and Sales | **¥167,699** | ¥161,261 | ¥6,437 | 4.0% |
| Domestic Others | **20,650** | 20,152 | 498 | 2.5% |
| Overseas Foods–Manufacturing and Sales | **84,861** | 74,727 | 10,134 | 13.6% |
| Overseas Foods–Wholesale | **159,754** | 138,406 | 21,347 | 15.4% |
| Adjustments | **(24,594)** | (23,208) | (1,386) | — |
| Consolidated | **¥408,372** | ¥371,339 | ¥37,033 | 10.0% |

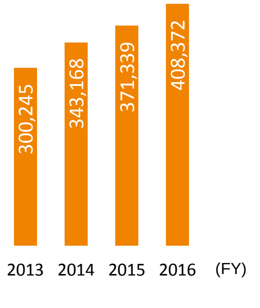
### OPERATING INCOME

Millions of yen

| | **2016** | 2015 | Change | |
|---|---|---|---|---|
| Domestic Foods–Manufacturing and Sales | **¥ 6,536** | ¥ 2,715 | ¥3,821 | 140.7% |
| Domestic Others | **1,515** | 1,035 | 479 | 46.3% |
| Overseas Foods–Manufacturing and Sales | **16,443** | 14,225 | 2,217 | 15.6% |
| Overseas Foods–Wholesale | **7,675** | 6,476 | 1,198 | 18.5% |
| Adjustments | **427** | 916 | (489) | (53.4)% |
| Consolidated | **¥32,598** | ¥25,370 | ¥7,228 | 28.5% |

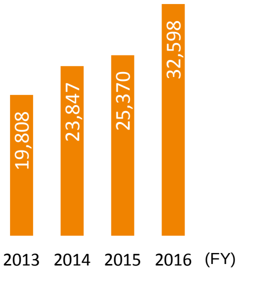
**Net Sales**

Millions of yen



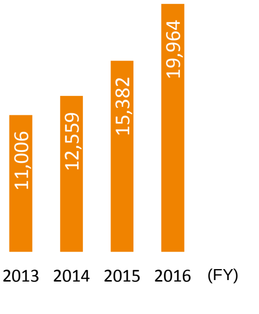

**Operating Income**

Millions of yen




**Net income attributable to owners of parent**

Millions of yen



# SEGMENT INFORMATION

## DOMESTIC

### Domestic Foods – Manufacturing and Sales

Sales in this segment rose 4.0% to ¥167,699 million and operating income increased 140.7% to ¥6,536 million, with sales and profits both rising year on year.

#### [ Soy Sauce Division ]

In Soy Sauce for the home-use sector, sales of the *Itsudemo Shinsen* series of fresh raw Soy Sauce rose steadily, reflecting growing recognition in the market of the product's added value, such as the flavor of raw Soy Sauce and the easy-to-use bottles that keep the contents fresh. Improvements to the product lineup and increased in-store and TV advertising also contributed to sales growth. Sales in the industrial and food service-use sectors also increased. As a result, sales volume and sales value both rose year on year in the Soy Sauce division.

#### [ Food Products Division ]

Sales of *tsuyu* (Soy Sauce soup base) declined overall. In the home-use sector, the launch of *Itsudemo Shinsen Dashikaoru Zeitaku Tsuyu* (always fresh, rich stock flavored *tsuyu*) contributed to sales, but unfavorable summer weather and a warm winter weighed on sales. Sales of *tare* (dipping and marinade sauces) increased year on year, supported by firm demand for products in our mainstay *Wagaya wa Yakinikuyasan* range of grilled meat sauces. Sales of *Uchi no Gohan* (handy Japanese-style seasoning mixes) increased year on year, reflecting aggressive product development, TV advertising and storefront promotion activities. In Del Monte seasonings, sales were higher than the previous fiscal year due to growth in high value-added products, such as lycopene-rich ketchup and new olive oil products in air-tight bottles that prevent oxidation. As a result, sales in the Food Products Division increased compared with the previous fiscal year.

#### [ Beverages Division ]

Sales of soy milk beverages increased year on year, reflecting sales promotion activities that drove market expansion. These activities were tied in with advertising campaigns on TV, in magazines and other media and included the use of recipe books to promote the products as food ingredients, as well as beverages, amid rising interest in healthy lifestyles.

In Del Monte beverages, sales of tomato juice declined, but sales of *Minna no Tomato / Yasai* (easy-to-drink tomato and vegetable beverages) remained firm and newly launched product *Genmai de Tsukutta Rice Milk* (brown rice milk) contributed to sales, leading to higher sales of Del Monte beverages. As a result, sales in the Beverages Division increased compared with the previous fiscal year.

### Domestic Foods–Manufacturing and Sales

This business segment manufactures and sells the products listed below in the domestic market.

| Division | Main Products |
|---|---|
| Soy Sauce Division | • Soy Sauce |
| Food Products Division | • *Tsuyu* (Soy Sauce soup base)<br>• *Tare* (dipping and marinade sauces)<br>• Handy seasoning mixes<br>• Del Monte seasonings |
| Beverages Division | • Soy milk beverages<br>• Del Monte beverages |
| Liquor and Wine Division | • *Mirin* (sweet *sake* for cooking)<br>• Wines |

### Domestic Others

This business segment covers the production and sale of clinical diagnostic reagents, hygiene inspection agents, processing enzymes and chemical products such as hyaluronic acid, as well as real estate rental, logistics and back-office support for the Kikkoman Group, and other businesses.

### Overseas Foods–Manufacturing and Sales

This business segment manufactures and sells the products listed below in overseas markets.

| Division | Main Products | Main Region |
|---|---|---|
| Soy Sauce Division | • Soy Sauce<br>• *Teriyaki* Sauce | North America, Europe, Asia/Oceania |
| Del Monte Division | • Canned fruits<br>• Canned corn<br>• Tomato ketchup | Asia and Oceania (Excluding the Philippines) |
| Other Foods Division | • Health foods | North America |

### Overseas Foods–Wholesale

This business segment purchases and sells oriental food products in Japan and overseas.

### [ Liquor and Wine Division ]

In *Hon Mirin*, sales of *Komekoji Kodawari-jikomi Honmirin* (premium sweet *sake* for cooking) remained firm, as did sales of *Kokusanmai Kodawari-jikomi Ryori no Seishu* (premium *sake* for cooking) in *sake* for cooking. Sales of flagship products in the home-use sector such as *Manjo Hojun Hon Mirin* also increased. As a result, *Hon Mirin* sales rose year on year. In domestic wines, sales of *Koshu Kobo no Awa*, the *Solaris* series and other products were firm, rising year on year. As a result, sales in the Liquor and Wine Division increased compared with the previous fiscal year.

## Domestic Others

Sales in this segment rose year on year, supported by higher sales of clinical diagnostic reagents and hyaluronic acid, as well as sales growth in the logistics business.

As a result, sales in the Domestic Others segment increased 2.5% year on year to ¥20,650 million and operating income rose 46.3% to ¥1,515 million.

**OVERSEAS**

## Overseas Foods – Manufacturing and Sales

Sales in this segment rose 13.6% year on year to ¥84,861 million and operating income increased 15.6% to ¥16,443 million.

### [ Soy Sauce Division ]

In the North American market, the division worked to expand its business by leveraging the power of the Kikkoman brand. Specifically, this included enhancing the lineup of mainstay Soy Sauce products and Soy Sauce-based seasonings for the home-use sector. In the industrial- and food service-use sectors, the division worked to accurately address customer needs. As a result, sales in both sectors were firm, supporting higher sales year on year in North America.

In the European market, sales in Russia were affected by higher prices due to the weak rouble, but sales rose overall on the back of steady growth in other key markets such as Germany, the Netherlands and Italy.

In Asia/Oceania, sales rose strongly overall, supported by sales growth in Thailand and other markets, as well as by earnings contributions from a sales subsidiary in China and a manufacturing subsidiary in Taiwan.

As a result, sales in the Soy Sauce Division increased sharply year on year, also helped by forex factors.

### [ Del Monte Division ]

Sales in the key markets of Hong Kong, China and South Korea were affected by a supply shortage of Philippines-made canned fruit, but sales overall in this division rose year on year due to forex factors.

### [ Other Foods Division ]

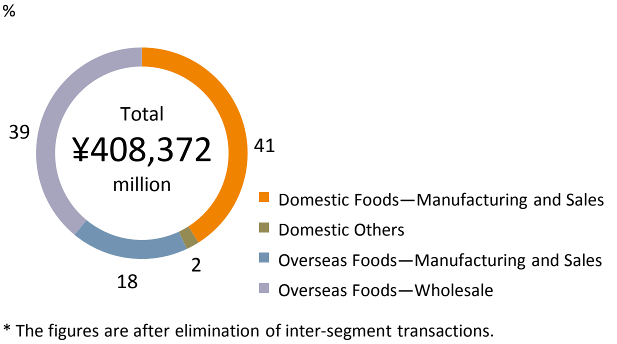
Sales in the division increased year on year, reflecting continued strong sales through general stores and medical clinics.

## Overseas Foods – Wholesale

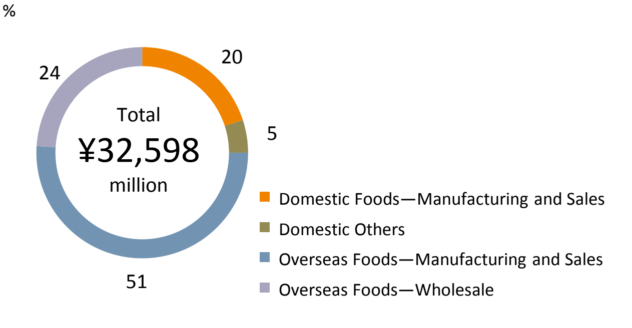
Sales in North America expanded, supported by efforts to build a stronger presence in the wider local market, in addition to the Asian American market. Also, the Japanese food market continued to grow in Europe and Asia/Oceania, contributing to steady sales in each region. As a result, sales increased compared with the previous fiscal year.

Sales in the Overseas Foods – Wholesale segment rose 15.4% year on year to ¥159,754 million and operating income increased 18.5% to ¥7,675 million.

**Net Sales Composition (Fiscal 2016)**




**Operating Income Composition (Fiscal 2016)**




* The figures are after elimination of inter-segment transactions.

## FINANCIAL POSITION

### ASSETS

Current assets as of March 31, 2016 totaled ¥146,294 million, a decline of ¥3,455 million from the end of the previous fiscal year. This mainly reflected a drop in other current assets, which outweighed an increase in trade notes and accounts receivable. Property, plant and equipment, at cost and investments and other assets totaled ¥219,376 million, a decline of ¥9,639 million from the end of the previous fiscal year, mainly reflecting declines in goodwill and net defined benefit asset.

As a result, total assets were ¥365,671 million, a decline of ¥13,095 million from the end of the previous fiscal year.

### LIABILITIES

Current liabilities as of March 31, 2016 totaled ¥57,567 million, an increase of ¥3,988 million from the end of the previous fiscal year. This was mainly attributable to increases in accrued income taxes and other accounts payable. Non-current liabilities totaled ¥82,427 million, a decrease of ¥4,328 million from the end of the previous fiscal year, mainly reflecting declines in deferred tax liabilities and long-term debt.

As a result, total liabilities were ¥139,995 million, a drop of ¥339 million from the end of the previous fiscal year.

### NET ASSETS

Net assets as of March 31, 2016 totaled ¥225,675 million, a decrease of ¥12,755 million from the end of the previous fiscal year. This was primarily attributable to the acquisition of treasury stock and decreases in foreign currency translation adjustments, capital surplus and remeasurements of defined benefit plans, net of taxes, outweighing an increase in retained earnings.

This resulted in an equity ratio of 61.2%, compared with 62.4% at the end of the previous fiscal year.

Net assets per share declined ¥50.72 to ¥1,160.05.

### CASH FLOWS

Cash and cash equivalents were ¥35,150 million as of March 31, 2016, an increase of ¥2,751 million compared with the end of the previous fiscal year.

Details of cash flow positions in each type of activity and the major contributing factors during the year under review are described below.

#### Cash Flows from Operating Activities

Net cash provided by operating activities was ¥37,661 million, an increase of ¥6,002 million from the previous fiscal year. This mainly reflected cash used for income taxes paid and increase in trade notes and accounts receivable, which were outweighed by cash provided from income before income taxes and from non-cash items such as depreciation and amortization.

#### Cash Flows from Investing Activities

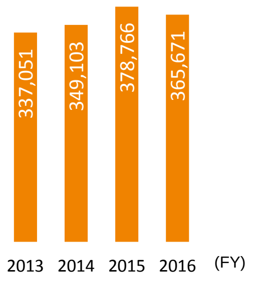
Net cash used in investing activities was ¥15,855 million, mainly reflecting cash used for the acquisition of property, plant and equipment and for payments for transfer of business.

#### Cash Flows from Financing Activities

Net cash used in financing activities was ¥17,801 million. This was primarily attributable to cash used for the acquisition of treasury stock, cash dividends paid and the repayment of debt.

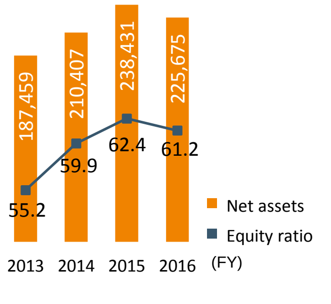
**Total Assets**

Millions of yen



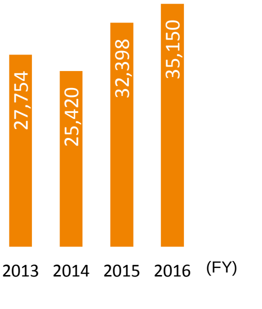

**Net Assets / Equity Ratio**

Millions of yen




**Cash and Cash Equivalents**

Millions of yen



## RISK FACTORS

Listed below are the major risks faced by the Kikkoman Group in its business activities that could have a significant impact on the decisions of investors.

### CHANGES IN THE MARKET ENVIRONMENT

The Kikkoman Group is developing business in various countries and regions worldwide, including Japan, North America, Europe and Asia, and aims for sustained business development. A decline in demand for the products and services that the Group provides, due to worsening economic conditions in particular countries where the Kikkoman Group is doing business, a change in consumers' tastes or values held in regard to products, the emergence of new business competitors, or other factors, could result in lower sales and earnings and thus adversely affect the Kikkoman Group's business results and financial position.

### CHANGES IN THE SOCIAL ENVIRONMENT

Should any disruption in business activity arise in the countries where the Group does business, due to unexpected events such as war, terrorism or changes in politics or society, it could adversely affect the Group's business results and financial position.

### NATURAL DISASTERS, EPIDEMICS AND ACCIDENTS

Should any emergency situation beyond expectation arise, such as an earthquake or other natural disaster, the wide-scale spread of an epidemic, or a major accident, resulting in damage to manufacturing, logistics, or other facilities; difficulties in the procurement of raw materials or energy; or complications in securing the required personnel, such events could reduce the Group's manufacturing and sales capabilities, and could thus lower sales and earnings.

In addition, cost increases including expenses incurred to restore facilities and the procurement cost of raw materials, energy and other resources, could adversely affect the Group's business results and financial position.

### EXCHANGE RATE FLUCTUATIONS

Kikkoman converts the financial statements of its overseas subsidiaries and other foreign domiciled entities into Japanese yen for preparing its consolidated financial statements. The line items in the financial statements of these subsidiaries and other entities are thus subject to foreign currency exchange rate fluctuations when converted into Japanese yen. In particular, where there is an appreciation of the yen against other currencies, the converted amount in yen will be lower.

Furthermore, exchange rate fluctuations could affect the provision price of products and services denominated in foreign currencies and the procurement cost of raw materials and products purchased by the Kikkoman Group.

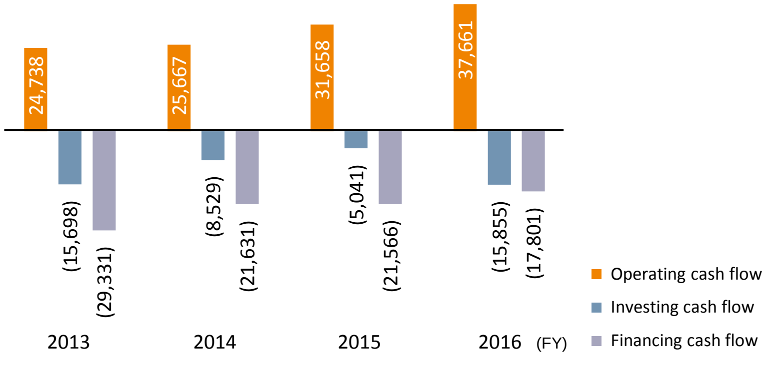
The Kikkoman Group uses various techniques to mitigate and avoid foreign currency exchange risk, but changes in currency markets could adversely affect its business results and financial position.

### FLUCTUATIONS IN RAW MATERIAL PRICES

Some raw materials used by the Kikkoman Group are subject to the effects of commodities market conditions. The soybeans, soybean meal and wheat used in the mainstay Soy Sauce products are subject to the effects of conditions in international commodities markets. Fluctuations in crude oil prices could also affect manufacturing and delivery costs for PET bottles used to package Kikkoman's products and other products. A rapid increase in market

**Cash Flows**

Millions of yen



prices for these materials could lead to higher manufacturing and delivery expenses and thus adversely affect the Kikkoman Group's business results and financial position.

### ACCOUNTING FOR IMPAIRMENT OF ASSETS

The Kikkoman Group owns a variety of assets, including real estate used in the course of business operations. Should recovery of the Group's investment in such assets become unlikely due to a decline in market value or a decrease in profitability, the assets will become liable for asset impairment accounting. This could adversely affect the Kikkoman Group's business results and financial position.

### FLUCTUATIONS IN THE MARKET VALUE OF SECURITIES

The Kikkoman Group holds marketable securities with fair market values. Should there be a significant decline in the market value of these securities, this could adversely affect the Kikkoman Group's business results and financial position.

### WEATHER

The Kikkoman Group's business portfolio includes products that are vulnerable to consumption patterns caused by the effects of the weather. In particular, a cool summer or warm winter could result in lower sales of these products, and thus adversely affect the Kikkoman Group's business results and financial position.

### ISSUES RELATED TO FOOD SAFETY

The Kikkoman Group works to strengthen its quality assurance and quality control systems based on the fundamental mission of providing high-quality products in a safe and stable manner. Nevertheless, in the event that an accident occurs in connection with one of its products, including as the result of a chance occurrence, or in the event that a situation beyond the scope of the Group's initiatives arises, this could adversely affect the Group's business results and financial position.

### INTELLECTUAL PROPERTY

The Kikkoman Group is acquiring industrial property rights, including patent rights, utility model rights, and trademarks, as necessary with respect to the technology it develops. These intellectual property rights have many advantages from an operational perspective and are thus regarded as an important management resource. However, if another company develops similar rights or technology that is superior to the Kikkoman Group's, or if the Kikkoman Group becomes involved in a dispute with another company over intellectual property rights, the Group could lose its competitive advantage, which could adversely affect its business results and financial position.

### ALLIANCES AND CORPORATE ACQUISITIONS

The Kikkoman Group has formed alliances with other companies in specific fields of business. Going forward, to utilize resources as necessary from outside the Group, the Group may form strategic alliances, including equity-based alliances and corporate acquisitions. However, the inability of the Kikkoman Group to carry out its business plan as expected after forming an alliance or conducting an acquisition could adversely affect the Group's business results and financial position.

### LAWS AND REGULATIONS

In Japan, the Kikkoman Group is subject to laws and regulations such as the Food Sanitation Law and the Product Liability Act. In addition, the Group is subject to the laws and regulations of each country in which it develops business. Changes to these and other laws and regulations in the future could restrict the Kikkoman Group's activities, and thus adversely affect its business results and financial position.

### INFORMATION AND IT SYSTEM MANAGEMENT

The Kikkoman Group operates IT systems related to operations such as product development, manufacturing, distribution and sales, and holds important information related to Group management and many corporations and individuals. The Group takes every possible step to ensure the maintenance and security of these systems in order to mitigate IT system problems and other such events, while at the same time operating a strict information management system. However, the Kikkoman Group's business results and financial position could be adversely affected by system failures or the leak or falsification of data due to events such as power failures, natural disasters, software and equipment failures, computer viruses, and unauthorized system access that have an impact which is greater than anticipated by the Group.

# Consolidated Balance Sheets

KIKKOMAN CORPORATION and Consolidated Subsidiaries

| | March 31, 2016 | March 31, 2015 | 2016 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and deposits *(Notes 4 and 15)* | ¥ 36,260 | ¥ 34,565 | $ 321,796 |
| Trade notes and accounts receivable *(Notes 7 and 15)* | 52,010 | 50,219 | 461,572 |
| Allowance for doubtful receivables | (485) | (500) | (4,304) |
| | 51,525 | 49,719 | 457,268 |
| Short-term investment securities *(Notes 4 and 5)* | 269 | 273 | 2,387 |
| Merchandise and finished goods | 31,986 | 31,442 | 283,865 |
| Work in process | 11,562 | 12,479 | 102,609 |
| Raw materials and supplies | 4,909 | 5,088 | 43,565 |
| Deferred tax assets *(Note 9)* | 3,746 | 4,178 | 33,244 |
| Other | 6,034 | 12,001 | 53,549 |
| Total current assets | 146,294 | 149,749 | 1,298,313 |
| | | | |
| Property, plant and equipment, at cost *(Note 17)*: | | | |
| Land | 22,312 | 21,093 | 198,012 |
| Buildings and structures | 99,731 | 98,562 | 885,081 |
| Machinery, equipment and vehicles | 186,172 | 187,235 | 1,652,218 |
| Leased assets | 326 | 421 | 2,893 |
| Other | 18,973 | 18,594 | 168,379 |
| Construction in progress | 2,046 | 2,061 | 18,157 |
| | 329,564 | 327,968 | 2,924,778 |
| Accumulated depreciation | (224,612) | (223,273) | (1,993,361) |
| Property, plant and equipment, net | 104,951 | 104,695 | 931,407 |
| | | | |
| Investments and other assets: | | | |
| Investment securities *(Notes 5 and 15)* | 50,530 | 50,175 | 448,438 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 38,642 | 39,274 | 342,935 |
| Goodwill | 11,275 | 17,139 | 100,062 |
| Other intangible assets | 5,289 | 5,265 | 46,938 |
| Deferred tax assets *(Note 9)* | 760 | 726 | 6,744 |
| Net defined benefit asset *(Note 8)* | 4,629 | 8,863 | 41,080 |
| Other | 3,297 | 2,875 | 29,259 |
| Total investments and other assets | 114,425 | 124,320 | 1,015,486 |
| Total assets | ¥ 365,671 | ¥ 378,766 | $ 3,245,216 |

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 3) |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Short-term bank loans *(Notes 7 and 15)* | ¥ 4,871 | ¥ 5,473 | $ 43,228 |
| Current portion of long-term debt *(Notes 6 and 15)* | 2,000 | 2,000 | 17,749 |
| Lease obligations *(Notes 6 and 12)* | 51 | 70 | 452 |
| Trade notes and accounts payable *(Note 15)* | 20,279 | 20,766 | 179,969 |
| Other accounts payable *(Note 15)* | 18,048 | 16,481 | 160,170 |
| Accrued income taxes | 2,975 | 1,078 | 26,402 |
| Accrued employees' bonuses | 2,312 | 2,238 | 20,518 |
| Accrued directors' bonuses | 105 | 90 | 931 |
| Other | 6,922 | 5,380 | 61,430 |
| Total current liabilities | 57,567 | 53,579 | 510,889 |
| Non-current liabilities: | | | |
| Long-term debt *(Notes 6 and 15)* | 59,300 | 61,300 | 526,269 |
| Lease obligations *(Notes 6 and 12)* | 58 | 82 | 514 |
| Net defined benefit liability *(Note 8)* | 5,236 | 4,530 | 46,467 |
| Accrued directors' severance benefits | 796 | 847 | 7,064 |
| Provision for environmental remediation | 457 | 480 | 4,055 |
| Deposits received | 5,179 | 5,272 | 45,962 |
| Deferred tax liabilities *(Note 9)* | 9,728 | 12,365 | 86,332 |
| Other | 1,670 | 1,878 | 14,820 |
| Total non-current liabilities | 82,427 | 86,755 | 731,514 |
| Total liabilities | 139,995 | 140,335 | 1,242,412 |
| **Contingent Liabilities** *(Note 13)* | | | |
| **Net assets** | | | |
| Shareholders' equity: | | | |
| Common stock, without par value: | | | |
| Authorized: 600,000,000 shares at March 31, 2016 and 2015 | | | |
| Issued: 210,383,202 shares at March 31, 2016 and 2015 | 11,599 | 11,599 | 102,937 |
| Capital surplus *(Note 10)* | 13,912 | 21,405 | 123,464 |
| Retained earnings *(Notes 10 and 19)* | 208,035 | 190,440 | 1,846,246 |
| Treasury stock, at cost: 17,172,168 shares at March 31, 2016 and 15,046,330 shares at March 31, 2015 | (30,833) | (20,680) | (273,633) |
| Total shareholders' equity | 202,713 | 202,765 | 1,799,014 |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized holding gain (loss) on securities, net of taxes | 18,728 | 19,103 | 166,205 |
| Deferred hedge gain (loss), net of taxes | (14) | 14 | (124) |
| Foreign currency translation adjustments | 5,203 | 13,903 | 46,175 |
| Remeasurements of defined benefit plans, net of taxes *(Note 8)* | (2,947) | 721 | (26,153) |
| Total accumulated other comprehensive income (loss) | 20,970 | 33,743 | 186,102 |
| Non-controlling interests | 1,991 | 1,922 | 17,669 |
| Total net assets | 225,675 | 238,431 | 2,002,795 |
| Total liabilities and net assets | ¥ 365,671 | ¥ 378,766 | $ 3,245,216 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Income

KIKKOMAN CORPORATION and Consolidated Subsidiaries

| | Years ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| Net sales | ¥ 408,372 | ¥ 371,339 | $ 3,624,174 |
| Cost of sales *(Notes 8 and 11)* | 248,215 | 225,378 | 2,202,831 |
| Gross profit | 160,156 | 145,960 | 1,421,334 |
| Selling, general and administrative expenses *(Notes 8 and 11)* | 127,558 | 120,590 | 1,132,037 |
| Operating income | 32,598 | 25,370 | 289,297 |
| Other income (expenses): | | | |
| Interest and dividend income | 880 | 898 | 7,809 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 984 | 1,075 | 8,732 |
| Foreign exchange gains, net | 3,427 | 150 | 30,413 |
| Interest expenses | (1,067) | (1,137) | (9,469) |
| Unrealized loss on derivatives | (2,787) | 0 | (24,733) |
| IT system transition expenses | (920) | (267) | (8,164) |
| Gain on sales of property, plant and equipment | 21 | 140 | 186 |
| Gain on sales of investment securities *(Note 5)* | – | 3,275 | – |
| Gain on sales of subsidiaries and affiliates' stocks | – | 11 | – |
| Loss on impairment of fixed assets | (553) | (3,269) | (4,907) |
| Loss on disposal of property, plant and equipment | (148) | (297) | (1,313) |
| Loss on revaluation of investment securities *(Note 5)* | (28) | – | (248) |
| Loss on revaluation of golf club memberships | (5) | (14) | (44) |
| Loss on liquidation of subsidiaries and affiliates | – | (111) | – |
| Loss on valuation of subsidiary securities | – | (152) | – |
| Special extra retirement payments | (61) | (123) | (541) |
| Other, net | (2,088) | (1,726) | (18,530) |
| Income before income taxes | 30,253 | 23,823 | 268,485 |
| Income taxes *(Note 9)*: | | | |
| Current | 10,195 | 8,066 | 90,477 |
| Deferred | (108) | 264 | (958) |
| | 10,087 | 8,330 | 89,518 |
| Net income | 20,166 | 15,492 | 178,966 |
| Net income attributable to non-controlling interests | (201) | (110) | (1,783) |
| Net income attributable to owners of parent *(Note 14)* | ¥ 19,964 | ¥ 15,382 | $ 177,174 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Comprehensive Income

KIKKOMAN CORPORATION and Consolidated Subsidiaries

| | Years ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| Net income | ¥ 20,166 | ¥ 15,492 | $ 178,966 |
| Other comprehensive income (loss): | | | |
| Unrealized holding gain (loss) on securities, net of taxes | 324 | 8,111 | 2,875 |
| Deferred hedge gain (loss), net of taxes | (49) | 30 | (434) |
| Foreign currency translation adjustments | (8,185) | 13,830 | (72,639) |
| Remeasurements of defined benefit plans, net of taxes | (3,205) | 1,813 | (28,443) |
| Share of other comprehensive income of affiliates accounted for using the equity method | (1,672) | 1,987 | (14,838) |
| Total other comprehensive income (loss) | ¥ (12,789) | ¥ 25,772 | $ (113,498) |
| Comprehensive income | ¥ 7,377 | ¥ 41,265 | $ 65,468 |
| Total comprehensive income attributable to: | | | |
| Owners of parent | ¥ 7,191 | ¥ 41,085 | $ 63,817 |
| Non-controlling interests | 185 | 180 | 1,641 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Changes in Net Assets

KIKKOMAN CORPORATION and Consolidated Subsidiaries

## Year ended March 31, 2016

*(Millions of yen)*

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Common stock (210,383,202 shares) | Capital surplus *(Note 10)* | Retained earnings *(Notes 10 and 19)* | Treasury stock | Deposit for subscriptions to treasury stock | Total shareholders' equity |
| Balance at beginning of the period | ¥ 11,599 | ¥ 21,405 | ¥ 190,440 | ¥ (20,680) | ¥ — | ¥ 202,765 |
| Cumulative effects of the change in accounting policy *(Note 2(p))* | | (7,472) | 2,327 | | | (5,145) |
| Balance at the beginning of the period after the retroactive application | 11,599 | 13,932 | 192,767 | (20,680) | — | 197,619 |
| Changes of items during the period | | | | | | |
| Cash dividends | | | (4,697) | | | (4,697) |
| Net income attributable to owners of parent | | | 19,964 | | | 19,964 |
| Purchase of treasury stock | | | | (10,154) | | (10,154) |
| Disposal of treasury stock | | 4 | | 3 | | 8 |
| Changes in treasury stock accompanying changes to holdings in unconsolidated subsidiaries and affiliates accounted for using the equity method | | | | (1) | | (1) |
| Changes in equity related to transactions with non-controlling shareholders | | (25) | | | | (25) |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | — | (20) | 15,267 | (10,152) | — | 5,094 |
| Balance at end of the period | ¥ 11,599 | ¥ 13,912 | ¥ 208,035 | ¥ (30,833) | ¥ — | ¥ 202,713 |

| | Accumulated other comprehensive income (loss) | | | | | Stock acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain (loss) on securities, net of taxes | Deferred hedge gain (loss), net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans, net of taxes *(Note 8)* | Total accumulated other comprehensive income (loss) | | | |
| Balance at beginning of the period | ¥ 19,103 | ¥ 14 | ¥ 13,903 | ¥ 721 | ¥ 33,743 | ¥ — | ¥ 1,922 | ¥ 238,431 |
| Cumulative effects of the change in accounting policy *(Note 2(p))* | | | | | | | | (5,145) |
| Balance at the beginning of the period after the retroactive application | 19,103 | 14 | 13,903 | 721 | 33,743 | — | 1,922 | 233,285 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (4,697) |
| Net income attributable to owners of parent | | | | | | | | 19,964 |
| Purchase of treasury stock | | | | | | | | (10,154) |
| Disposal of treasury stock | | | | | | | | 8 |
| Changes in treasury stock accompanying changes to holdings in unconsolidated subsidiaries and affiliates accounted for using the equity method | | | | | | | | (1) |
| Changes in equity related to transactions with non-controlling shareholders | | | | | | | | (25) |
| Net changes of items other than shareholders' equity | (375) | (29) | (8,700) | (3,668) | (12,773) | — | 69 | (12,704) |
| Total changes of items during the period | (375) | (29) | (8,700) | (3,668) | (12,773) | — | 69 | (7,609) |
| Balance at end of the period | ¥ 18,728 | ¥ (14) | ¥ 5,203 | ¥ (2,947) | ¥ 20,970 | ¥ — | ¥ 1,991 | ¥ 225,675 |

Year ended March 31, 2016 *(Thousands of U.S. dollars) (Note 3)*

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Common stock (210,383,202 shares) | Capital surplus *(Note 10)* | Retained earnings *(Notes 10 and 19)* | Treasury stock | Deposit for subscriptions to treasury stock | Total shareholders' equity |
| Balance at beginning of the period | $ 102,937 | $ 189,962 | $ 1,690,095 | $ (183,528) | $ — | $ 1,799,476 |
| Cumulative effects of the change in accounting policy *(Note 2(p))* | | (66,311) | 20,651 | | | (45,660) |
| Balance at the beginning of the period after the retroactive application | 102,937 | 123,642 | 1,710,747 | (183,528) | — | 1,753,807 |
| Changes of items during the period | | | | | | |
| Cash dividends | | | (41,684) | | | (41,684) |
| Net income attributable to owners of parent | | | 177,174 | | | 177,174 |
| Purchase of treasury stock | | | | (90,113) | | (90,113) |
| Disposal of treasury stock | | 35 | | 26 | | 70 |
| Changes in treasury stock accompanying changes to holdings in unconsolidated subsidiaries and affiliates accounted for using the equity method | | | | (8) | | (8) |
| Changes in equity related to transactions with non-controlling shareholders | | (221) | | | | (221) |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | — | (177) | 135,489 | (90,095) | — | 45,207 |
| Balance at end of the period | $ 102,937 | $ 123,464 | $ 1,846,246 | $ (273,633) | $ — | $ 1,799,014 |

| | Accumulated other comprehensive income (loss) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain (loss) on securities, net of taxes | Deferred hedge gain (loss), net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans, net of taxes *(Note 8)* | Total accumulated other comprehensive income (loss) | Stock acquisition rights | Non-controlling interests | Total net assets |
| Balance at beginning of the period | $ 169,533 | $ 124 | $ 123,384 | $ 6,398 | $ 299,458 | $ — | $ 17,057 | $ 2,116,001 |
| Cumulative effects of the change in accounting policy *(Note 2(p))* | | | | | | | | (45,660) |
| Balance at the beginning of the period after the retroactive application | 169,533 | 124 | 123,384 | 6,398 | 299,458 | — | 17,057 | 2,070,331 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (41,684) |
| Net income attributable to owners of parent | | | | | | | | 177,174 |
| Purchase of treasury stock | | | | | | | | (90,113) |
| Disposal of treasury stock | | | | | | | | 70 |
| Changes in treasury stock accompanying changes to holdings in unconsolidated subsidiaries and affiliates accounted for using the equity method | | | | | | | | (8) |
| Changes in equity related to transactions with non-controlling shareholders | | | | | | | | (221) |
| Net changes of items other than shareholders' equity | (3,328) | (257) | (77,209) | (32,552) | (113,356) | — | 612 | (112,744) |
| Total changes of items during the period | (3,328) | (257) | (77,209) | (32,552) | (113,356) | — | 612 | (67,527) |
| Balance at end of the period | $ 166,205 | $ (124) | $ 46,175 | $ (26,153) | $ 186,102 | $ — | $ 17,669 | $ 2,002,795 |

Year ended March 31, 2015 *(Millions of yen)*

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Common stock (210,383,202 shares) | Capital surplus *(Note 10)* | Retained earnings *(Notes 10 and 19)* | Treasury stock | Deposit for subscriptions to treasury stock | Total shareholders' equity |
| Balance at beginning of the period | ¥ 11,599 | ¥ 21,377 | ¥ 178,260 | ¥ (10,121) | ¥ 10 | ¥ 201,126 |
| Cumulative effects of the change in accounting policy | | | 806 | | | 806 |
| Balance at the beginning of the period after the retroactive application | 11,599 | 21,377 | 179,066 | (10,121) | 10 | 201,932 |
| Changes of items during the period | | | | | | |
| Cash dividends | | | (4,008) | | | (4,008) |
| Net income attributable to owners of parent | | | 15,382 | | | 15,382 |
| Purchase of treasury stock | | | | (10,659) | | (10,659) |
| Disposal of treasury stock | | 28 | | 100 | (10) | 118 |
| Net changes of items other than shareholders' equity | | | | | | |
| Total changes of items during the period | — | 28 | 11,373 | (10,558) | (10) | 832 |
| Balance at end of the period | ¥ 11,599 | ¥ 21,405 | ¥ 190,440 | ¥ (20,680) | ¥ — | ¥ 202,765 |

| | Accumulated other comprehensive income (loss) | | | | | Stock acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain (loss) on securities, net of taxes | Deferred hedge gain (loss), net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans, net of taxes *(Note 8)* | Total accumulated other comprehensive income (loss) | | | |
| Balance at beginning of the period | ¥ 9,623 | ¥ 3 | ¥ (285) | ¥ (1,300) | ¥ 8,040 | ¥ 36 | ¥ 1,203 | ¥ 210,407 |
| Cumulative effects of the change in accounting policy | | | | | | | | 806 |
| Balance at the beginning of the period after the retroactive application | 9,623 | 3 | (285) | (1,300) | 8,040 | 36 | 1,203 | 211,213 |
| Changes of items during the period | | | | | | | | |
| Cash dividends | | | | | | | | (4,008) |
| Net income attributable to owners of parent | | | | | | | | 15,382 |
| Purchase of treasury stock | | | | | | | | (10,659) |
| Disposal of treasury stock | | | | | | | | 118 |
| Net changes of items other than shareholders' equity | 9,480 | 11 | 14,189 | 2,021 | 25,702 | (36) | 719 | 26,385 |
| Total changes of items during the period | 9,480 | 11 | 14,189 | 2,021 | 25,702 | (36) | 719 | 27,217 |
| Balance at end of the period | ¥ 19,103 | ¥ 14 | ¥ 13,903 | ¥ 721 | ¥ 33,743 | ¥ — | ¥ 1,922 | ¥ 238,431 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Cash Flows

KIKKOMAN CORPORATION and Consolidated Subsidiaries

| | Years ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 3)* |
| **Cash flows from operating activities** | | | |
| Income before income taxes | ¥ 30,253 | ¥ 23,823 | $ 268,485 |
| Depreciation and amortization | 11,936 | 12,901 | 105,928 |
| Loss on impairment of fixed assets | 553 | 3,269 | 4,907 |
| Increase (decrease) in net defined benefit liability | 215 | 1,456 | 1,908 |
| Increase (decrease) in accrued directors' severance benefits | (50) | (50) | (443) |
| Interest and dividend income | (880) | (898) | (7,809) |
| Interest expenses | 1,067 | 1,137 | 9,469 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (984) | (1,075) | (8,732) |
| Gain on sales of property, plant and equipment | (52) | (151) | (461) |
| Gain on sales of investment securities *(Note 5)* | (1) | (3,275) | (8) |
| Loss on revaluation of investment securities | 28 | – | 248 |
| Loss on disposal of property, plant and equipment | 511 | 554 | 4,534 |
| (Increase) decrease in trade notes and accounts receivable | (3,183) | (109) | (28,248) |
| (Increase) decrease in inventories | (933) | (3,201) | (8,280) |
| Increase (decrease) in trade notes and accounts payable | 590 | 538 | 5,236 |
| Other | 6,386 | 6,946 | 56,673 |
| Subtotal | 45,455 | 41,864 | 403,399 |
| Interest and dividends received | 1,376 | 1,443 | 12,211 |
| Interest paid | (1,022) | (947) | (9,069) |
| Income taxes paid | (8,147) | (10,700) | (72,302) |
| Net cash provided by operating activities | 37,661 | 31,658 | 334,229 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | (13,011) | (11,379) | (115,468) |
| Proceeds from sales of property, plant and equipment | 89 | 277 | 789 |
| Acquisition of intangible assets | (605) | (1,405) | (5,369) |
| Acquisition of investment securities | (744) | (881) | (6,602) |
| Proceeds from sales of investment securities | 2 | 6,527 | 17 |
| Payments for transfer of business | (1,876) | – | (16,648) |
| Purchase of investments in subsidiary accompanied by change in scope of consolidation | (71) | – | (630) |
| Addition to loans receivable | (582) | (502) | (5,165) |
| Collection of loans receivable | 429 | 952 | 3,807 |
| Other | 516 | 1,369 | 4,579 |
| Net cash used in investing activities | (15,855) | (5,041) | (140,708) |
| **Cash flows from financing activities** | | | |
| Increase (decrease) in short-term bank loans | (558) | (4,975) | (4,952) |
| Proceeds from long-term debt | – | 300 | — |
| Repayment of long-term debt | (2,000) | (2,600) | (17,749) |
| Proceeds from exercise of stock options | – | 92 | — |
| Acquisition of treasury stock | (10,262) | (10,134) | (91,072) |
| Cash dividends paid | (4,697) | (4,008) | (41,684) |
| Cash dividends paid to non-controlling shareholders | (119) | (97) | (1,056) |
| Payments for changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (25) | – | (221) |
| Other | (138) | (143) | (1,224) |
| Net cash used in financing activities | (17,801) | (21,566) | (157,978) |
| Effect of exchange rate changes on cash and cash equivalents | (1,080) | 1,927 | (9,584) |
| Net increase (decrease) in cash and cash equivalents | 2,923 | 6,978 | 25,940 |
| Cash and cash equivalents at beginning of the year | 32,398 | 25,420 | 287,522 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | (172) | – | (1,526) |
| Cash and cash equivalents at end of the year *(Note 4)* | ¥ 35,150 | ¥ 32,398 | $ 311,945 |

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

KIKKOMAN CORPORATION and Consolidated Subsidiaries

**1. Basis of Preparation**

KIKKOMAN CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, 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.

The consolidated financial statements for the previous fiscal year have been reclassified to conform to the current year's presentation.

**2. Summary of Significant Accounting Policies**

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

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. In addition, companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

All significant inter-company balances and transactions have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost.

Differences between the acquisition costs and the underlying net equities in investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheets and amortized using the straight-line method over their estimated useful lives or a period of five years. Any immaterial amounts are charged or credited to income in the year of acquisition.

(b) Foreign currency translation

Income and expenses in foreign currencies are translated at the rates prevailing at the time of the transaction. Except as noted in (n) Derivatives below, all monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end rates. Resulting exchange gains or losses are charged or credited to income for the year.

Revenue and expense accounts of foreign consolidated subsidiaries are translated at the average exchange rates in effect during the year. Except for shareholders' equity, the balance sheet accounts of foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising on translation are presented as foreign currency translation adjustments or non-controlling interests as a separate component of net assets.

(c) Cash equivalents

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Securities

Marketable securities classified as other securities are carried at fair value with any unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is mainly determined by the moving average method.

(e) Inventories

Inventories are mainly stated at cost determined by the periodic average method.

In cases where the profitability has declined, the book value is reduced accordingly.

(f) Depreciation and amortization

Property, plant and equipment (excluding leased assets) are depreciated mainly by the straight-line method over their estimated useful lives.

Intangible assets (excluding leased assets) are amortized by the straight-line method over their estimated useful lives. Software for internal use is amortized over an estimated useful life of 5 years.

The straight-line method is adopted for depreciation of leased assets, with the lease period set as the useful life and the residual value as zero.

(g) Allowance for doubtful receivables
The allowance for doubtful receivables is calculated based on the prior loss experience and the estimated amount of probable individual bad debts at the balance sheet date.

(h) Accrued employees' and directors' bonuses
Accrued employees' and directors' bonuses are provided based on the estimated amounts to be paid.

(i) Employee retirement benefits
(1) Attribution of expected retirement benefits to periods of service
In calculation of retirement benefit obligations, the benefit formula basis is used for attributing expected retirement benefits to periods of service.
(2) Amortization of actuarial gains/losses and prior service costs
Prior service cost is amortized by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the active participants in the plans.
The adjustment made during the fiscal year arising from revisions to actuarial assumptions (the "actuarial gain or loss") is amortized by the straight-line method beginning the following fiscal year over a period of 10 years, which is shorter than the average remaining years of service of the active participants in the plans.

(j) Accrued directors' severance benefits
Certain directors, corporate auditors and corporate officers of the Company and certain domestic consolidated subsidiaries are entitled to lump-sum payments under their respective unfunded retirement allowance plans. Provision for retirement allowances for these officers has been made at the estimated amount which would be paid if all directors, corporate auditors and corporate officers resigned as of the balance sheet date.

(k) Provision for environmental remediation
In preparation for payments relating to disposal of polychlorinated biphenyl (PCB) and other wastes under the "Law Concerning Special Measures Against PCB Waste," a provision for environmental remediation has been made for the estimated costs to be incurred.

(l) Income taxes
Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.
The Company and certain domestic consolidated subsidiaries apply the Japanese consolidated taxation system.

(m) Research and development costs
Research and development costs are charged to income as incurred.

(n) Derivatives
The Company and its consolidated subsidiaries utilize derivative financial instruments for the purpose of hedging their exposure to adverse fluctuations in foreign currency exchange rates but not for speculative purposes. Derivatives are stated at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a separate component of accumulated other comprehensive income, net of taxes. Payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates.

(o) Appropriation of retained earnings
Under the Corporation Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The financial statements for that period do not, therefore, reflect such appropriations.

(p) Changes in accounting policies
Application of Accounting Standard for Business Combinations and other standards
The Company and its domestic subsidiaries adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21 of September 13, 2013; (hereinafter, "the Accounting Standard for Business Combinations")), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 of September 13, 2013;

(hereinafter, “the Accounting Standard for Consolidated Financial Statements”)), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7 of September 13, 2013; (hereinafter, as “the Accounting Standard for Business Divestitures”))(together, the “Business Combinations Accounting Standards”), from the consolidated fiscal year ended March 31, 2016.

Based on these standards, differences arising from changes in the Company’s ownership interest in subsidiaries that continue to be in its control are recognized in capital surplus, and acquisition related expenses are now recorded as expenses in the consolidated fiscal year in which the expenses are incurred. In addition, for business combinations conducted after the beginning of the consolidated fiscal year ended March 31, 2016, revisions to the purchase price allocation following determination of provisional accounting are now reflected in the consolidated financial statements for the consolidated fiscal year in which the business combination occurs. Also, the Company changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests”. The Company has revised the financial statements for the previous consolidated fiscal year to confirm to the changes in the current year presentation.

With regard to the application of the Accounting Standard for Business Combinations and other standards, the Company followed the transitional treatment stated in paragraph 58-2 (3) of the Accounting Standard for Business Combinations, paragraph 44-5 (3) of the Accounting Standard for Consolidated Financial Statements, and paragraph 57-4 (3) of the Accounting Standard for Business Divestitures. Capital surplus and retained earnings have been adjusted by retrospectively applying the new accounting policy to all past terms and reflecting the cumulative effect to the beginning of the consolidated fiscal year ended March 31, 2016.

As a result, at the beginning of the consolidated fiscal year ended March 31, 2016, goodwill and capital surplus decreased by ¥5,145 million ($45,660 thousand) and ¥7,472 million ($66,311 thousand), respectively, and retained earnings increased by ¥2,327 million ($20,651 thousand). Operating income, ordinary income and income before income taxes for the consolidated fiscal year ended March 31, 2016 all increased by ¥388 million ($3,443 thousand).

The effect of this change on per share information is explained in the corresponding section.

(q) Changes in accounting policy that are difficult to distinguish from changes in accounting estimates

Change in depreciation method of property, plant and equipment

The Company and certain consolidated domestic subsidiaries previously mainly used the declining-balance method for depreciation of property, plant and equipment (except for buildings (excluding additional facilities) acquired on or after April 1, 1998, which were depreciated using the straight-line method). From the consolidated fiscal year ended March 31, 2016, the straight-line method is applied for depreciation of all items of property, plant and equipment.

The Company and its consolidated domestic subsidiaries have overhauled their production system and completed a cycle of capital investment, and therefore expect future investments to develop more steadily. Manufacturing of soy sauce, the Company’s flagship product, has also stabilized due to recent measures, which implies steady operation of facilities in the future. These factors of capital investment and demand forecast form the basis of the new medium-term management plan, which began in the fiscal year ended March 31, 2016. As a result, the Company reviewed the depreciation method for property, plant and equipment and concluded that the straight-line method is more appropriate.

As a result of this change, depreciation for the consolidated fiscal year ended March 31, 2016 decreased by ¥1,155 million ($10,250 thousand) compared to the amounts based on the previous method, while operating income increased by ¥965 million ($8,564 thousand). Both ordinary income and income before income taxes increased by ¥980 million ($8,697 thousand).

(r) Accounting Standards issued but not yet adopted

“Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No. 26”)

(1) Overview

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

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

(2) Effective date

Effective from consolidated fiscal years beginning on or after April 1, 2016.

(3) Effects of application of Guidance No. 26

The Company and its domestic consolidated subsidiaries are in the process of evaluating the effect of application of the revised implementation guidance on the consolidated financial statements.

(s) Changes in presentation

Changes in the consolidated statements of income

The following changes in presentation have been made due to changes in materiality of the accounts:

1) "Foreign exchange gains, net" included in "Other, net" in "Other income (expenses)" for the year ended March 31, 2015 is presented as a separate account for the year ended March 31, 2016;
2) "Unrealized gain on derivatives" in "Other income (expenses)" was presented as a separate account for the year ended March 31, 2015, but is included in "Other, net" in "Other income (expenses)" for the year ended March 31, 2016;
3) "Unrealized loss on derivatives" and "IT system transition expenses" included in "Other, net" in "Other income (expenses)" for the year ended March 31, 2015 are presented as separate accounts for the year ended March 31, 2016.
4) "Foreign exchange losses, net" in "Other income (expenses)" was presented as a separate account for the year ended March 31, 2015, but is included in "Other, net" in "Other income (expenses)" for the year ended March 31, 2016.

The consolidated financial statements for the year ended March 31, 2015 have been reclassified to conform to the presentation used for the year ended March 31, 2016.

As a result, "Unrealized gain on derivatives" of ¥4,849 million and "Foreign exchange losses, net" of ¥5,365 million for the year ended March 31, 2015 were reclassified to "Other, net" loss in "Other income (expenses)," and "Foreign exchange gains, net" of ¥150 million, "Unrealized loss on derivatives" of ¥0 million and "IT system transition expenses" of ¥267 million, which were presented in "Other, net" loss for the year ended March 31, 2015, have been presented as separate accounts in "Other income (expenses)."

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation, at the rate of ¥112.68 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2016. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Cash and Cash Equivalents

The components of cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2016 and 2015 were as follows:

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and deposits | ¥36,260 | ¥34,565 | $321,796 |
| Short-term investment securities | 269 | 273 | 2,387 |
| Time deposits with maturities of more than three months | (1,379) | (2,440) | (12,238) |
| Cash and cash equivalents | ¥35,150 | ¥32,398 | $311,945 |

### 5. Fair Value of Securities

As of March 31, 2016 and 2015, the Company and its consolidated subsidiaries did not possess any securities classified as trading securities and held-to-maturity securities. Securities classified as other securities are included in "Short-term investment securities" and "Investments securities" in the accompanying consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities as of March 31, 2016 and 2015 are summarized as follows:

| | March 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Acquisition costs | Carrying value | Unrealized gain (loss) | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | |
| Unrealized gain: | | | | | | |
| Stocks | ¥14,372 | ¥ 41,044 | ¥ 26,671 | $127,547 | $364,252 | $236,696 |
| Unrealized loss: | | | | | | |
| Stocks | 4,435 | 3,705 | (729) | 39,359 | 32,880 | (6,469) |
| Other | 269 | 269 | – | 2,387 | 2,387 | – |
| | 4,705 | 3,975 | (729) | 41,755 | 35,276 | (6,469) |
| Total | ¥ 19,078 | ¥ 45,020 | ¥ 25,941 | $169,311 | $399,538 | $230,218 |

| | March 31, 2015 | | |
|---|---|---|---|
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| | | *(Millions of yen)* | |
| Unrealized gain: | | | |
| Stocks | ¥15,582 | ¥ 42,278 | ¥ 26,695 |
| Unrealized loss: | | | |
| Stocks | 3,221 | 2,562 | (658) |
| Other | 273 | 273 | – |
| | 3,495 | 2,836 | (658) |
| Total | ¥ 19,077 | ¥ 45,114 | ¥ 26,037 |

Proceeds from sales of securities classified as other securities amounted to ¥2 million ($17 thousand) with an aggregate gain on sales of ¥1 million ($8 thousand) for the year ended March 31, 2016.
Proceeds from sales of securities classified as other securities amounted to ¥6,437 million with an aggregate gain on sales of ¥3,275 million and aggregate loss on sales of ¥1 million for the year ended March 31, 2015.

## 6. Long-Term Debt and Credit Facilities

Long-term debt and lease obligations as of March 31, 2016 and 2015 consisted of the following:

| | March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2016** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| 1.88% unsecured bonds, payable in yen, due 2017 | ¥ 20,000 | ¥ 20,000 | $ 177,493 |
| 1.312% unsecured bonds, payable in yen, due 2021 | 30,000 | 30,000 | 266,240 |
| Loans from banks | 11,300 | 13,300 | 100,283 |
| Lease obligations | 110 | 152 | 976 |
| | 61,410 | 63,452 | 544,994 |
| Less: Current portion | 2,051 | 2,070 | 18,201 |
| | ¥ 59,358 | ¥ 61,382 | $ 526,783 |

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2016 are summarized as follows:

| Years ending March 31, | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2017 | ¥ 2,051 | $ 18,201 |
| 2018 | 22,034 | 195,544 |
| 2019 | 7,316 | 64,927 |
| 2020 | 8 | 70 |
| 2021 and thereafter | 30,000 | 266,240 |
| | ¥ 61,410 | $ 544,994 |

The Company and its consolidated subsidiaries have lines of credit from banks that provided for up to ¥67,131 million ($595,766 thousand) and ¥65,080 million in borrowings as of March 31, 2016 and 2015, respectively. There were ¥4,112 million ($36,492 thousand) and ¥4,820 million of short-term bank loans outstanding under these credit facilities as of March 31, 2016 and 2015, respectively.

**7. Pledged Assets**

The assets pledged as collateral for short-term bank loans as of March 31, 2016 and 2015 were as follows:

| | March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2016** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Trade notes and accounts receivable | ¥563 | ¥600 | $4,996 |

**8. Employee Retirement Benefits**

The Company and certain consolidated subsidiaries have funded and unfunded defined benefit plans and defined contribution plans for benefit payments to their employees.
With defined benefit corporate pension plans (all funded plans), a lump-sum payment or pension will be provided on a points' basis by the Company and main domestic subsidiaries, and according to basic rates of pay and length of service by other subsidiaries.
In retirement lump-sum plans (which include unfunded plans and funded plans as a result of setting up employee pension trusts), lump-sum payments are provided as retirement benefits on a points' basis by the Company and main domestic subsidiaries, and according to basic rates of pay and service length by other subsidiaries.
For defined benefit corporate pension plans and retirement lump-sum plans offered by certain consolidated subsidiaries, net defined benefit liability and retirement benefit costs are calculated according to a simplified method.
The disclosures for defined benefit plans included in the tables below include plans to which a simplified method has been applied.

(a) Defined benefit plans

(1) Reconciliation of the balance of retirement benefit obligations at beginning and end of the period

| | March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2016** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Balance of retirement benefit obligations at beginning of the period | ¥37,214 | ¥35,071 | $330,262 |
| Cumulative effects of the change in accounting policy | – | (1,178) | – |
| Balance at the beginning of the period after the retroactive application | 37,214 | 33,892 | 330,262 |
| Service cost | 1,307 | 1,173 | 11,599 |
| Interest cost | 529 | 561 | 4,694 |
| Actuarial loss | 2,344 | 1,847 | 20,802 |
| Retirement benefits paid | (2,795) | (2,170) | (24,804) |
| Prior service cost | – | (156) | – |
| Increase from changes in the scope of consolidation | – | 897 | – |
| Other | (310) | 1,168 | (2,751) |
| Balance of retirement benefit obligations at end of the period | ¥38,290 | ¥37,214 | $339,811 |

(2) Reconciliation of the balance of plan assets at beginning and end of the period

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance of plan assets at beginning of the period | ¥41,547 | ¥36,578 | $368,716 |
| Expected return on plan assets | 971 | 944 | 8,617 |
| Actuarial gain (loss) | (2,911) | 3,869 | (25,834) |
| Employer contributions | 986 | 847 | 8,750 |
| Retirement benefits paid | (2,608) | (2,015) | (23,145) |
| Increase from changes in the scope of consolidation | – | 610 | – |
| Other | (303) | 711 | (2,689) |
| Balances of plan assets at end of the period | ¥37,682 | ¥41,547 | $334,416 |

(3) Reconciliation of the balances of retirement benefit obligations and plan assets to net amount recorded on the consolidated balance sheets

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Retirement benefit obligations of funded pension plans | ¥ 36,792 | ¥ 35,747 | $ 326,517 |
| Plan assets | (37,682) | (41,547) | (334,416) |
| | (889) | (5,800) | (7,889) |
| Retirement benefit obligations of unfunded pension plans | 1,497 | 1,466 | 13,285 |
| Net amount recorded on the consolidated balance sheet | 607 | (4,333) | 5,386 |
| | | | |
| Amounts recorded on the consolidated balance sheet: | | | |
| Net defined benefit liability | 5,236 | 4,530 | 46,467 |
| Net defined benefit asset | (4,629) | (8,863) | (41,080) |
| Net amount recorded on the consolidated balance sheet | ¥ 607 | ¥ (4,333) | $ 5,386 |

(4) Retirement benefit cost

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Service cost | ¥ 1,307 | ¥ 1,173 | $ 11,599 |
| Interest cost | 529 | 561 | 4,694 |
| Expected return on plan assets | (971) | (944) | (8,617) |
| Amortization of net actuarial loss | 471 | 578 | 4,179 |
| Amortization of prior service cost | (13) | (5) | (115) |
| Other | 166 | 177 | 1,473 |
| Retirement benefit costs relating to defined benefit plans | ¥ 1,490 | ¥ 1,540 | $ 13,223 |

(5) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans (before deducting tax effect) is as follows:

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Prior service cost | ¥ (13) | ¥ 151 | $ (115) |
| Actuarial gain (loss) | (4,636) | 2,298 | (41,143) |
| Total | ¥ (4,649) | ¥ 2,449 | $ (41,258) |

(6) Accumulated remeasurements of defined benefit plans

The breakdown of accumulated remeasurements of defined benefit plans (before deducting tax effect) is as follows:

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrecognized prior service cost | ¥ 144 | ¥ 157 | $ 1,277 |
| Unrecognized actuarial gain (loss) | (4,682) | (46) | (41,551) |
| Total | ¥ (4,538) | ¥ 111 | $ (40,273) |

(7) Plan assets

*Breakdown of major plan assets*

The ratio of each main category to the total plan assets is as follows:

| | March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Stock | 42% | 47% |
| Debt securities | 22% | 20% |
| General life insurance accounts | 19% | 19% |
| Other | 17% | 14% |
| Total | 100% | 100% |

Note: 26% and 30% as of March 31, 2016 and 2015, respectively, of the total plan assets are assets contributed to a retirement benefit trust for retirement lump-sum plans.

*Method for determining expected long-term rate of return*

In determining the expected long-term rate of return on plan assets, the Company considers the current and projected plan asset allocations, as well as the current and expected long-term rates of return on various assets constituting plan assets.

(8) Actuarial assumptions

The main actuarial assumptions as of the end of the fiscal year (presented as a weighted average) are as follows:

| | March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | Mainly 0.3% | Mainly 0.8% |
| Long-term expected return on assets | Mainly 2.0 – 2.5% | Mainly 2.0 – 2.5% |

(b) Defined contribution plans

The Company and certain consolidated subsidiaries' contributions for defined contribution plans were ¥993 million ($8,812 thousand) and ¥771 million for the years ended March 31, 2016 and 2015, respectively.

## 9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitant tax and enterprise tax which, in the aggregate, resulted in a statutory tax rates of approximately 32.1% and 35.5% for the years ended March 31, 2016 and 2015, respectively.

Income taxes of foreign consolidated subsidiaries are generally based on the tax rates applicable in their countries of incorporation.

(a) Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015

| | March 31, 2016 | March 31, 2015 | 2016 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Inventories | ¥ 256 | ¥ 368 | $ 2,271 |
| Loss on impairment of property, plant and equipment | 5,179 | 5,261 | 45,962 |
| Other accounts payable | 1,853 | 1,906 | 16,444 |
| Allowance for doubtful receivables | 286 | 291 | 2,538 |
| Accrued employees' bonus | 707 | 717 | 6,274 |
| Accrued pension and severance costs | 3,782 | 1,645 | 33,564 |
| Unrealized profit | 565 | 576 | 5,014 |
| Other | 3,175 | 3,748 | 28,177 |
| Valuation allowance | (3,399) | (3,792) | (30,165) |
| Total deferred tax assets | 12,407 | 10,722 | 110,108 |
| Deferred tax liabilities: | | | |
| Depreciation | (5,163) | (4,888) | (45,820) |
| Deferred capital gain | (1,455) | (1,560) | (12,912) |
| Gain on establishment of pension trust fund | (1,560) | (1,639) | (13,844) |
| Unrealized holding gains on securities | (7,990) | (8,470) | (70,908) |
| Adjustment for change in measurement of inventories | – | (118) | – |
| Other | (1,526) | (1,584) | (13,542) |
| Total deferred tax liabilities | (17,697) | (18,261) | (157,055) |
| Deferred tax assets (liabilities), net | ¥ (5,289) | ¥ (7,539) | $ (46,938) |

(b) Reconciliations of the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2016 and 2015 are not disclosed because the differences between the two tax rates were less than 5% of the statutory tax rate.

(c) Adjustment to deferred tax assets and liabilities due to change in corporate tax rates

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Taxation were enacted on March 29, 2016, and as a result the corporate tax rates were amended. Based on the amendments, the statutory tax rate used for calculation of deferred tax assets and liabilities as of March 31, 2016 was reduced from 32.1% to 30.7% for temporary differences that are expected to reverse in the consolidated fiscal year beginning from April 1, 2016 and 2017 and to 30.5% for temporary differences that are expected to reverse in or after the consolidated fiscal year beginning on April 1, 2018.

The effect of these amendments on the consolidated financial statements as of and for the year ended March 31, 2016 was immaterial.

**10. Capital Surplus and Retained Earnings**

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of common stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distribution.

**11. Research and Development Costs**

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were ¥3,662 million ($32,499 thousand) and ¥3,598 million, respectively.

## 12. Leases

(a) Finance leases
Finance leases, except for leases under which the ownership of the leased assets is considered to be transferred to the lessee, whose inception dates were on or before March 31, 2008, are accounted for in the same manner as operating leases. The details are omitted due to immateriality.

(b) Operating leases
As lessee:
Future minimum lease payments subsequent to March 31, 2016 and 2015 for non-cancelable operating leases are summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Within 1 year | ¥ 2,499 | ¥ 2,806 | $ 22,177 |
| Over 1 year | 10,661 | 12,328 | 94,613 |
| | ¥ 13,160 | ¥ 15,134 | $ 116,790 |

## 13. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities as of March 31, 2016 and 2015:

| | March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| As guarantor of indebtedness of: | | | |
| Unconsolidated subsidiaries | ¥ 261 | ¥ 847 | $ 2,316 |
| Others | 116 | 102 | 1,029 |
| | ¥ 377 | ¥ 949 | $ 3,345 |
| Contingent liabilities related to the reduction of corporate bonds by debt assumption | ¥ – | ¥ 20,000 | $ – |

## 14. Amounts Per Share

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. Diluted net income per share has been omitted for the year ended March 31, 2016 because no potentially dilutive instruments were outstanding during the year.
Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.
Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal years.
As described in Note 2 (p), "Changes in accounting policies," the Company has adopted the Accounting Standard for Business Combinations and other standards following the transitional treatment stated in paragraph 58-2 (3) of the Accounting Standard for Business Combinations, paragraph 44-5 (3) of the Accounting Standard for Consolidated Financial Statements, and paragraph 57-4 (3) of the Accounting Standard for Business Divestitures from the consolidated fiscal year ended March 31, 2016. Capital surplus and retained earnings have been adjusted by retrospectively applying the new accounting policy to all past terms and reflecting the cumulative effect to the beginning of the consolidated fiscal year ended March 31, 2016. As a result, net assets per share decreased by ¥24.67 ($0.21) as of March 31, 2016 and net income per share increased by ¥2.00 ($0.01) for the year ended March 31, 2016.

| | As of and for the years ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| | *(Yen)* | | *(U.S. dollars)* |
| Net income: | | | |
| Basic | ¥ 102.67 | ¥ 78.20 | $ 0.91 |
| Diluted | — | 78.19 | — |
| Net assets | 1,160.05 | 1,210.77 | 10.29 |
| Cash dividends applicable to the year | 32.00 | 24.00 | 0.28 |

## 15. Financial Instruments

(a) Policy for financial instruments

In light of plans for capital investment, the Company and its subsidiaries mainly raise the funds required through bank loans and bond issuance. The Company and its subsidiaries manage temporary fund surpluses through financial assets that have a high level of liquidity. Further, the Company and its subsidiaries raise short-term working capital through bank loans. Derivative transactions are used in order to mitigate risk as described below, such that speculative transactions are not undertaken based on the Company's policy.

Trade receivables (trade notes and accounts receivable) are exposed to credit risk in relation to customers. Each operating department and the accounting department performs periodic monitoring of the financial condition of major customers, manages due dates and balances, and obtains a prompt understanding and attempts to mitigate the risk of uncollectable receivables in the event of deterioration in customers' financial condition.

Investment securities are exposed to variable risks associated with market prices. The Company performs periodic monitoring of the financial condition of the issuers for marketable investment securities. A continuing review of the holding of securities, other than held-to-maturity securities, is performed by taking into consideration the market as well as the relationship with the trading counterparties.

Accounts payable have payment due dates mostly within two months. Loans payable and bonds primarily are raised for capital investment and have payment due dates within seven years and nine months at the longest.

Derivative transactions consist of foreign exchange forward contracts entered into in order to hedge currency-associated variable risks that arise from foreign currency-denominated operating receivables and payables, and interest rate swap transactions to hedge variable risk of interest related to loans payable. Enforcement and management of derivative transactions is performed by obtaining the appropriate personnel approval under the administrative procedures for trading authority and budget limits. Derivative transactions are not subject to significant credit risk since the trading counterparties are limited to financial institutions with high credit ratings.

(b) Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value and differences between carrying value and fair value for financial instruments as of March 31, 2016 and 2015 are set out below. The following tables do not include financial instruments for which fair values are difficult to determine.

| As of March 31, 2016 | Carrying amount | Fair value | Difference |
|---|---|---|---|
| | | *(Millions of yen)* | |
| (1) Cash and deposits | ¥ 36,260 | ¥ 36,260 | ¥ – |
| (2) Trade notes and accounts receivable | 52,010 | 52,010 | – |
| (3) Investment securities | 45,020 | 45,020 | – |
| Total assets | 133,291 | 133,291 | – |
| (1) Trade notes and accounts payable | 20,279 | 20,279 | – |
| (2) Other accounts payable | 18,048 | 18,048 | – |
| (3) Short-term bank loans (*2) | 4,871 | 4,871 | – |
| (4) Bonds | 50,000 | 53,031 | 3,031 |
| (5) Long-term bank loans (*2) | 11,300 | 11,700 | 400 |
| Total liabilities | 104,499 | 107,930 | 3,431 |
| Derivatives (*1) | ¥ (766) | ¥ (766) | ¥ – |

| As of March 31, 2016 | Carrying amount | Fair value | Difference |
|---|---|---|---|
| | | *(Thousands of U.S. dollars)* | |
| (1) Cash and deposits | $ 321,796 | $ 321,796 | $ – |
| (2) Trade notes and accounts receivable | 461,572 | 461,572 | – |
| (3) Investment securities | 399,538 | 399,538 | – |
| Total assets | 1,182,916 | 1,182,916 | – |
| (1) Trade notes and accounts payable | 179,969 | 179,969 | – |
| (2) Other accounts payable | 160,170 | 160,170 | – |
| (3) Short-term bank loans (*2) | 43,228 | 43,228 | – |
| (4) Bonds | 443,734 | 470,633 | 26,899 |
| (5) Long-term bank loans (*2) | 100,283 | 103,833 | 3,549 |
| Total liabilities | 927,396 | 957,845 | 30,449 |
| Derivatives (*1) | $ (6,798) | $ (6,798) | $ – |

| As of March 31, 2015 | Carrying amount | Fair value | Difference |
|---|---|---|---|
| | | *(Millions of yen)* | |
| (1) Cash and deposits | ¥ 34,565 | ¥ 34,565 | ¥ – |
| (2) Trade notes and accounts receivable | 50,219 | 50,219 | – |
| (3) Investment securities | 45,114 | 45,114 | – |
| Total assets | 129,900 | 129,900 | – |
| (1) Trade notes and accounts payable | 20,766 | 20,766 | – |
| (2) Other accounts payable | 16,481 | 16,481 | – |
| (3) Short-term bank loans (*2) | 5,473 | 5,473 | – |
| (4) Bonds | 50,000 | 52,878 | 2,878 |
| (5) Long-term bank loans (*2) | 13,300 | 13,775 | 475 |
| Total liabilities | 106,020 | 109,374 | 3,353 |
| Derivatives (*1) | ¥ 6,393 | ¥ 6,393 | ¥ – |

(*1) The carrying amount and fair value of derivative transactions are stated on a net basis. Figures in parentheses represent net liabilities.
(*2) Long-term bank loans include the current portion of long-term debt.

Methods for calculating fair values of financial instruments

• Assets

(1) Cash and deposits, (2) Trade notes and accounts receivable

Since these assets are short-term in nature, their carrying value approximates fair value.

(3) Investment securities

Since securities such as free financial funds are short-term in nature, their carrying value approximates fair value.

The fair value of investment securities is based on the quoted market prices for listed shares.

Unlisted stocks and others with a carrying amount of ¥5,777 million ($51,269 thousand) and ¥5,331 million as of March 31, 2016 and 2015, respectively, are excluded from investment securities in the above table, since they have no market values and their fair values are difficult to determine.

Information on investment securities categorized by holding purpose is set out in Note 5. Fair Value of Securities.

• Liabilities

(1) Trade notes and accounts payable, (2) Other accounts payable, (3) Short-term bank loans

Since these liabilities are short-term in nature, their carrying value approximates fair value.

(4) Bonds

Fair value of corporate bonds is determined based on present values calculated by discounting the total principal and interest using interest rates corresponding to the credit risk and remaining period of the bond.

(5) Long-term debt

Fair value of long-term debt is calculated by discounting the total principal and interest using the incremental borrowing rate. Fair value of long-term debt with variable interest rates for which the special treatment for interest rate swaps is adopted is calculated by discounting the total principal and interest using the interest rate of similar borrowings.

• Derivatives

Information on derivatives is set out in Note 16. Derivatives.

**16. Derivatives**

Summarized below are the notional amounts and the estimated fair value of the open derivative positions as of March 31, 2016 and 2015:

(a) Hedge accounting not applied

*Currency related transactions*

**March 31, 2016**

| **Classification** | **Type of transaction** | **Notional amount** | **Over 1 year** | **Fair value** | **Unrealized gain (loss)** |
|---|---|---|---|---|---|
| | | | *(Millions of yen)* | | |
| Non-market transactions | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | ¥ 3,287 | ¥ – | ¥ 24 | ¥ 24 |
| | SEK | 78 | 78 | (3) | (3) |
| | HKD | 15 | – | 0 | 0 |
| | Buy: | | | | |
| | USD | 44,752 | 31,247 | (315) | (315) |
| | EUR | 2,890 | 1,167 | (297) | (297) |
| | GBP | 5 | – | (0) | (0) |
| | SGD | 4,295 | 2,583 | (143) | (143) |
| | JPY | 911 | – | (28) | (28) |
| Total | | ¥ 56,236 | ¥ 35,076 | ¥ (764) | ¥ (764) |

**March 31, 2016**

| **Classification** | **Type of transaction** | **Notional amount** | **Over 1 year** | **Fair value** | **Unrealized gain (loss)** |
|---|---|---|---|---|---|
| | | | *(Thousands of U.S. dollars)* | | |
| Non-market transactions | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | $ 29,171 | $ – | $ 212 | $ 212 |
| | SEK | 692 | 692 | (26) | (26) |
| | HKD | 133 | – | 0 | 0 |
| | Buy: | | | | |
| | USD | 397,160 | 277,307 | (2,795) | (2,795) |
| | EUR | 25,647 | 10,356 | (2,635) | (2,635) |
| | GBP | 44 | – | (0) | (0) |
| | SGD | 38,116 | 22,923 | (1,269) | (1,269) |
| | JPY | 8,084 | – | (248) | (248) |
| Total | | $ 499,077 | $ 311,288 | $ (6,780) | $ (6,780) |

**March 31, 2015**

| Classification | Type of transaction | Notional amount | Over 1 year | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|---|
| | | | *(Millions of yen)* | | |
| Non-market transactions | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | ¥ 2,670 | ¥ – | ¥ (17) | ¥ (17) |
| | EUR | 1,404 | – | (27) | (27) |
| | SEK | 100 | 96 | 3 | 3 |
| | HKD | 4 | – | (0) | (0) |
| | Buy: | | | | |
| | USD | 36,173 | 27,297 | 6,707 | 6,707 |
| | EUR | 2,907 | 2,847 | (247) | (247) |
| | SEK | 14 | 14 | (0) | (0) |
| | GBP | 6 | – | (0) | (0) |
| | SGD | 3,369 | 3,364 | (29) | (29) |
| | JPY | 493 | – | 3 | 3 |
| Total | | ¥ 47,145 | ¥ 33,619 | ¥ 6,391 | ¥ 6,391 |

Notes
1. Fair value is calculated based on the prices provided by financial institutions.
2. The amounts in the table above include the profit or loss due to eliminating inter-company balances in consolidation.

(b) Hedge accounting applied

*Currency related transactions*

**March 31, 2016**

| Hedge accounting method | Type of transaction | Hedged item | Contract amounts | Over 1 year | Fair value |
|---|---|---|---|---|---|
| | | | | *(Millions of yen)* | |
| Currency forward contracts | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | Accounts receivable | ¥ 224 | ¥ – | (Note 2) |
| | Buy: | | | | |
| | USD | Accounts payable | 513 | – | (Note 2) |
| | EUR | | 23 | – | (Note 2) |
| | JPY | | 2 | – | (Note 2) |
| Deferral hedge accounting | Sell: | | | | |
| | USD | Accounts receivable | 20 | – | (0) |
| | HKD | | 4 | – | (0) |
| | Buy: | | | | |
| | USD | Accounts payable | 1,160 | – | (1) |
| | EUR | | ¥ 2 | ¥ – | ¥ 0 |

**March 31, 2016**

| Hedge accounting method | Type of transaction | Hedged item | Contract amounts | Over 1 year | Fair value |
|---|---|---|---|---|---|
| | | | *(Thousands of U.S. dollars)* | | |
| Currency forward contracts | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | Accounts receivable | $ 1,987 | $ – | (Note 2) |
| | Buy: | | | | |
| | USD | Accounts payable | 4,552 | – | (Note 2) |
| | EUR | | 204 | – | (Note 2) |
| | JPY | | 17 | – | (Note 2) |
| Deferral hedge accounting | Sell: | | | | |
| | USD | Accounts receivable | 177 | – | (0) |
| | HKD | | 35 | – | (0) |
| | Buy: | | | | |
| | USD | Accounts payable | 10,294 | – | (8) |
| | EUR | | $ 17 | $ – | $ 0 |

**March 31, 2015**

| Hedge accounting method | Type of transaction | Hedged item | Contract amounts | Over 1 year | Fair value |
|---|---|---|---|---|---|
| | | | *(Millions of yen)* | | |
| Currency forward contracts | Forward foreign exchange contracts: | | | | |
| | Sell: | | | | |
| | USD | Accounts receivable | ¥ 205 | ¥ – | (Note 2) |
| | Buy: | | | | |
| | USD | Accounts payable | 569 | – | (Note 2) |
| | EUR | | 36 | – | (Note 2) |
| | GBP | | 0 | – | (Note 2) |
| | JPY | | 0 | – | (Note 2) |
| Deferral hedge accounting | Sell: | | | | |
| | USD | Accounts receivable | 26 | – | 0 |
| | Buy: | | | | |
| | USD | Accounts payable | 219 | – | 5 |
| | EUR | | ¥ 97 | ¥ – | ¥ (3) |

Notes
1. Fair value is calculated based on the prices provided by financial institutions.
2. For certain accounts receivable and accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, the fair value of derivative financial instruments is included in the fair value of the hedged accounts receivable and accounts payable.

*Interest related transactions*

| March 31, 2016 | | | | | |
|---|---|---|---|---|---|
| **Hedge accounting method** | **Type of transaction** | **Hedged item** | **Contract amounts** | **Over 1 year** | **Fair value** |
| | | | | *(Millions of yen)* | |
| Special treatment for interest swaps | Interest rate swap: Floating Receipt Fixed Payment | Long-term debt | ¥11,000 | ¥9,000 | (Note) |

| March 31, 2016 | | | | | |
|---|---|---|---|---|---|
| **Hedge accounting method** | **Type of transaction** | **Hedged item** | **Contract amounts** | **Over 1 year** | **Fair value** |
| | | | | *(Thousands of U.S. dollars)* | |
| Special treatment for interest swaps | Interest rate swap: Floating Receipt Fixed Payment | Long-term debt | $97,621 | $79,872 | (Note) |

| March 31, 2015 | | | | | |
|---|---|---|---|---|---|
| **Hedge accounting method** | **Type of transaction** | **Hedged item** | **Contract amounts** | **Over 1 year** | **Fair value** |
| | | | | *(Millions of yen)* | |
| Special treatment for interest swaps | Interest rate swap: Floating Receipt Fixed Payment | Long-term debt | ¥13,000 | ¥11,000 | (Note) |

Note

For certain long-term debt for which the special treatment for interest swaps is used to hedge the variable risk of interest rates, the fair value of derivative financial instruments is included in the fair value of the long-term debt.

**17. Rental Properties**

The Company and certain consolidated subsidiaries own a number of commercial facilities including land for rent in Chiba Prefecture and other locations. Net rental income from such rental properties for the years ended March 31, 2016 and 2015 was ¥699 million ($6,203 thousand) and ¥682 million, respectively. The Company recorded ¥8 million ($70 thousand) and ¥12 million of gain on sales of rental properties as other income for the years ended March 31, 2016 and 2015, respectively. The Company recorded ¥76 million of impairment loss on rental properties as other expenses for the year ended March 31, 2015. There was no impairment loss on rental properties for the year ended March 31, 2016.

The carrying amount and the fair value of such rental properties as of March 31, 2016 and 2015 were as follows:

**March 31, 2016**

| Carrying amount *(Millions of yen)* | | | Fair value as of March 31, 2016 *(Millions of yen)* |
|---|---|---|---|
| Beginning of fiscal year | Net change during fiscal year | End of fiscal year | |
| ¥ 10,166 | ¥ 100 | ¥ 10,267 | ¥ 21,467 |

**March 31, 2016**

| Carrying amount *(Thousands of U.S. dollars)* | | | Fair value as of March 31, 2016 *(Thousands of U.S. dollars)* |
|---|---|---|---|
| Beginning of fiscal year | Net change during fiscal year | End of fiscal year | |
| $ 90,220 | $ 887 | $ 91,116 | $ 190,512 |

**March 31, 2015**

| Carrying amount *(Millions of yen)* | | | Fair value as of March 31, 2015 *(Millions of yen)* |
|---|---|---|---|
| Beginning of fiscal year | Net change during fiscal year | End of fiscal year | |
| ¥ 10,077 | ¥ 89 | ¥ 10,166 | ¥ 21,269 |

Note

The fair value of significant properties is calculated based on the appraisal standard used by real estate appraisers, and the fair value of immaterial properties is calculated based on the value for property tax assessment.

**18. Segment Information**

(a) Segment information

(1) Overview of reporting segments

Reporting segments are a component or aggregated component for which segment specific financial information is available. The Company's Board of Directors uses this financial information periodically to make decisions on the allocation of management resources and to evaluate business performance.

The Company, as a holding company, mainly plans group strategy, and manages and controls its subsidiaries. The Company divides its domestic business into manufacturing and sales of foods, and other business. The Company divides its overseas business into manufacturing and sales of foods, and the sales of oriental food products. As a result, the Company identified four reporting segments, which are "Domestic Foods – Manufacturing and Sales," "Domestic Others," "Overseas Foods – Manufacturing and Sales" and "Overseas Foods – Wholesale."

"Domestic Foods – Manufacturing and Sales" includes manufacturing and sales of foods in the domestic market, which include soy sauce, beverages and alcoholic beverages.

"Domestic Others" includes manufacturing and sales of pharmaceuticals and chemical products, real estate rental, logistics and back-office operations in the domestic market.

"Overseas Foods – Manufacturing and Sales" includes manufacturing and sales of soy sauce, Del Monte products and health foods in overseas markets, and sales of domestically manufactured products to overseas markets.

"Overseas Foods – Wholesale" includes the purchase of overseas oriental products for sale in domestic and overseas markets and sales of oriental products in domestic and overseas markets.

(2) Methods of calculating amounts for net sales, income or loss, assets, liabilities and other items by reporting segment

Segment income in the following tables is operating income. Intra group sales and transfers were made based on market prices.

(3) Information on sales, income or loss, assets and other items by reporting segment

| | As of and for the year ended March 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Domestic Foods – Manufacturing and Sales | Domestic Others | Overseas Foods – Manufacturing and Sales | Overseas Foods – Wholesale | Total | Adjustments | Consolidated |
| | *(Millions of yen)* | | | | | | |
| Sales and operating income: | | | | | | | |
| Net sales to third parties | ¥ 166,399 | ¥ 7,708 | ¥ 74,852 | ¥ 159,411 | ¥ 408,372 | ¥ – | ¥ 408,372 |
| Intra group sales and transfers | 1,300 | 12,942 | 10,009 | 342 | 24,594 | (24,594) | – |
| Total net sales | 167,699 | 20,650 | 84,861 | 159,754 | 432,966 | (24,594) | 408,372 |
| Segment income | 6,536 | 1,515 | 16,443 | 7,675 | 32,170 | 427 | 32,598 |
| Segment assets | 113,403 | 22,222 | 124,464 | 59,967 | 320,058 | 45,612 | 365,671 |
| Other items: | | | | | | | |
| Depreciation and amortization | 5,837 | 1,034 | 3,136 | 890 | 10,899 | 926 | 11,826 |
| Amortization of goodwill | 1,013 | – | 181 | – | 1,194 | – | 1,194 |
| Increase in property, plant and equipment and intangible fixed assets | ¥ 6,194 | ¥ 618 | ¥ 4,005 | ¥ 3,631 | ¥ 14,450 | ¥ 345 | ¥ 14,795 |

| | As of and for the year ended March 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Domestic Foods – Manufacturing and Sales | Domestic Others | Overseas Foods – Manufacturing and Sales | Overseas Foods – Wholesale | Total | Adjustments | Consolidated |
| | *(Thousands of U.S. dollars)* | | | | | | |
| Sales and operating income: | | | | | | | |
| Net sales to third parties | $ 1,476,739 | $68,406 | $ 664,288 | $1,414,723 | $ 3,624,174 | $ – | $3,624,174 |
| Intra group sales and transfers | 11,537 | 114,856 | 88,826 | 3,035 | 218,264 | (218,264) | – |
| Total net sales | 1,488,276 | 183,262 | 753,115 | 1,417,767 | 3,842,438 | (218,264) | 3,624,174 |
| Segment income | 58,004 | 13,445 | 145,926 | 68,113 | 285,498 | 3,789 | 289,297 |
| Segment assets | 1,006,416 | 197,213 | 1,104,579 | 532,188 | 2,840,415 | 404,792 | 3,245,216 |
| Other items: | | | | | | | |
| Depreciation and amortization | 51,801 | 9,176 | 27,831 | 7,898 | 96,725 | 8,217 | 104,952 |
| Amortization of goodwill | 8,990 | – | 1,606 | – | 10,596 | – | 10,596 |
| Increase in property, plant and equipment and intangible fixed assets | $ 54,969 | $ 5,484 | $ 35,543 | $ 32,223 | $ 128,239 | $ 3,061 | $ 131,301 |

Notes

Adjustments are as follows:

(1) Adjustments of ¥427 million ($3,789 thousand) in segment income mainly represent expenses relating to the corporate division of the Company, which totaled ¥495 million ($4,392 thousand).

(2) Adjustments of ¥45,612 million ($404,792 thousand) in segment assets represent the elimination of intersegment assets and assets relating to the corporate division of the Company, which totaled ¥151,831 million ($1,347,452 thousand). Assets relating to the corporate division of the Company consist mainly of cash and deposits and investment securities.

(3) Adjustments of ¥926 million ($8,217 thousand) in depreciation and amortization consist of depreciation of assets related to the corporate division of the Company.

(4) Adjustments of ¥345 million ($3,061 thousand) in increase in property, plant and equipment and intangible fixed assets consist of asset acquisitions of the corporate division of the Company.

Application of Accounting Standard for Business Combinations and other standards

As described in Note 2 (p), “Changes in accounting policies,” the Company applied the Accounting Standard for Business Combinations and other standards from the consolidated fiscal year ended March 31, 2016.

As a result, for Domestic Foods – Manufacturing and Sales, segment operating income for the consolidated fiscal year ended March 31, 2016, increased by ¥388 million ($3,443 thousand).

Change in depreciation method of property, plant and equipment

As described in Note 2 (q), "Changes in accounting policy that are difficult to distinguish from changes in accounting estimates," the Company and certain consolidated domestic subsidiaries previously mainly used the declining-balance method for depreciation of property, plant and equipment (except for buildings (excluding additional facilities) acquired on or after April 1, 1998, which were depreciated using the straight-line method). From the consolidated fiscal year ended March 31, 2016, the straight-line method has been applied for all items of property, plant and equipment.

As a result, segment operating income for the consolidated fiscal year ended March 31, 2016, increased by ¥828 million ($7,348 thousand) in Domestic Foods – Manufacturing and Sales, ¥43 million ($381 thousand) in Domestic Others, and ¥93 million ($825 thousand) in Adjustments.

| | As of and for the year ended March 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Domestic Foods – Manufacturing and Sales** | **Domestic Others** | **Overseas Foods – Manufacturing and Sales** | **Overseas Foods – Wholesale** | **Total** | **Adjustments** | **Consolidated** |
| | | | | *(Millions of yen)* | | | |
| Sales and operating income: | | | | | | | |
| Net sales to third parties | ¥ 160,018 | ¥ 7,478 | ¥ 65,759 | ¥ 138,082 | ¥ 371,339 | ¥ – | ¥ 371,339 |
| Intra group sales and transfers | 1,243 | 12,673 | 8,967 | 323 | 23,208 | (23,208) | – |
| Total net sales | 161,261 | 20,152 | 74,727 | 138,406 | 394,547 | (23,208) | 371,339 |
| Segment income | 2,715 | 1,035 | 14,225 | 6,476 | 24,453 | 916 | 25,370 |
| Segment assets | 115,371 | 22,131 | 122,004 | 56,661 | 316,169 | 62,596 | 378,766 |
| Other items: | | | | | | | |
| Depreciation and amortization | 7,290 | 1,051 | 2,816 | 784 | 11,943 | 884 | 12,827 |
| Amortization of goodwill | 1,401 | – | 112 | – | 1,513 | – | 1,513 |
| Increase in property, plant and equipment and intangible fixed assets | ¥ 6,936 | ¥ 1,476 | ¥ 2,842 | ¥ 683 | ¥ 11,938 | ¥ 1,148 | ¥ 13,087 |

Notes

Adjustments are as follows:

(1) Adjustments of ¥916 million in segment income mainly represent expenses relating to the corporate division of the Company, which totaled ¥997 million.

(2) Adjustments of ¥62,596 million in segment assets represent the elimination of intersegment assets and assets relating to the corporate division of the Company, which totaled ¥149,670 million. Assets relating to the corporate division of the Company consist mainly of cash and deposits and investment securities.

(3) Adjustments of ¥884 million in depreciation and amortization consist of depreciation of assets related to the corporate division of the Company.

(4) Adjustments of ¥1,148 million in increase in property, plant and equipment and intangible fixed assets consist of asset acquisitions of the corporate division of the Company.

(b) Related information

*Information by geographical area*

| Sales<br>For the year ended March 31, 2016<br>*(Millions of yen)* | Japan | North America | Other | Total |
|---|---|---|---|---|
| Amount | ¥ 176,851 | ¥ 174,412 | ¥ 57,109 | ¥ 408,372 |

| Sales<br>For the year ended March 31, 2016<br>*(Thousands of U.S. dollars)* | Japan | North America | Other | Total |
|---|---|---|---|---|
| Amount | $ 1,569,497 | $ 1,547,852 | $ 506,824 | $ 3,624,174 |

Note: Sales are based on the location of customers, and are classified by country or region.

| Property, plant and equipment<br>As of March 31, 2016<br>*(Millions of yen)* | Japan | North America | Other | Total |
|---|---|---|---|---|
| Net book value | ¥ 70,469 | ¥ 24,471 | ¥ 10,010 | ¥ 104,951 |

| Property, plant and equipment<br>As of March 31, 2016<br>*(Thousands of U.S. dollars)* | Japan | North America | Other | Total |
|---|---|---|---|---|
| Net book value | $ 625,390 | $ 217,172 | $ 88,835 | $ 931,407 |

*Information regarding loss on impairment of fixed assets by reporting segment*

| | **For the year ended March 31, 2016** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Domestic Foods – Manufacturing and Sales** | **Domestic Others** | **Overseas Foods – Manufacturing and Sales** | **Overseas Foods – Wholesale** | **Total** | **Adjustments** | **Consolidated** |
| | *(Millions of yen)* | | | | | | |
| Impairment loss | ¥ — | ¥ — | ¥ 553 | ¥ — | ¥ 553 | ¥ — | ¥ 553 |

| | **For the year ended March 31, 2016** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Domestic Foods – Manufacturing and Sales** | **Domestic Others** | **Overseas Foods – Manufacturing and Sales** | **Overseas Foods – Wholesale** | **Total** | **Adjustments** | **Consolidated** |
| | *(Thousands of U.S. dollars)* | | | | | | |
| Impairment loss | $ — | $ — | $ 4,907 | $ — | $ 4,907 | $ — | $ 4,907 |

*Information regarding the balance of goodwill by reporting segment*

| | **As of March 31, 2016** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Domestic Foods – Manufacturing and Sales** | **Domestic Others** | **Overseas Foods – Manufacturing and Sales** | **Overseas Foods – Wholesale** | **Total** | **Adjustments** | **Consolidated** |
| | *(Millions of yen)* | | | | | | |
| Goodwill ending balance | ¥ 9,232 | ¥ — | ¥ 2,043 | ¥ — | ¥ 11,275 | ¥ — | ¥ 11,275 |

| | **As of March 31, 2016** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Domestic Foods – Manufacturing and Sales** | **Domestic Others** | **Overseas Foods – Manufacturing and Sales** | **Overseas Foods – Wholesale** | **Total** | **Adjustments** | **Consolidated** |
| | *(Thousands of U.S. dollars)* | | | | | | |
| Goodwill ending balance | $ 81,931 | $ — | $ 18,130 | $ — | $ 100,062 | $ — | $ 100,062 |

Information regarding amortization of goodwill is omitted, since the same information was disclosed in (a) (3). Information on sales, income or loss, assets and other items by reporting segment.

**19. Subsequent Events**

(a) Tendering of Riken Vitamin Shares in a Tender Offer

At the Board of Directors meeting held on April 27, 2016, the Company has decided to tender a portion of its common shares in Riken Vitamin Co., Ltd. ("Riken"), an affiliated company accounted for by the equity method, in a tender offer (the "Tender Offer") by Riken, which was resolved at Riken's Board of Directors' meeting held on April 27, 2016. The Company has entered into an agreement to tender shares in the Tender Offer with Riken (the "Tender Agreement").

1. Reasons for tendering Riken shares

On June 18, 2008, the Company and Riken entered into a capital and business alliance agreement (the "Capital and Business Alliance Agreement") which has created synergies in areas such as raw material and packaging procurement, product development, sales and marketing in past years. During this time, the Company had discussions with Riken regarding the possibility of Riken buying back its common shares from the Company, to respect Riken's goals of maintaining management independence and allowing flexibility in making decisions regarding capital policies and other matters. In view of these circumstances, the Company decided to tender shares in the Tender Offer. The Capital and Business Alliance Agreement will remain in effect after the Tender Offer and both companies will continue to cooperate based on the terms of that agreement.

2. Number of shares held before and after tendering shares in the Tender Offer

(1) Number of shares held before the Tender Offer: 7,593,400 shares (32.10%) (Note)

(2) Number of shares tendered: 6,600,000 shares (27.90%)

(3) Number of shares held after the Tender Offer: 993,400 shares (4.20%)

(Note) Percentages indicate the Company's ownership against the total outstanding shares of Riken as of April 27, 2016 of 23,652,550 shares (rounded off to the second decimal place)

3. Schedule of the Tender Offer

(1) Board Resolution: April 27, 2016

(2) Signing of the Tender Agreement: April 27, 2016

(3) Public notice of the commencement date of the Tender Offer: April 28, 2016

(4) Tender Offer period: From April 28, 2016 to May 31, 2016

(5) Commencement date of the settlement of the Tender Offer: June 22, 2016

4. Result of the Tender Offer

As a result of tendering shares in the Tender Offer, all of the shares tendered by the Company were accepted for sale by May 31, 2016, which was the end of the Tender Offer period. Due to completion of the Tender Offer, the result of share sales is as follows:

Number of shares sold: 6,600,000 shares

Proceeds from sale: ¥3,700 per share ($32.83 per share) with total proceeds of ¥24,420 million ($216,719 thousand)

Amount of the gain or loss on sale: A ¥308 million ($2,733 thousand) loss is expected to be recorded in "Other expenses" for the year ending March 31, 2017

As a result of the decrease in the Company's ownership interest following the tender offer, the Company expects that Riken will not qualify as an affiliate accounted for by the equity method from the year ending March 31, 2017.

(b) Cash dividends

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2016, were approved at the general meeting of shareholders held on June 23, 2016.

| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| Cash dividends (¥32.00 = $0.28 per share) | ¥6,182 | $54,863 |

# Independent Auditor's Report

The Board of Directors
KIKKOMAN CORPORATION

We have audited the accompanying consolidated financial statements of KIKKOMAN CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KIKKOMAN CORPORATION and its consolidated subsidiaries at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

June 23, 2016
Tokyo, Japan

Ernst & Young ShinNihon LLC

# Corporate Data

As of March 31, 2016

### Name
Kikkoman Corporation

### Head Office
250 Noda, Noda-shi, Chiba
278-8601, Japan

### Date of Establishment
December 7, 1917

### Paid-in Capital
¥11,599 million

### Number of Shares
Authorized: 600,000,000
Issued and outstanding: 210,383,202

### Number of Employees
(Consolidated)
5,933

### Stock Exchange Listings
Tokyo

### Shareholder Registry Administrator
Mitsubishi UFJ Trust and Banking Corporation
1-4-5 Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan

# Corporate History

The city of Noda is ideally situated close to soybean-growing regions as well as the Edo River, which provided a convenient transportation route to and from Edo (present-day Tokyo). Noda has been well-known for its soy sauce production since the Edo period (1603–1867). In December 1917, eight family-run companies with capital of ¥7 million merged to form Noda Shoyu Co., Ltd., the predecessor of Kikkoman Corporation.

**1917** Noda Shoyu Co., Ltd. (forerunner to Kikkoman) founded in Noda, Japan through the merger of eight family-run companies.

**1931** The Kansai Plant (now the Takasago Factory) begins shipments of Soy Sauce in Japan.

**1957** Kikkoman International Inc. (now Kikkoman Sales USA, Inc.) established in the United States to sell and market Soy Sauce.

**1961** Kikko Food Industries Co., Ltd. (now Nippon Del Monte Corporation) established in Japan.

**1962** Katsunuma Yoshu Co., Ltd. (now Manns Wine Co., Ltd.) established in Japan.

**1969** Kikkoman invests in food trading company Japan Food Corporation (now JFC International Inc.) in the United States.

**1973** Kikkoman Foods, Inc. holds the grand opening of its first Soy Sauce plant in the United States, in Walworth, Wisconsin.

**1979** Kikkoman Trading Europe GmbH established in Germany to sell and market Soy Sauce.

**1980** The Company takes on its present name, Kikkoman Corporation.

**1984** Kikkoman (S) Pte Ltd holds the grand opening of its Soy Sauce plant in Singapore.

**1987** Kikkoman's Chitose Plant (now Hokkaido Kikkoman Company) in Hokkaido, Japan begins shipments of Soy Sauce.

**1990** Kikkoman buys perpetual marketing rights to the Del Monte brand in the Asia-Pacific region, excluding the Philippines.

**1990** President Kikkoman Inc. begins shipments of Soy Sauce from its plant in Taiwan.

**1997** Kikkoman Foods Europe B.V. holds the grand opening of its Soy Sauce plant in the Netherlands.

**1998** Kikkoman Foods, Inc. holds the grand opening of its second Soy Sauce plant in the United States, in Folsom, California.

**2002** Kunshan President Kikkoman Biotechnology Co., Ltd. holds the grand opening of its Soy Sauce plant in Kunshan, China.

**2004** Kikkoman invests in soy milk company Kibun Food Chemifa Co., Ltd. (now Kikkoman Soyfoods Company) in Japan.

**2005** Health foods company Country Life, LLC established in the United States.

**2009** President Kikkoman Zhenji Foods Co., Ltd. holds the grand opening of its Soy Sauce plant in Shijiazhuang, China.

**2009** Kikkoman shifts to a holding company structure.

**2014** Kikkoman Shanghai Trading Co., Ltd. established in Shanghai, China.


Company boardroom at the time Kikkoman was founded


Kikkoman Foods, Inc. (Wisconsin)


Kikkoman (S) Pte Ltd


President Kikkoman Inc.


Kikkoman Foods Europe B.V.


Kikkoman Foods, Inc. (California)


Kunshan President Kikkoman Biotechnology Co., Ltd.


President Kikkoman Zhenji Foods Co., Ltd.

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