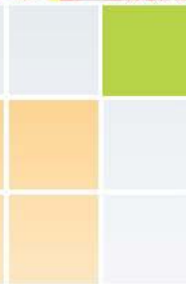
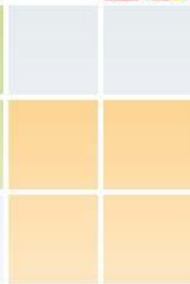
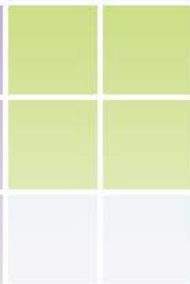
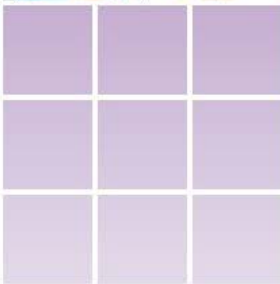
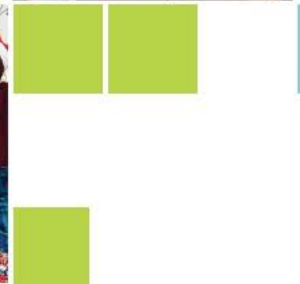
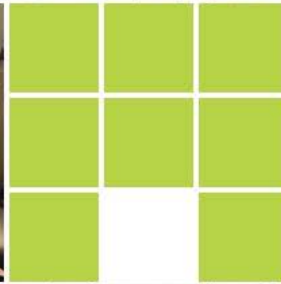
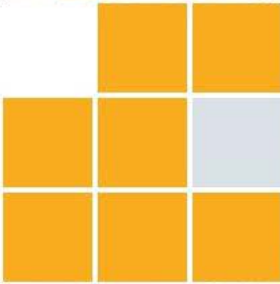
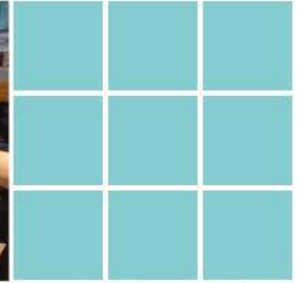


Annual Report

2018

Year Ended March 31, 2018




kikkoman
seasoning your life

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

- 1 Financial Highlights
- 2 Message from the Management
- 6 Global Vision 2030
- 10 Kikkoman at a Glance
- 12 Corporate Citizenship
- 19 Financial Section
- 53 Corporate Data / Corporate History

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:

Fiscal years in this report are April to March.

Example: Fiscal 2018 = April 2017 - March 2018

"Operating Profit" and "Profit Attributable to Owners of Parent" in the first part of this report correspond to "Operating Income" and "Net Income Attributable to Owners of Parent," respectively, in the Financial Section (P26-51).



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 2018, customers responded by submitting many wonderful photographs, all of which can be viewed on Kikkoman's website.

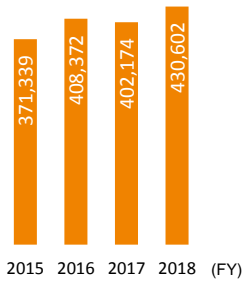
Some of the prize-winning submissions to this photography contest are featured on the cover of this Annual Report.

Financial Highlights

Kikkoman Corporation and Consolidated Subsidiaries

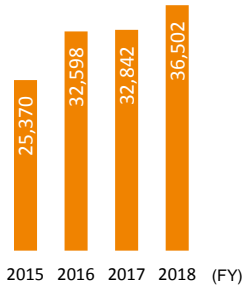
Net Sales

Millions of yen



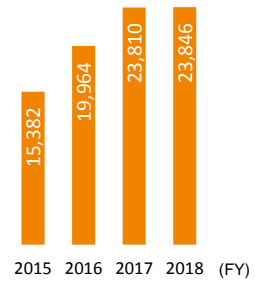
Operating Profit

Millions of yen



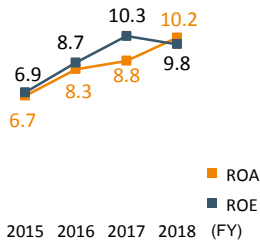
Profit Attributable to Owners of Parent

Millions of yen



ROA / ROE

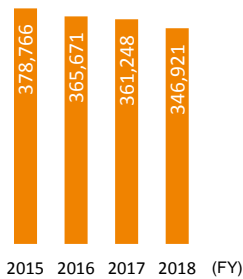
%



ROA=Ordinary profit/Average total assets

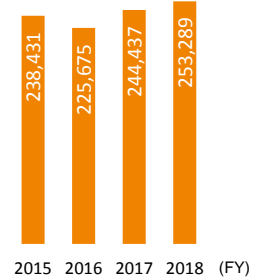
Total Assets

Millions of yen



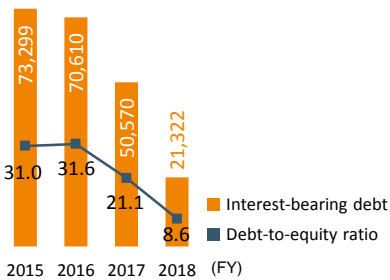
Net Assets

Millions of yen



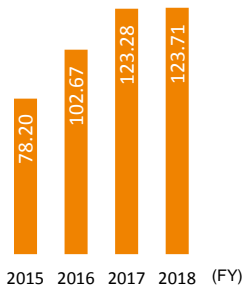
Interest-Bearing Debt / Debt-to-Equity Ratio

Millions of yen / %



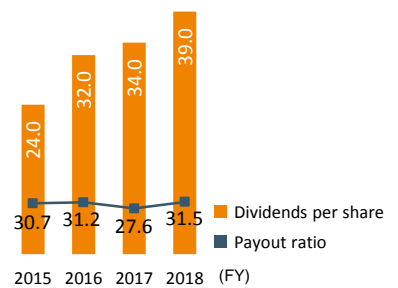
Earnings per Share

Yen



Dividends per Share / Payout Ratio

Yen / %



KEY POINT ANALYSIS

Net Sales

Net sales increased 7.1% year on year to ¥430,602 million. In Japan, sales rose thanks to strong sales of beverages and higher sales of food products, offsetting a decline in sales of soy sauce and liquor and wine. Overseas sales rose year on year, supported by growth in soy sauce sales in each region and a strong performance by the oriental food wholesale business.

Operating Profit

Operating profit rose 11.1% year on year to ¥36,502 million. In Japan, operating profit increased, supported by higher sales of beverages and food products, as well as improvements to the operating structure and a decline in raw material costs. Operating profit also increased overseas, driven by higher sales.

Total Assets

Total assets declined ¥14,327 million year on year to ¥346,921 million. Current assets fell due to a drop in cash and deposits, while property, plant and equipment, at cost increased, mainly reflecting a rise in machinery, equipment and vehicles.

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 2018, which ended March 31, 2018, the global economy was firm overall, supported by continued steady recovery in the U.S. and moderate growth in Europe. The Japanese economy also continued to recover at a moderate pace.

Under these conditions, the Kikkoman Group's domestic sales rose year-on-year, with firm sales of beverages and higher sales of food products offsetting a drop in sales of soy sauce, liquor and wine. In overseas markets, sales of soy sauce increased in North America, Europe and Asia/Oceania, and sales were strong in the oriental food wholesale business, which supported an increase in overseas sales compared with the previous fiscal year.

As a result, consolidated net sales increased 7.1% to ¥430,602 million, operating profit rose 11.1% to ¥36,502 million, and profit attributable to owners of parent increased 0.1% to ¥23,846 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 the 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

We launched "Global Vision 2030" as our new vision of the future for the Kikkoman Group. This vision states our goals and strategies to achieve these goals by the year 2030. The Kikkoman Group will work toward our ambitious goals under the theme, "Striving with passion to create new values."

Medium-Term Management Plan

First, we will look at the Group's performance under the previous medium-term management plan, which ended in fiscal 2018. Consolidated targets and results for the plan's final year are as follows:

	Fiscal 2018 results	Fiscal 2018 medium-term management plan targets
Net sales	¥430.6 billion	¥440.0 billion
Operating profit	¥36.5 billion	¥36.0 billion
Operating profit margin	8.5%	8.2%
ROE	9.8%	9.0% or more

Net sales were close to our target, while operating profit, operating profit margin and ROE all reached their targets.

Based on these results, the Kikkoman Group established a new medium-term management plan that covers the period from fiscal 2019 to fiscal 2021.

Fiscal 2021 Medium-Term Management Plan targets

1. Net sales: ¥500.0 billion (average annual growth rate of 5.8%*)
 2. Operating profit: ¥45.0 billion (for a 9% operating profit margin)
 3. ROE: 10% or more
- (Exchange rate assumptions: ¥105/USD, ¥130/EUR)
*Excluding exchange rate differences

<Key Objectives>

Increasing Profitability and Maintaining Growth

1. Creating higher added value
2. Improving productivity
3. Building a new pillar

Business Outlook

Overseas, we expect continued growth in the soy sauce business by cultivating major existing markets and developing new markets.

In North America, we will work to generate stable growth by offering more products with high added value and by cultivating demand among new and occasional users of soy sauce.

In Europe, we aim to maintain double-digit growth by raising brand recognition in the key markets and by developing new markets.

In Asia, we will implement marketing strategies tailored to each country and region, aiming to further expand our presence and increase sales to drive double-digit growth.

In the growing Japanese food market, we will target continued growth in our oriental food wholesale business by upgrading and expanding our global network, which is the Group's strength, and by supplying high-quality products and services.

In the overseas Del Monte business, we are aiming for a high rate of growth, mainly by increasing sales of tomato-based seasonings.

In Japan, we are targeting growth and improved profitability in soy sauce and in 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 add further value to our range of soy sauce products, centered on the *Itsudemo Shinsen* (Always Fresh) series. We also plan to reinforce the market position of our *Uchi-no-Gohan* series of handy Japanese-style seasoning mixes by expanding the lineup and targeting a wider range of customers.

In Del Monte seasonings and 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 high value-added wines, including Japanese wine.

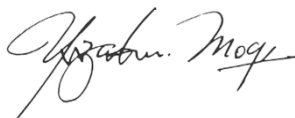
In the biochemical business, we aim to enhance earnings, primarily by expanding the hygiene inspection business.

In terms of financial strategy, we will utilize cash flow from operating activities for capital investment, mainly in growth areas and shareholder returns, and investments in new businesses when opportunities arise.

In addition, we will work to increase ROE. While improving profit margins is our top priority, we will also work on improving asset efficiency and capital efficiency.

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

August 2018



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



Noriaki Horikiri
President and Chief Executive Officer

Kikkoman Group Launched Long-Term Vision

Global Vision 2030

-Striving with passion to create new values-

Kikkoman Corporation launched “Global Vision 2030” as our new vision of the future for the Kikkoman Group. This vision states our “goals” and strategies to achieve these by the year 2030. The Kikkoman Group will work toward our ambitious goals with our theme “Striving with passion to create new values” for the year 2030.



GOALS

(1) MAKE KIKKOMAN SOY SAUCE A TRULY GLOBAL SEASONING

Globally spread the North America lifestyle - where Kikkoman Soy Sauce has become part of daily life - and fuse Soy Sauce and the local food cultures of each country.

(2) CREATE NEW DELICIOUS EXPERIENCES AROUND THE WORLD, AND CONTRIBUTE TO RICHER, HEALTHIER LIFESTYLES

Innovate and differentiate always to offer meaningful products and services that will lead to healthy lifestyles with delicious food worldwide.

(3) BECOME A COMPANY WHOSE PRESENCE IN GLOBAL SOCIETY IS EVER MORE MEANINGFUL, THROUGH ACTIVITIES UNIQUE TO KIKKOMAN

Contribute to solve global issues so that the company will be valued by people around the world.

CHALLENGES TOWARD 2030

To achieve our goals, we are developing key strategies toward 2030. The core concept of these strategies is “Offering No.1 values.”

OFFERING NO.1 VALUES

(1) Global No.1 strategy

We will develop soy sauce and oriental food wholesale business models and consolidate their global No.1 positions. In order to deliver new values by fusing Japanese food culture into local food cultures around the world, we will further expand our global operations through soy sauce and oriental food wholesale businesses.

[Global Soy Sauce Strategy]

We will secure No.1 positions in developed countries and start cultivating business in emerging markets.

North America, Europe, Australia	Strengthen our No.1 position in the oriental sauce category
Japan	Become by far the No.1 in soy sauce (in a broad sense)
China, ASEAN	Maintain double-digit growth
South America	Shift to a growth stage in the 2020s
Africa, India	Prepare the groundwork to progress to a growth stage from 2030 onward

[Global Strategy for Oriental Food Wholesale]

We will refine our expertise in Japanese food as well as oriental foods and provide high quality products, services, and solutions to customers around the world. Doing so will involve maintaining and expanding our business locations, broadening our procurement network and responding to the market. Through these efforts, we will provide unique values that match our customers' needs.



(2) Area No.1 strategy

Outside our soy sauce and oriental food wholesale businesses, we will apply our collective technologies and know-how to the Del Monte, soy milk, wine and biotechnology businesses to offer reliable value in specific regions and categories. The aim is to cement our position as the No.1 brand in each area.

[Del Monte Business Strategy]

To become the No.1 tomato seasoning brand in Asia, we will aim to first capture the No.1 position in China by 2030. We also aim to become the No.1 brand in specific categories in Japan and ASEAN.

[Soy Milk Business Strategy]

As the No.1 soy milk brand in Japan, we will expand the market and boost the potential of soy milk as an ingredient.

(3) Creating new businesses

Kikkoman will utilize internal and external resources to create new businesses.

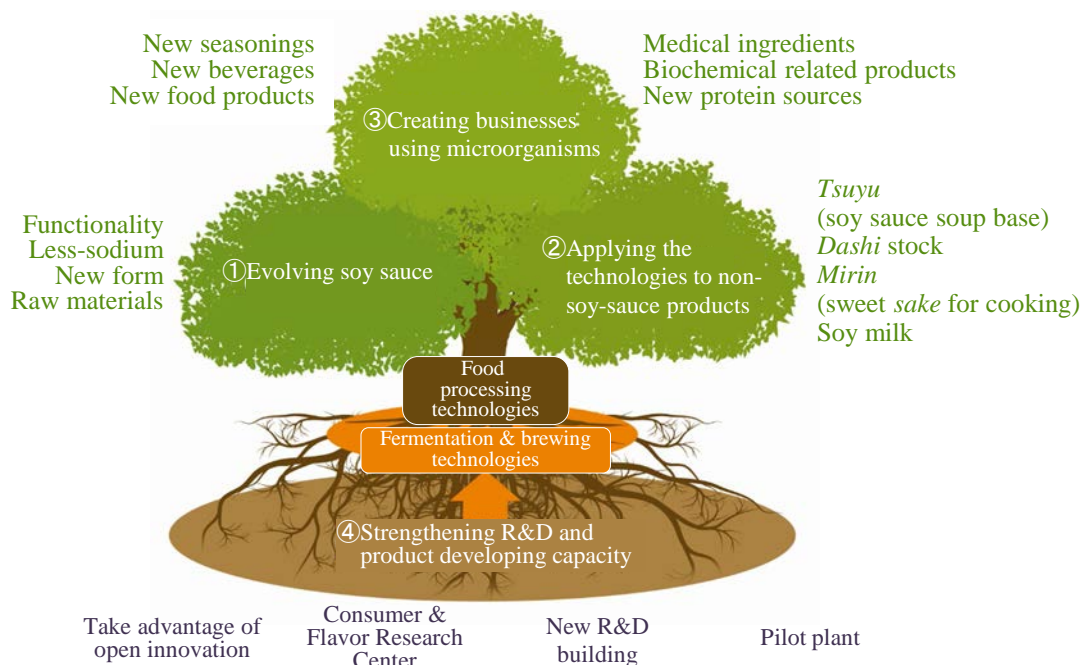
UTILIZING MANAGEMENT RESOURCES

The other base ingredient in our offer of No.1 values, including creating new businesses, is utilizing our management resources.

(1) Further take advantage of fermentation and brewing technologies

We will further evolve fermentation and brewing technologies that we have developed through utilizing microorganisms and improve our food processing technologies. This will enable us to strengthen and expand our existing businesses and create new ones to offer new values. For this purpose, we will strengthen our research & development and product development capacity.

Further take advantage of fermentation and brewing technologies



(2) Human resources, information, and cash flow

By fully maximizing our management resources, including human resources, information and cash flow, we will advance our “Global No.1” and “Area No.1” Strategies and accelerate “Creating new businesses.”

- Human resources: We will continuously review our systems, organizations, and working-styles. This will enable our employees, who support our global management and create new values, to reach their full capacity.
- Information: We will combine our internal/external information and IT technologies to explore new business opportunities, as well as boost productivity.
- Cash flow: We will make bold investments for growth and develop our existing businesses and obtain new ones.

Become a company whose presence in global society is ever more meaningful, through activities unique to Kikkoman

Through our business activities, the Kikkoman Group continues to create economic value and deliver social values.

As a good corporate citizen, Kikkoman is working together with the international community to solve various issues facing society. Guiding this effort are the Sustainable Development Goals (SDGs) adopted by the United Nations.

As part of our approach, we evaluated social issues along two viewpoints: “materiality for society;” and “materiality for Kikkoman.” Within these viewpoints, we identified three social issues: “global environment;” “food and health;” and “people and society.”

In these three areas, Kikkoman plans to set medium-term objectives and implement a range of specific measures.

For the “global environment,” we will implement medium-term environmental conservation goals.

For “food and health,” we will develop products and recipes that contribute to a healthy mind and body.

And for “people and society,” we will establish a human rights policy, implement work-style reform, and contribute to the development of food culture.

Three areas of material social issues

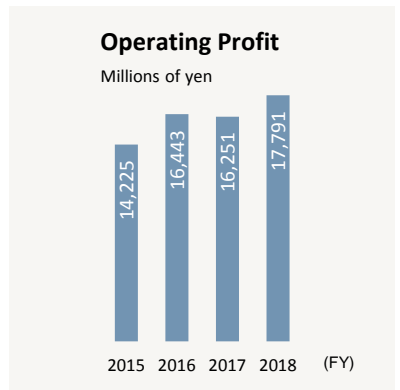
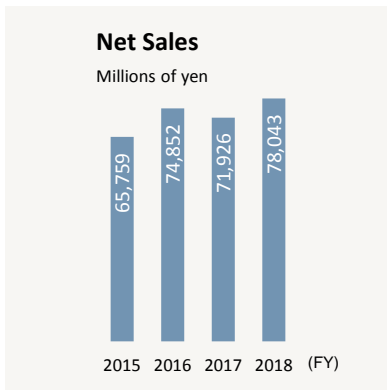
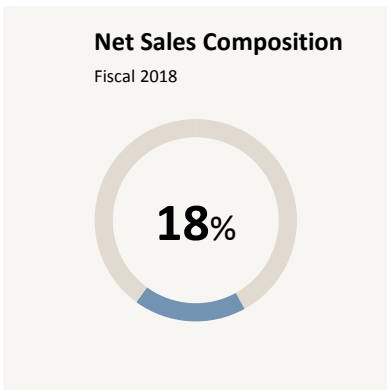
Global Environment

Food and Health

People and Society

Kikkoman at a Glance

OVERSEAS Foods—Manufacturing and Sales



Soy Sauce

Major Products:
Soy sauce
Teriyaki sauce



➤ p. 22

Del Monte

Major Products:
Canned fruits
Canned corn
Tomato ketchup



➤ p. 22

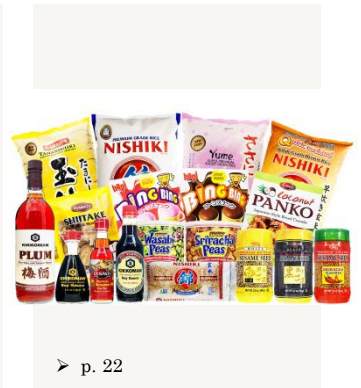
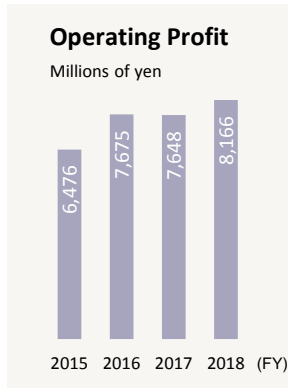
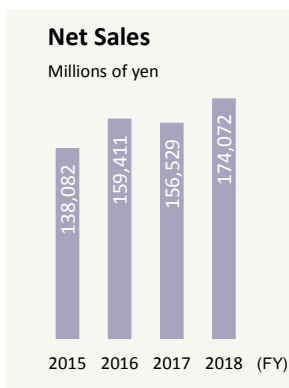
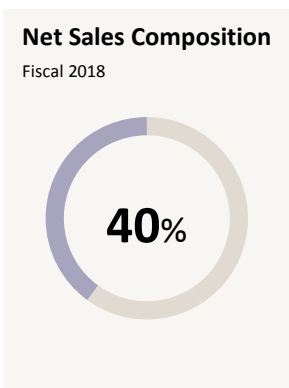
Other Foods

Major Products:
Health foods



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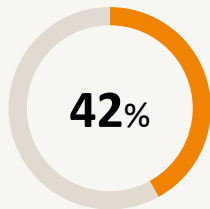
OVERSEAS Foods—Wholesale



DOMESTIC

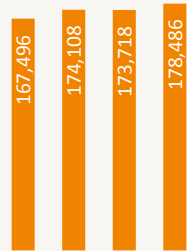
Net Sales Composition

Fiscal 2018



Net Sales

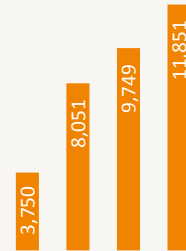
Millions of yen



2015 2016 2017 2018 (FY)

Operating Profit

Millions of yen



2015 2016 2017 2018 (FY)

Foods—Manufacturing and Sales

Soy Sauce

Major Products:
Soy sauce



➤ p. 21

Food Products

Major Products:
Tsuyu (soy sauce soup base)
Tare (dipping and marinade sauces)
Handy seasoning mixes
Del Monte seasonings



➤ p. 21

Beverages

Major Products:
Soy milk beverages
Del Monte beverages



➤ p. 21

Liquor and Wine

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



➤ p. 22

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.

➤ p. 22



* 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



On the following page, we introduce the main activities and programs implemented under the Kikkoman Corporate Citizenship Framework.

RESPONSIBLE OPERATIONS

Reinforce Corporate Governance

Corporate Governance Overview (As of June 26, 2018)

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 Established Nominating Committee and Remuneration Committee	Increased management transparency and strengthened management oversight
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	12	4
Outside appointments	4	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	6 members (4 outside directors, 2 directors) 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	6 members (4 outside directors, 2 directors) 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 26, 2018)

Directors and Audit & Supervisory Board Members

Honorary Chief Executive Officer and Chairman of the Board of Directors	Directors		Audit & Supervisory Board Members
Yuzaburo Mogi	Koichi Yamazaki*	Toshihiko Fukui**	Takashi Ozawa
	Masanao Shimada	Mamoru Ozaki**	Koichi Mori
	Shozaburo Nakano	Takeo Inokuchi**	Motohiko Kogo***
	Kazuo Shimizu	Masako Iino**	Toru Kajikawa***
President	Osamu Mogi	* Representative Director	
Noriaki Horikiri*	Asahi Matsuyama	** Outside Director	*** Outside Audit & Supervisory Board Member

Corporate Officers

President and Chief Executive Officer	Executive Corporate Officers	Corporate Officers	
Noriaki Horikiri	Shozaburo Nakano	Kazuki Usui	Hisato Nakano
	Kazuo Shimizu	Yoshiaki Asami	Masami Oura
	Osamu Mogi	Yasuharu Nakajima	Atsushi Otsuyama
Senior Executive Corporate Officers	Asahi Matsuyama	Yoshihisa Kitakura	Nobumasa Inoue
Koichi Yamazaki	Takashi Hamada	Iwao Kawamura	Nobuaki Negishi
Masanao Shimada	Noboru Mimura	Yasumasa Tajima	Yasuhiro Hoshino
	Kiminae Fujimura	Ryohei Tsuji	Toshiya Shishikura
	Yoshiyuki Ishigaki	Mitsunobu Nakamura	Hiroshi Ogino
	Takao Kamiyama		
	Tsuyoshi Matsuzaki		

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 working to reinforce management supervisory functions and

improve oversight 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

Kikkoman Corporation has 12 directors, including four outside directors, and four audit & supervisory board members, including two outside appointments. Kikkoman Corporation has established guidelines for the independence of outside board members, ensuring the selection of independent outside directors and outside audit & supervisory board members with no conflicts of interest. 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.

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 insights. 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.

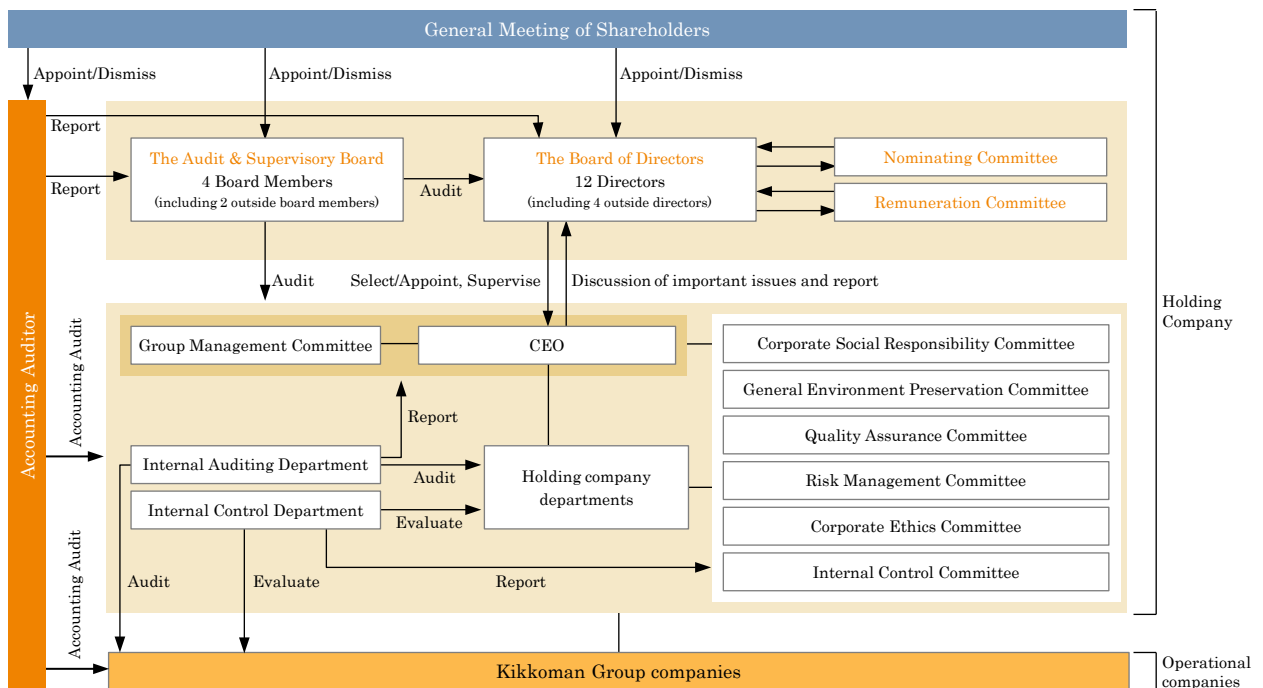
Internal Control Systems

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 Companies Act 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 26, 2018)



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 established the General Environmental Preservation Committee as the supreme decision-making organ for environmental preservation activities of all Group companies. The Committee, which is chaired by the Kikkoman Corporation President and CEO, will formulate, promote and supervise all aspects of medium and long-term environmental policies.

Under the direct supervision of the General Environmental Preservation Committee, the Environmental Preservation Promotion Committee, consisting of management employees and environmental administrators of the Group companies, has been established to supervise and provide instructions on environmental preservation activities from a Group-wide perspective.

Specific activities are conducted under the leadership of the Environmental Preservation Committee, which has been established at each site, while information and technologies that need to be shared or utilized across the Group, are shared through Environmental Managers Information Exchange Meetings that are held among major Group companies.

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 keeping 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 Conservation Goals

The Kikkoman Group is implementing the following initiatives in its Medium-Term Environmental Policy for fiscal 2019-21.

Category	Targets	Goals
Low carbon society	To reduce CO ₂ emissions per unit of production (Domestic manufacturing divisions)	<ul style="list-style-type: none"> • To reduce CO₂ emissions per unit of production by 4% or more • To assess energy conservation at major plants (2% reduction) • To examine renewable energy usage
	To reduce total CO ₂ emissions (Domestic back-office and sales divisions)	To reduce total CO ₂ emissions by 3% or more
	To reduce CO ₂ emissions per unit of production (Major overseas manufacturing divisions)	To reduce CO ₂ emissions per unit of production by 4% or more
Symbiotic society	To reduce water consumption (Domestic and overseas manufacturing divisions)	<ul style="list-style-type: none"> • To reduce water consumption per unit of production by 6% or more (Domestic manufacturing divisions) • To reduce water consumption per unit of production to below the level in the previous fiscal year (Major overseas manufacturing divisions)
	To conserve the water environment (Domestic manufacturing divisions)	To reduce wastewater BOD to 8mg/l and COD to 5mg/l
	To promote sustainable procurement	To develop and implement guidelines for environmentally friendly procurement
Recycling society	To reduce food product losses	<ul style="list-style-type: none"> • To promote efforts to reduce product waste • To aim for zero product waste during manufacturing issues (Domestic and overseas manufacturing divisions)
	To increase recycling rates (Domestic and overseas manufacturing divisions)	To achieve a 100% recycling rate
	To promote use of environmentally friendly containers and packaging	<ul style="list-style-type: none"> • To research and develop environmentally friendly containers and packaging • To reduce the volume of container and packaging materials

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

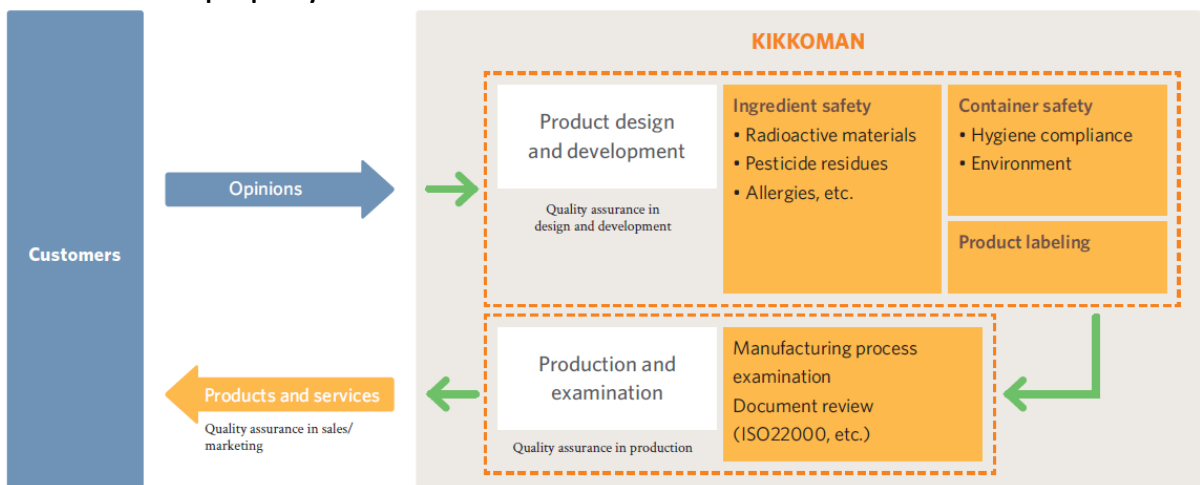
In addition to providing safe and high-quality products through product quality assurance activities, the Kikkoman Group strives to utilize feedback from customers in initiatives to improve customer satisfaction.

Quality Assurance Based on Safety and Peace of Mind

The Kikkoman Group considers the “safety” of the products and services is our highest priority. From this viewpoint of “safety,” we conduct quality assurance inspections based on strict inspection standards for all processes from ingredient selection to the final product stage as part of our system in place for ensuring food safety. Our quality assurance examinations extend from the product development stage to ingredient production sites, processing, manufacturing, sterilization, product packaging, and labeling based on related laws and 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 also place importance on delivering products that give “peace of mind” to customers. The Kikkoman Group believes that “peace of mind” comes from building relationships of deep trust by communicating the “safety” of our products in an easy-to-understand manner. We strive to improve customer satisfaction by delivering the product “safety” as well as “peace of mind” to customers. From this viewpoint of “peace of mind,” we actively communicate through our website and other means. Moreover, we place great importance on labeling and advertisements. In addition to compliance with laws and industry standards, we strive to provide clear and easy-to-understand expressions beyond legal requirements.

The Kikkoman Group’s quality assurance flow



ACTIONS FOR 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 and teach students about food and diet. Schools use this program as part of their integrated study time to provide an opportunity for students to think about the importance of food and what it means to enjoy eating while simultaneously learning about the ingredients and techniques used to make soy sauce.

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.



Kikkoman Foods, Inc. marks 45th anniversary of Wisconsin plant with \$600,000 scholarship gift for area high schools

Kikkoman Foods, Inc., our local manufacturing subsidiary in the U.S., began producing soy sauce at its Wisconsin plant in 1973. At an event in June 2018 to commemorate the 45th anniversary of the plant, Kikkoman announced a \$600,000 gift to endow scholarship funds at six area high schools near the plant. Each of the schools will receive \$100,000 for their respective scholarship schemes to help students enter universities, acquire specialized technical skills or improve their job prospects through training.

Since Kikkoman’s establishment, we have always put great importance on building strong connections with the communities in which we operate. We believe part of our role as a good corporate citizen is to help cultivate the leaders of tomorrow by supporting education. That approach is reflected in our many years of support for local educational institutions in the U.S., such as the University of Wisconsin.

Going forward, we will continue to implement initiatives “to become a company whose existence is meaningful to global society,” one of the Kikkoman Group Management Principles.



Kikkoman Foods, Inc. Wisconsin plant

For more information about the Kikkoman Group’s corporate citizenship activities, please read our Data Book.

https://www.kikkoman.com/en/csr/report/kikkoman_databook.html

Financial Section

Management's Discussion and Analysis

OPERATING RESULTS

In fiscal 2018, ended March 31, 2018, the Kikkoman Group's domestic sales rose year on year thanks to strong sales of beverages and higher sales of food products, despite a decline in sales of soy sauce and liquor and wine. Overseas sales also increased year on year, supported by growth in soy sauce sales in North America, Europe, and Asia/Oceania and a strong

performance by the oriental food wholesale business.

As a result, on a consolidated basis, net sales increased 7.1% year on year to ¥430,602 million, operating profit rose 11.1% to ¥36,502 million, and profit attributable to owners of parent increased 0.1% to ¥23,846 million.

NET SALES

	Millions of yen			
	2018	2017	Change	
Domestic Foods—Manufacturing and Sales	¥172,437	¥167,337	¥5,099	3.0%
Domestic Others	21,149	21,035	114	0.5%
Overseas Foods—Manufacturing and Sales	89,453	81,783	7,669	9.4%
Overseas Foods—Wholesale	174,457	156,868	17,589	11.2%
Adjustments	(26,895)	(24,851)	(2,043)	—
Consolidated	¥430,602	¥402,174	¥28,428	7.1%

OPERATING PROFIT

	Millions of yen			
	2018	2017	Change	
Domestic Foods—Manufacturing and Sales	¥10,385	¥ 8,306	¥2,079	25.0%
Domestic Others	1,465	1,443	22	1.5%
Overseas Foods—Manufacturing and Sales	17,791	16,251	1,539	9.5%
Overseas Foods—Wholesale	8,166	7,648	518	6.8%
Adjustments	(1,307)	(806)	(500)	—
Consolidated	¥36,502	¥32,842	¥3,659	11.1%

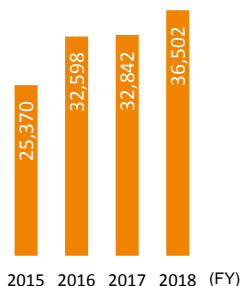
Net Sales

Millions of yen



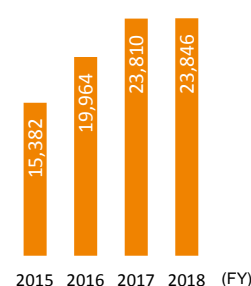
Operating Profit

Millions of yen



Profit Attributable to Owners of Parent

Millions of yen



SEGMENT INFORMATION

DOMESTIC

Foods – Manufacturing and Sales

Sales in this segment rose 3.0% to ¥172,437 million and operating profit increased 25.0% to ¥10,385 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 continued to rise 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. Increased in-store and TV advertising also contributed to sales growth. Meanwhile, sales of products in conventional plastic bottles such as *Tokusen Marudaizu* and *Koikuchi* Soy Sauce fell year on year. In the industrial-use and food service-use sectors, sales of products in large containers remained strong, but sales of products in medium-sized containers declined. As a result, sales in the Soy Sauce Division declined compared with the previous fiscal year.

[Food Products Division]

Among *tsuyu* (soy sauce soup base) products in the home-use sector, the *Gumen* series, a straight type that does not need to be diluted, sold well. Sales of condensed *tsuyu* products rose year on

year, with sales of *Koidashi Hon Tsuyu*, which was renewed in the previous year, growing strongly. In *tare* (dipping and marinade sauces), sales of the mainstay *Wagaya wa Yakinikuyasan* series were strong, and sales of *Steak Shoyu* and products for food service-use increased. As a result, overall *tare* sales rose from a year earlier. Sales of the *Uchi No Gohan* series (handy Japanese-style seasoning mixes) rose, partly due to TV advertising and sales campaigns. Overall, sales of Del Monte seasonings declined from a year ago due to price system changes, despite strong sales of high value-added products such as *Lycopene-Rich* products. Total sales in the Food Products Division rose from the previous fiscal year.

[Beverages Division]

In soy milk beverages, sales of foods for specified health uses (FOSHU products) increased amid rising interest in healthy lifestyles. A growing number of consumers are using soy milk as a cooking ingredient, as well as a beverage, supporting higher sales of soy milk beverages year on year.

In Del Monte beverages, sales increased year on year due to strong sales of tomato juice, spurred by market growth, and by continued firm sales of the new range of *Lycopene-Rich* tomato 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	<ul style="list-style-type: none"> • Soy sauce • <i>Tsuyu</i> (soy sauce soup base)
Food Products Division	<ul style="list-style-type: none"> • <i>Tare</i> (dipping and marinade sauces) • Handy seasoning mixes • Del Monte seasonings
Beverages Division	<ul style="list-style-type: none"> • Soy milk beverages • Del Monte beverages
Liquor and Wine Division	<ul style="list-style-type: none"> • <i>Mirin</i> (sweet <i>sake</i> for cooking) • Wines

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	<ul style="list-style-type: none"> • Soy sauce • <i>Teriyaki</i> sauce 	North America, Europe, Asia/Oceania
Del Monte Division	<ul style="list-style-type: none"> • Canned fruits • Canned corn • Tomato ketchup 	Asia and Oceania (Excluding the Philippines)
Other Foods Division	<ul style="list-style-type: none"> • Health foods 	North America

Foods–Wholesale

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

[Liquor and Wine Division]

Sales of *Hon Mirin* declined year on year. Although sales of *Komekoji Kodawari-jikomi Hon Mirin* (premium sweet sake for cooking) in a new bottle were strong, sales of *Houjun Hon Mirin* were weak. Sales of domestic wines declined year on year, reflecting sluggish sales of wines in large containers, despite strong demand for Japanese wines such as *Koshu Kobo No Awa*. Sales of imported wines decreased year on year. As a result, sales in the Liquor and Wine Division declined compared with the previous fiscal year.

Others

Sales in this segment rose 0.5% to ¥21,149 million and operating profit increased 1.5% to ¥1,465 million, with sales and profits both increasing year on year.

While sales of clinical diagnostic reagents and hygiene inspection agents were strong, sales of chemical products such as hyaluronic acid were weak. Sales in the logistics business rose year on year, supporting growth in segment sales overall.

OVERSEAS

Foods – Manufacturing and Sales

Sales in this segment rose 9.4% to ¥89,453 million and operating profit increased 9.5% to ¥17,791 million, with sales and profits both increasing year on year.

[Soy Sauce Division]

In the North American market, the division worked to expand its business by leveraging the power of the Kikkoman brand by continuing efforts to enhance the lineup of mainstay soy sauce products and soy sauce-based seasonings and other products for

the home-use sector. In the industrial- and food service-use sectors, the division worked to accurately address customer needs, leading to firm sales in both sectors. As a result, sales in North America increased from the previous fiscal year.

In the European market, sales increased year on year, reflecting a strong performance in key markets such as France.

In Asia/Oceania, sales rose in Indonesia and Philippines, among other countries. Earnings from a manufacturing company in China were included in consolidated results from the fourth quarter of the previous fiscal year, supporting a sharp increase in sales year on year.

As a result, sales in the overseas Soy Sauce Division increased compared with the previous fiscal year.

[Del Monte Division]

Sales of canned tropical fruits fell year on year in the key markets of South Korea, Hong Kong, and Singapore, leading to lower sales in the Del Monte Division compared with the previous fiscal year.

[Other Foods Division]

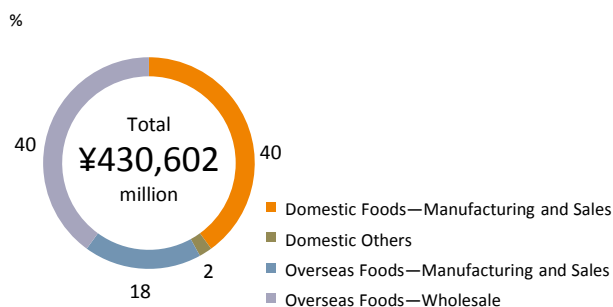
Despite firm sales through medical clinics, sales declined overall due to weak sales through general stores.

Foods – Wholesale

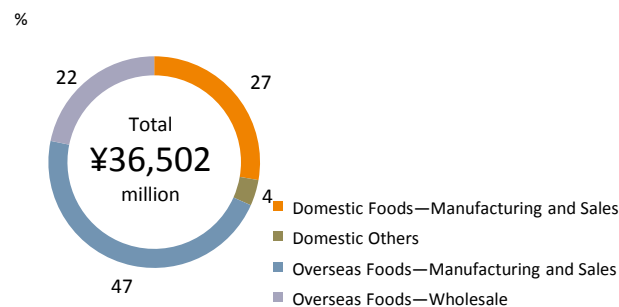
Sales in this segment rose 11.2% to ¥174,457 million and operating profit increased 6.8% to ¥8,166 million, with sales and profits both rising year on year.

Sales in North America increased, 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 in this segment increased compared with the previous fiscal year.

Net Sales Composition (Fiscal 2018)



Operating Profit Composition (Fiscal 2018)



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

FINANCIAL POSITION

ASSETS

Current assets as of March 31, 2018 totaled ¥148,340 million, a decline of ¥18,617 million from the end of the previous fiscal year, mainly reflecting a drop in cash and deposits. Property, plant and equipment, at cost and investments and other assets totaled ¥198,580 million, an increase of ¥4,290 million from the end of the previous fiscal year, mainly due to a rise in machinery, equipment and vehicles.

As a result, total assets were ¥346,921 million, a decline of ¥14,327 million from the end of the previous fiscal year.

LIABILITIES

Current liabilities as of March 31, 2018 totaled ¥57,532 million, an increase of ¥5,657 million from the end of the previous fiscal year. This was mainly attributable to increases in other current liabilities, accrued income taxes and other accounts payable.

Non-current liabilities totaled ¥36,099 million, a decrease of ¥28,836 million from the end of the previous fiscal year, mainly attributable to a decline in long-term debt.

As a result, total liabilities were ¥93,631 million, a decline of ¥23,179 million from the end of the previous fiscal year.

NET ASSETS

Net assets as of March 31, 2018 totaled ¥253,289 million, an increase of ¥8,852 million from the end of the previous fiscal year. This mainly reflected the acquisition of treasury stock, outweighed by an increase in retained earnings.

This resulted in an equity ratio of 71.5%, compared with 66.4% at the end of the previous fiscal year.

Net assets per share increased ¥49.47 to ¥1,292.18.

CASH FLOWS

Cash and cash equivalents were ¥22,785 million as of March 31, 2018, a decline of ¥21,419 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 fiscal year under review are described below.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥37,645 million, an increase of ¥11,509 million from the previous fiscal year, mainly due to a decline in cash used for income taxes paid.

Cash Flows from Investing Activities

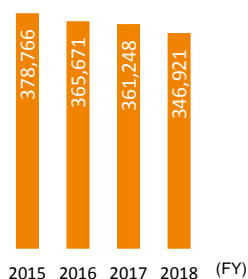
Net cash used in investing activities was ¥14,640 million, mainly reflecting cash used for the acquisition of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥43,968 million, mainly reflecting cash used for the redemption of bonds, cash dividends paid and the acquisition of treasury stock.

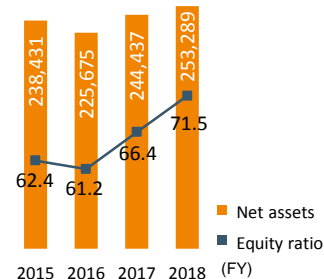
Total Assets

Millions of yen



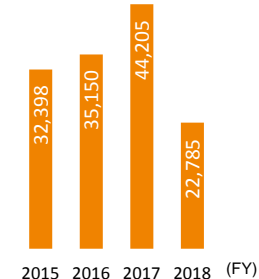
Net Assets / Equity Ratio

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, a disaster caused by climate change, 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.

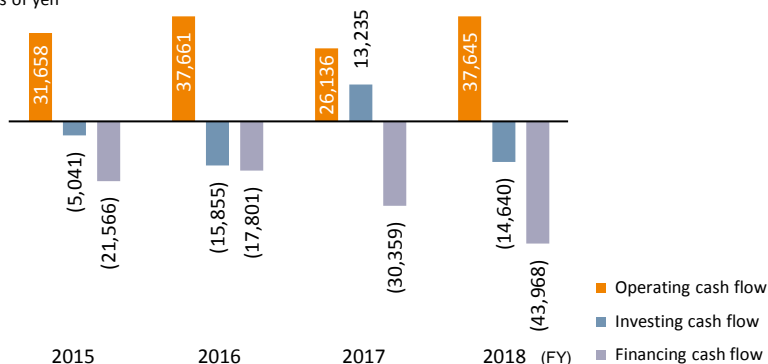
The Kikkoman Group uses various techniques to mitigate and avoid foreign currency exchange risk, but changes in currency markets could adversely affect its business results and financial position.

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,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash and deposits (Notes 4 and 16)	¥ 22,196	¥ 45,297	\$ 208,923
Trade notes and accounts receivable (Notes 5, 8 and 16)	58,452	54,930	550,188
Allowance for doubtful receivables	(499)	(483)	(4,696)
	57,953	54,447	545,491
Short-term investment securities (Notes 4 and 6)	2,892	1,184	27,221
Merchandise and finished goods	37,760	34,120	355,421
Work in process	10,894	10,855	102,541
Raw materials and supplies	4,991	4,640	46,978
Deferred tax assets (Note 10)	4,492	4,534	42,281
Other	7,159	11,877	67,385
Total current assets	148,340	166,958	1,396,272
Property, plant and equipment, at cost (Note 18):			
Land	20,779	22,273	195,585
Buildings and structures	103,007	102,198	969,568
Machinery, equipment and vehicles	197,744	191,443	1,861,295
Leased assets	325	396	3,059
Other	21,234	19,438	199,868
Construction in progress	7,264	3,592	68,373
	350,354	339,340	3,297,759
Accumulated depreciation	(240,232)	(232,998)	(2,261,219)
Property, plant and equipment, net	110,121	106,344	1,036,530
Investments and other assets:			
Investment securities (Notes 6 and 16)	59,112	57,469	556,400
Investments in and advances to unconsolidated subsidiaries and affiliates	6,798	6,799	63,987
Goodwill	5,081	5,826	47,825
Other intangible assets	5,440	5,769	51,204
Deferred tax assets (Note 10)	1,363	2,442	12,829
Net defined benefit asset (Note 9)	7,371	6,523	69,380
Other	3,289	3,115	30,958
Total investments and other assets	88,458	87,945	832,624
Total assets	¥ 346,921	¥ 361,248	\$ 3,265,446

	March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Liabilities			
Current liabilities:			
Short-term bank loans (Notes 8 and 16)	¥ 3,392	¥ 2,820	\$ 31,927
Current portion of long-term debt (Notes 7 and 16)	300	–	2,823
Lease obligations (Notes 7 and 13)	33	44	310
Trade notes and accounts payable (Note 16)	21,535	21,196	202,701
Other accounts payable (Note 16)	17,737	16,771	166,952
Accrued income taxes	3,433	1,888	32,313
Accrued employees' bonuses	2,497	2,383	23,503
Accrued directors' bonuses	115	101	1,082
Other	8,487	6,668	79,885
Total current liabilities	57,532	51,875	541,528
Non-current liabilities:			
Long-term debt (Notes 7 and 16)	13,000	43,300	122,364
Lease obligations (Notes 7 and 13)	40	54	376
Net defined benefit liability (Note 9)	4,783	4,521	45,020
Accrued directors' severance benefits	712	786	6,701
Provision for environmental remediation	124	349	1,167
Deferred tax liabilities (Note 10)	10,251	9,048	96,489
Other	7,187	6,877	67,648
Total non-current liabilities	36,099	64,936	339,787
Total liabilities	93,631	116,811	881,315
Contingent Liabilities (Note 14)			
Net assets			
Shareholders' equity:			
Common stock, without par value:			
Authorized: 600,000,000 shares at March 31, 2018 and 2017			
Issued: 210,383,202 shares at March 31, 2018 and 2017	11,599	11,599	109,177
Capital surplus (Note 11)	13,915	13,914	130,977
Retained earnings (Notes 11)	238,660	222,614	2,246,423
Treasury stock, at cost (Note 20):			
18,403,085 shares at March 31, 2018 and			
17,249,765 shares at March 31, 2017	(35,616)	(30,600)	(335,240)
Total shareholders' equity	228,558	217,528	2,151,336
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on securities, net of taxes	20,956	20,306	197,251
Deferred hedge gain (loss), net of taxes (Note 17)	(38)	(3)	(357)
Foreign currency translation adjustments	(2,050)	2,652	(19,295)
Remeasurements of defined benefit plans, net of taxes (Note 9)	647	(473)	6,089
Total accumulated other comprehensive income (loss)	19,514	22,481	183,678
Non-controlling interests	5,216	4,427	49,096
Total net assets	253,289	244,437	2,384,120
Total liabilities and net assets	¥ 346,921	¥ 361,248	\$ 3,265,446

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

KIKKOMAN CORPORATION and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales	¥ 430,602	¥ 402,174	\$ 4,053,106
Cost of sales (Notes 9 and 12)	260,426	242,343	2,451,298
Gross profit	170,176	159,830	1,601,807
Selling, general and administrative expenses (Notes 9 and 12)	133,673	126,988	1,258,217
Operating income	36,502	32,842	343,580
Other income (expenses):			
Interest and dividend income	1,245	1,517	11,718
Equity in earnings of affiliates	172	4	1,618
Foreign exchange gains, net	2,701	560	25,423
Rental income (Note 18)	701	712	6,598
Interest expenses	(304)	(762)	(2,861)
Sales discounts	(747)	(719)	(7,031)
Loss on valuation of derivatives (Note 17)	(2,169)	(22)	(20,416)
Gain on sales of property, plant and equipment (Note 18)	–	46	–
Gain on sales of investment securities (Note 6)	3,981	166	37,471
Loss on impairment of fixed assets	(141)	(443)	(1,327)
Loss on disposal of property, plant and equipment	(305)	–	(2,870)
Loss on revaluation of investment securities (Note 6)	(1,076)	–	(10,128)
Loss on revaluation of golf club memberships	(2)	–	(18)
Amortization of goodwill	–	(3,813)	–
Loss on valuation of shares of subsidiaries and affiliates	(381)	(103)	(3,586)
Loss on sales of shares of subsidiaries and affiliates	–	(377)	–
Loss on redemption of bond	(1,668)	(432)	(15,700)
100th anniversary project cost	(392)	–	(3,689)
Other, net	(2,116)	(2,096)	(19,917)
Income before income taxes	35,999	27,079	338,846
Income taxes (Note 10):			
Current	10,390	8,379	97,797
Deferred	1,450	(5,162)	13,648
	11,841	3,216	111,455
Net income	24,157	23,863	227,381
Net income attributable to:			
Non-controlling interests	(311)	(53)	(2,927)
Owners of parent (Note 15)	¥ 23,846	¥ 23,810	\$ 224,454

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

KIKKOMAN CORPORATION and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net income	¥ 24,157	¥ 23,863	\$ 227,381
Other comprehensive income (loss):			
Unrealized holding gain (loss) on securities, net of taxes	653	2,413	6,146
Deferred hedge gain (loss), net of taxes	(35)	18	(329)
Foreign currency translation adjustments	(4,530)	(1,736)	(42,639)
Remeasurements of defined benefit plans, net of taxes	1,128	2,419	10,617
Share of other comprehensive income of affiliates accounted for using the equity method	(86)	(1,250)	(809)
Total other comprehensive income (loss)	¥ (2,870)	¥ 1,865	\$ (27,014)
Comprehensive income	¥ 21,287	¥ 25,728	\$ 200,367
Total comprehensive income attributable to:			
Owners of parent	¥ 20,833	¥ 25,468	\$ 196,093
Non-controlling interests	454	259	4,273

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

KIKKOMAN CORPORATION and Consolidated Subsidiaries

Year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Common stock (210,383,202 shares)	Capital surplus (Note 11)	Retained earnings (Notes 11)	Treasury stock (Notes 20)	Total shareholders' equity
Balance at beginning of the period	¥ 11,599	¥ 13,914	¥ 222,614	¥ (30,600)	¥ 217,528
Changes of items during the period					
Cash dividends			(7,727)		(7,727)
Net income attributable to owners of parent			23,846		23,846
Change in scope of consolidation			(72)		(72)
Purchase of treasury stock				(5,016)	(5,016)
Disposal of treasury stock		0		0	1
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	16,045	(5,016)	11,030
Balance at end of the period	¥ 11,599	¥ 13,915	¥ 238,660	¥ (35,616)	¥ 228,558

	Accumulated other comprehensive income (loss)					Non-controlling interests	Total net assets
	Unrealized holding gain (loss) on securities, net of taxes	Deferred hedge gain (loss), net of taxes (Notes 17)	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes (Note 9)	Total accumulated other comprehensive income (loss)		
Balance at beginning of the period	¥ 20,306	¥ (3)	¥ 2,652	¥ (473)	¥ 22,481	¥ 4,427	¥ 244,437
Changes of items during the period							
Cash dividends							(7,727)
Net income attributable to owners of parent							23,846
Change in scope of consolidation							(72)
Purchase of treasury stock							(5,016)
Disposal of treasury stock							1
Net changes of items other than shareholders' equity	649	(35)	(4,703)	1,121	(2,967)	789	(2,177)
Total changes of items during the period	649	(35)	(4,703)	1,121	(2,967)	789	8,852
Balance at end of the period	¥ 20,956	¥ (38)	¥ (2,050)	¥ 647	¥ 19,514	¥ 5,216	¥ 253,289

Year ended March 31, 2018

(Thousands of U.S. dollars) (Note 3)

	Shareholders' equity				
	Common stock (210,383,202 shares)	Capital surplus (Note 11)	Retained earnings (Notes 11)	Treasury stock (Notes 20)	Total shareholders' equity
Balance at beginning of the period	\$ 109,177	\$ 130,967	\$ 2,095,387	\$ (288,027)	\$ 2,047,515
Changes of items during the period					
Cash dividends			(72,731)		(72,731)
Net income attributable to owners of parent			224,454		224,454
Change in scope of consolidation			(677)		(677)
Purchase of treasury stock				(47,213)	(47,213)
Disposal of treasury stock		0		0	9
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	151,025	(47,213)	103,821
Balance at end of the period	\$ 109,177	\$ 130,977	\$ 2,246,423	\$ (335,240)	\$ 2,151,336

	Accumulated other comprehensive income (loss)					Non-controlling interests	Total net assets
	Unrealized holding gain (loss) on securities, net of taxes	Deferred hedge gain (loss), net of taxes (Note 17)	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes (Note 9)	Total accumulated other comprehensive income (loss)		
Balance at beginning of the period	\$ 191,133	\$ (28)	\$ 24,962	\$ (4,452)	\$ 211,605	\$ 41,669	\$ 2,300,800
Changes of items during the period							
Cash dividends							(72,731)
Net income attributable to owners of parent							224,454
Change in scope of consolidation							(677)
Purchase of treasury stock							(47,213)
Disposal of treasury stock							9
Net changes of items other than shareholders' equity	6,108	(329)	(44,267)	10,551	(27,927)	7,426	(20,491)
Total changes of items during the period	6,108	(329)	(44,267)	10,551	(27,927)	7,426	83,320
Balance at end of the period	\$ 197,251	\$ (357)	\$ (19,295)	\$ 6,089	\$ 183,678	\$ 49,096	\$ 2,384,120

Year ended March 31, 2017

(Millions of yen)

	Shareholders' equity				
	Common stock (210,383,202 shares)	Capital surplus (Note 11)	Retained earnings (Notes 11)	Treasury stock	Total shareholders' equity
Balance at beginning of the period	¥ 11,599	¥ 13,912	¥ 208,035	¥ (30,833)	¥ 202,713
Changes of items during the period					
Cash dividends			(9,273)		(9,273)
Net income attributable to owners of parent			23,810		23,810
Change in scope of consolidation			231		231
Purchase of treasury stock				(75)	(75)
Disposal of treasury stock		2		2	4
Change in scope of equity method			(188)	305	116
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	2	14,579	232	14,814
Balance at end of the period	¥ 11,599	¥ 13,914	¥ 222,614	¥ (30,600)	¥ 217,528

	Accumulated other comprehensive income (loss)					Non-controlling interests	Total net assets
	Unrealized holding gain (loss) on securities, net of taxes	Deferred hedge gain (loss), net of taxes (Note 17)	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes (Note 9)	Total accumulated other comprehensive income (loss)		
Balance at beginning of the period	¥ 18,728	¥ (14)	¥ 5,203	¥ (2,947)	¥ 20,970	¥ 1,991	¥ 225,675
Changes of items during the period							
Cash dividends							(9,273)
Net income attributable to owners of parent							23,810
Change in scope of consolidation							231
Purchase of treasury stock							(75)
Disposal of treasury stock							4
Change in scope of equity method							116
Net changes of items other than shareholders' equity	1,577	11	(2,550)	2,473	1,511	2,435	3,947
Total changes of items during the period	1,577	11	(2,550)	2,473	1,511	2,435	18,761
Balance at end of the period	¥ 20,306	¥ (3)	¥ 2,652	¥ (473)	¥ 22,481	¥ 4,427	¥ 244,437

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KIKKOMAN CORPORATION and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Cash flows from operating activities			
Income before income taxes	¥ 35,999	¥ 27,079	\$ 338,846
Depreciation and amortization	13,160	12,339	123,870
Loss on impairment of fixed assets	141	443	1,327
Increase (decrease) in accrued directors' severance benefits	(74)	(10)	(696)
Increase (decrease) in net defined benefit liability	1,157	418	10,890
Interest and dividend income	(1,245)	(1,517)	(11,718)
Interest expenses	304	762	2,861
Equity in earnings of affiliates	(172)	(4)	(1,618)
Gain on sales of property, plant and equipment	(231)	(51)	(2,174)
(Gain) Loss on sales of investment securities (Note 6)	(3,981)	210	(37,471)
Loss on disposal of property, plant and equipment	813	303	7,652
Loss on revaluation of investment securities	1,077	–	10,137
(Increase) decrease in trade notes and accounts receivable	(4,010)	(2,845)	(37,744)
(Increase) decrease in inventories	(4,479)	(886)	(42,159)
Increase (decrease) in trade notes and accounts payable	596	741	5,609
Other	1,722	3,297	16,208
Subtotal	40,779	40,279	383,838
Interest and dividends received	1,234	1,332	11,615
Interest paid	(431)	(965)	(4,056)
Income taxes paid	(3,936)	(14,511)	(37,048)
Net cash provided by operating activities	37,645	26,136	354,339
Cash flows from investing activities			
Acquisition of property, plant and equipment	(16,390)	(10,972)	(154,273)
Proceeds from sales of property, plant and equipment	1,576	93	14,834
Acquisition of intangible assets	(768)	(721)	(7,228)
Acquisition of investment securities	(3,542)	(1,291)	(33,339)
Proceeds from sales of investment securities	4,609	24,560	43,382
Addition to loans receivable	(622)	(426)	(5,854)
Collection of loans receivable	413	516	3,887
Other	84	1,475	790
Net cash provided by (used in) investing activities	(14,640)	13,235	(137,801)
Cash flows from financing activities			
Increase (decrease) in short-term bank loans	536	(2,036)	5,045
Proceeds from long-term debt	–	13,000	–
Repayment of long-term debt	–	(11,000)	–
Redemption of bonds	(31,668)	(20,432)	(298,079)
Acquisition of treasury stock	(5,035)	(101)	(47,392)
Cash dividends paid	(7,727)	(9,273)	(72,731)
Cash dividends paid to non-controlling shareholders	(24)	(103)	(225)
Other	(48)	(411)	(451)
Net cash used in financing activities	(43,968)	(30,359)	(413,855)
Effect of exchange rate changes on cash and cash equivalents	(703)	(12)	(6,617)
Net increase (decrease) in cash and cash equivalents	(21,666)	8,999	(203,934)
Cash and cash equivalents at beginning of the year	44,205	35,150	416,086
Increase in cash and cash equivalents from newly consolidated subsidiary	335	56	3,153
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(88)	–	(828)
Cash and cash equivalents at end of the year (Note 4)	¥ 22,785	¥ 44,205	\$ 214,467

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 (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

Practical Issues Task Force No.18, “Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements” issued by the Accounting Standards Board of Japan (“ASBJ”) as revised March 29, 2017 (“PITF No.18”) requires that accounting policies applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for preparing the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries’ financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles. In this case, adjustments for the following four items are required in the consolidation process so that their impacts on net income attributable to owners of parent are accounted for in accordance with Japanese GAAP.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets

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 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 its estimated useful life. The range of useful lives is five to ten 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 year arising from revisions to actuarial assumptions (the "actuarial gain or loss") is amortized by the straight-line method beginning the following 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 presentation

Changes in the consolidated statements of income

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

“Loss on valuation of derivatives” included in “Other, net” in “Other income (expenses)” for the year ended March 31, 2017 is presented as a separate account for the year ended March 31, 2018 due to an increase in materiality. The consolidated financial statements for the year ended March 31, 2017 have been reclassified to conform to the presentation used for the year ended March 31, 2018.

As a result, “Loss on valuation of derivatives” of ¥22 million presented in “Other, net” for the year ended March 31, 2017, is presented as a separate account in “Other income (expenses)” for the year ended March 31, 2018.

(q) Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have jointly developed comprehensive accounting standards related to revenue recognition, which were issued in May 2014 as “Revenue from Contracts with Customers” (by the IASB as IFRS 15, and by the FASB as Topic 606). Given the state of application of IFRS 15 from periods beginning on or after January 1, 2018, and of Topic 606 from periods beginning on or after December 15, 2017, the ASBJ has developed a comprehensive accounting standard on revenue recognition and issued corresponding implementation guidance.

When developing its Accounting Standard for Revenue Recognition, the ASBJ’s basic policy was to use the basic principles of IFRS 15 as a starting point from the point of view of improving the international comparability of financial statements. In addition, taking into account actual practice in Japan to date, the standard includes additional alternative treatments to the extent that international comparability would not be lost.

(2) Effective date

Effective from the year ending March 31, 2022.

(3) Effects of the application of the standard and guidance

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

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 ¥106.24 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2018. 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, 2018 and 2017 were as follows:

	March 31,		2018 (Thousands of U.S. dollars)
	2018 (Millions of yen)	2017	
Cash and deposits	¥22,196	¥45,297	\$208,923
Short-term investment securities	2,892	1,184	27,221
Time deposits with maturities of more than three months	(798)	(1,287)	(7,511)
Short-term investments with period from the acquisition date to the redemption date of more than three months	(1,504)	(988)	(14,156)
Cash and cash equivalents	¥22,785	¥44,205	\$214,467

5. Notes maturing at the end of the year

Notes maturing at the end of the year are settled as of the clearing day. When days at the end of the year when notes are due to be cleared are holidays of financial institutions, notes maturing at the end of the year are included in the balance at the end of the year as follows:

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Trade notes	¥5	–	\$47

6. Fair Value of Securities

As of March 31, 2018 and 2017, 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 “Investment 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, 2018 and 2017 are summarized as follows:

	March 31, 2018					
	Acquisition costs	Carrying value	Difference	Acquisition costs	Carrying value	Difference
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:						
Stocks	¥19,511	¥ 50,131	¥ 30,619	\$183,650	\$471,865	\$288,205
Unrealized loss:						
Stocks	2,891	2,638	(252)	27,211	24,830	(2,371)
Other	2,892	2,892	–	27,221	27,221	–
	<u>5,783</u>	<u>5,530</u>	<u>(252)</u>	<u>54,433</u>	<u>52,051</u>	<u>(2,371)</u>
Total	<u>¥25,295</u>	<u>¥ 55,661</u>	<u>¥ 30,366</u>	<u>\$238,092</u>	<u>\$523,917</u>	<u>\$285,824</u>

	March 31, 2017		
	Acquisition costs	Carrying value	Difference
	<i>(Millions of yen)</i>		
Unrealized gain:			
Stocks	¥19,808	¥ 49,586	¥ 29,777
Unrealized loss:			
Stocks	2,532	2,183	(349)
Other	1,184	1,184	–
	<u>3,716</u>	<u>3,367</u>	<u>(349)</u>
Total	<u>¥23,525</u>	<u>¥ 52,953</u>	<u>¥ 29,428</u>

Proceeds from sales of securities classified as other securities amounted to ¥4,577 million (\$43,081 thousand) and ¥189 million with an aggregate gain on sales of ¥3,981 million (\$37,471 thousand) and ¥166 million for the years ended March 31, 2018 and 2017, respectively.

7. Long-Term Debt and Credit Facilities

Long-term debt and lease obligations as of March 31, 2018 and 2017 consisted of the following:

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
1.312% unsecured bonds, payable in yen, due 2021	¥ –	¥ 30,000	\$ –
Loans from banks	13,300	13,300	125,188
Lease obligations	74	98	696
	<u>13,374</u>	<u>43,398</u>	<u>125,884</u>
Less: Current portion	333	44	3,134
	<u>¥ 13,040</u>	<u>¥ 43,354</u>	<u>\$ 122,740</u>

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2018 are summarized as follows:

Years ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2019	¥ 333	\$ 3,134
2020	24	225
2021	8	75
2022	5	47
2023 and thereafter	13,001	122,373
	¥ 13,374	\$ 125,884

The Company and its consolidated subsidiaries have lines of credit from banks that provided for up to ¥65,434 million (\$615,907 thousand) and ¥65,256 million in borrowings as of March 31, 2018 and 2017, respectively. There were ¥2,728 million (\$25,677 thousand) and ¥2,212 million of short-term bank loans outstanding under these credit facilities as of March 31, 2018 and 2017, respectively.

8. Pledged Assets

The assets pledged as collateral for short-term bank loans as of March 31, 2018 and 2017 were as follows:

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Trade notes and accounts receivable	¥531	¥560	\$4,998

9. 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,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance of retirement benefit obligations at beginning of the period	¥36,958	¥38,290	\$347,872
Service cost	1,334	1,392	12,556
Interest cost	400	355	3,765
Actuarial (gain) loss	588	(548)	5,534
Retirement benefits paid	(2,929)	(2,612)	(27,569)
Other	(54)	81	(508)
Balance of retirement benefit obligations at end of the period	¥36,297	¥36,958	\$341,650

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

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance of plan assets at beginning of the period	¥38,960	¥37,682	\$366,716
Expected return on plan assets	955	919	8,989
Actuarial gain (loss)	1,213	1,913	11,417
Employer contributions	894	1,044	8,414
Retirement benefits paid	(2,729)	(2,491)	(25,687)
Other	(409)	(106)	(3,849)
Balances of plan assets at end of the period	<u>¥38,885</u>	<u>¥38,960</u>	<u>\$366,010</u>

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

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit obligations of funded pension plans	¥ 34,740	¥ 35,378	\$ 326,995
Plan assets	(38,885)	(38,960)	(366,010)
	<u>(4,144)</u>	<u>(3,582)</u>	<u>(39,006)</u>
Retirement benefit obligations of unfunded pension plans	1,556	1,579	14,646
Net amount recorded on the consolidated balance sheet	<u>(2,588)</u>	<u>(2,002)</u>	<u>(24,359)</u>
Amounts recorded on the consolidated balance sheet:			
Net defined benefit liability	4,783	4,521	45,020
Net defined benefit asset	(7,371)	(6,523)	(69,380)
Net amount recorded on the consolidated balance sheet	<u>¥ (2,588)</u>	<u>¥ (2,002)</u>	<u>\$ (24,359)</u>

(4) Retirement benefit cost

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 1,334	¥ 1,392	\$ 12,556
Interest cost	400	355	3,765
Expected return on plan assets	(955)	(919)	(8,989)
Amortization of net actuarial loss	1,081	1,080	10,175
Amortization of prior service cost	(13)	(13)	(122)
Other	257	215	2,419
Retirement benefit costs relating to defined benefit plans	<u>¥ 2,105</u>	<u>¥ 2,110</u>	<u>\$ 19,813</u>

(5) Remeasurements of defined benefit plans

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

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ (24)	¥ (13)	\$ (225)
Actuarial gain (loss)	1,798	3,569	16,923
Total	<u>¥ 1,773</u>	<u>¥ 3,555</u>	<u>\$ 16,688</u>

(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,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service cost	¥ 106	¥ 131	\$ 997
Unrecognized actuarial gain (loss)	684	(1,113)	6,438
Total	¥ 791	¥ (982)	\$ 7,445

(7) Plan assets

Breakdown of major plan assets

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

	March 31,	
	2018	2017
Stock	33%	35%
Debt securities	28%	27%
General life insurance accounts	17%	18%
Other	22%	20%
Total	100%	100%

Note: 28% and 27% as of March 31, 2018 and 2017, 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 the various assets constituting the plan assets.

(8) Actuarial assumptions

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

	March 31,	
	2018	2017
Discount rate	Mainly 0.4%	Mainly 0.4%
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 ¥668 million (\$6,287 thousand) and ¥735 million for the years ended March 31, 2018 and 2017, respectively.

10. 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 rate of approximately 30.7% for the years ended March 31, 2018 and 2017.

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, 2018 and 2017

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Inventories	¥ 184	¥ 265	\$ 1,731
Other accounts payable	1,649	2,002	15,521
Allowance for doubtful receivables	384	285	3,614
Accrued employees' bonus	747	723	7,031
Accrued pension and severance costs	2,059	2,558	19,380
Unrealized profit	619	477	5,826
Loss on impairment of fixed assets	3,442	4,838	32,398
Tax loss carried forward	3,215	5,474	30,261
Other	2,292	1,503	21,573
Gross deferred tax assets	14,595	18,128	137,377
Valuation allowance	(2,951)	(2,328)	(27,776)
Total deferred tax assets	11,643	15,800	109,591
Deferred tax liabilities:			
Depreciation	(3,860)	(5,243)	(36,332)
Deferred capital gain	(1,370)	(1,420)	(12,895)
Gain on establishment of pension trust fund	(989)	(943)	(9,309)
Unrealized holding gains on securities	(9,248)	(8,958)	(87,048)
Other	(621)	(1,372)	(5,845)
Total deferred tax liabilities	(16,089)	(17,938)	(151,440)
Deferred tax assets (liabilities), net	¥ (4,445)	¥ (2,138)	\$ (41,839)

(b) Reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2018 and 2017

	Years ended March 31,	
	2018	2017
Statutory tax rate	30.7%	30.7%
Adjustments:		
Entertainment and other permanently non-deductible expenses	1.0	1.0
Dividends and other permanently non-taxable income	(0.2)	(28.3)
Per capita inhabitants tax	0.2	0.3
Special deductions for corporate taxes paid	(1.2)	(1.3)
Tax rate differences for consolidated subsidiaries	1.2	2.0
Amortization of goodwill	0.6	5.6
Net change in valuation allowance	0.9	(1.8)
Consolidation adjustment for gain (loss) on sales of shares of subsidiaries and affiliates	—	1.4
Other	(0.3)	2.3
Effective tax rate	32.9%	11.9%

11. 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.

12. 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, 2018 and 2017 were ¥3,772 million (\$35,504 thousand) and ¥3,943 million, respectively.

13. 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

Future minimum lease payments as lessee subsequent to March 31, 2018 and 2017 for non-cancelable operating leases are summarized as follows:

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 3,490	¥ 3,155	\$ 32,850
Over 1 year	14,300	14,201	134,600
	<u>¥ 17,791</u>	<u>¥ 17,357</u>	<u>\$ 167,460</u>

14. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities as of March 31, 2018 and 2017:

	March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
As guarantor of indebtedness of:			
Unconsolidated subsidiaries	¥ —	¥ 205	\$ —
Others	81	115	762
	<u>¥ 81</u>	<u>¥ 321</u>	<u>\$ 762</u>
Contingent liabilities related to the redemption of corporate bonds by debt assumption	¥ 30,000	¥ 20,000	\$ 282,379

15. 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 years ended March 31, 2018 and 2017 because no potentially dilutive instruments were outstanding during the years.

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 years.

	As of and for the years ended March 31,		
	2018	2017	2018
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net income:			
Basic	¥ 123.71	¥ 123.28	\$ 1.16
Net assets	1,292.18	1,242.71	12.16
Cash dividends applicable to the year	39.00	34.00	0.36

16. 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 of the Company and its subsidiaries 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 and its subsidiaries perform 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 six years 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. 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. In addition, subsidiaries regularly report on the actual results of the derivative transactions to the finance department of the Company.

(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, 2018 and 2017 are set out below. The following tables do not include financial instruments for which fair values are difficult to determine.

As of March 31, 2018	Carrying amount	Fair value	Difference
		<i>(Millions of yen)</i>	
(1) Cash and deposits	¥ 22,196	¥ 22,196	¥ -
(2) Trade notes and accounts receivable	58,452	58,452	-
(3) Investment securities	55,661	55,661	-
Total assets	136,310	136,310	-
(1) Trade notes and accounts payable	21,535	21,535	-
(2) Other accounts payable	17,737	17,737	-
(3) Short-term bank loans (*2)	3,392	3,392	-
(4) Bonds	-	-	-
(5) Long-term bank loans (*2)	13,300	13,283	(16)
Total liabilities	55,965	55,948	(16)
Derivatives (*1)	¥ (3,366)	¥ (3,366)	¥ -

As of March 31, 2018	Carrying amount	Fair value	Difference
		<i>(Thousands of U.S. dollars)</i>	
(1) Cash and deposits	\$ 208,923	\$ 208,923	\$ -
(2) Trade notes and accounts receivable	550,188	550,188	-
(3) Investment securities	523,917	523,917	-
Total assets	1,283,038	1,283,038	-
(1) Trade notes and accounts payable	202,701	202,701	-
(2) Other accounts payable	166,952	166,952	-
(3) Short-term bank loans (*2)	31,927	31,927	-
(4) Bonds	-	-	-
(5) Long-term bank loans (*2)	125,188	125,028	(150)
Total liabilities	526,778	526,618	(150)
Derivatives (*1)	\$ (31,682)	\$ (31,682)	\$ -

As of March 31, 2017	Carrying amount	Fair value	Difference
		(Millions of yen)	
(1) Cash and deposits	¥ 45,297	¥ 45,297	¥ -
(2) Trade notes and accounts receivable	54,930	54,930	-
(3) Investment securities	52,953	52,953	-
Total assets	153,182	153,182	-
(1) Trade notes and accounts payable	21,196	21,196	-
(2) Other accounts payable	16,771	16,771	-
(3) Short-term bank loans (*2)	2,820	2,820	-
(4) Bonds	30,000	31,772	1,772
(5) Long-term bank loans (*2)	13,300	13,265	(34)
Total liabilities	84,088	85,827	1,738
Derivatives (*1)	¥ (1,817)	¥ (1,817)	¥ -

(*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 negotiable certificates of deposit 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 ¥12,382 million (\$116,547 thousand) and ¥11,411 million as of March 31, 2018 and 2017, 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 6. 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.

• Derivatives

Information on derivatives is set out in Note 17. Derivatives.

17. Derivatives

Summarized below are the notional amounts and the estimated fair value of the open derivative positions as of March 31, 2018 and 2017:

- (a) Hedge accounting not applied
Currency related transactions

March 31, 2018						
Classification	Type of transaction	Notional amount	Over 1 year	Fair value	Valuation gain (loss)	
<i>(Millions of yen)</i>						
Non-market transactions	Forward foreign exchange contracts:					
	Sell:					
		USD	¥ 4,267	¥ -	¥ 1	¥ 1
		EUR	315	-	(0)	(0)
		AUD	49	-	0	0
		SGD	304	-	(0)	(0)
		JPY	19	-	(1)	(1)
		HKD	10	-	0	0
	Buy:					
		USD	51,000	31,253	(3,219)	(3,219)
		EUR	3,856	3,807	59	59
		GBP	179	-	(0)	(0)
		SGD	5,957	5,151	(159)	(159)
	JPY	135	-	(0)	(0)	
Total		¥ 66,096	¥ 40,212	¥ (3,319)	¥ (3,319)	

March 31, 2018						
Classification	Type of transaction	Notional amount	Over 1 year	Fair value	Valuation gain (loss)	
<i>(Thousands of U.S. dollars)</i>						
Non-market transactions	Forward foreign exchange contracts:					
	Sell:					
		USD	\$ 40,163	\$ -	\$ 9	\$ 9
		EUR	2,964	-	(0)	(0)
		AUD	461	-	0	0
		SGD	2,861	-	(0)	(0)
		JPY	178	-	(9)	(9)
		HKD	94	-	0	0
	Buy:					
		USD	480,045	294,173	(30,299)	(30,299)
		EUR	36,295	35,833	555	555
		GBP	1,684	-	(0)	(0)
		SGD	56,071	48,484	(1,496)	(1,496)
	JPY	1,270	-	(0)	(0)	
Total		\$ 622,138	\$ 378,501	\$ (31,240)	\$ (31,240)	

March 31, 2017

Classification	Type of transaction	Notional amount	Over 1 year	Fair value	Valuation gain (loss)
<i>(Millions of yen)</i>					
Non-market transactions	Forward foreign exchange contracts:				
	Sell:				
	USD	¥ 5,523	¥ -	¥ 0	¥ 0
	EUR	924	-	(11)	(11)
	SEK	73	-	(0)	(0)
	SGD	294	-	0	0
	HKD	6	-	(0)	(0)
	Buy:				
	USD	45,026	31,247	(1,356)	(1,356)
	EUR	2,642	1,167	(213)	(213)
	GBP	1	-	0	0
	SGD	4,122	2,583	(234)	(234)
	JPY	683	-	1	1
Total		¥ 59,298	¥ 34,998	¥ (1,813)	¥ (1,813)

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, 2018

Hedge accounting method	Type of transaction	Hedged item	Notional amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Currency forward contracts	Forward foreign exchange contracts:				
	Sell:	Accounts receivable			
	USD		¥ 99	¥ -	(Note 2)
	Buy:				
	USD		646	-	(Note 2)
	EUR	Accounts payable	49	-	(Note 2)
	SGD		5	-	(Note 2)
	JPY		144	-	(Note 2)
Deferral hedge accounting	Sell:	Accounts receivable	13	-	(0)
	Buy:	Accounts payable	1,794	-	(46)
	USD		¥ 2	¥ -	¥ (0)
	EUR				

March 31, 2018

Hedge accounting method	Type of transaction	Hedged item	Notional amount	Over 1 year	Fair value
<i>(Thousands of U.S. dollars)</i>					
Currency forward contracts	Forward foreign exchange contracts:				
	Sell:				
	USD	Accounts receivable	\$ 931	\$ –	(Note 2)
	Buy:				
	USD		6,080	–	(Note 2)
	EUR	Accounts payable	461	–	(Note 2)
	SGD		47	–	(Note 2)
	JPY		1,355	–	(Note 2)
Deferral hedge accounting	Sell:				
	USD	Accounts receivable	122	–	(0)
	Buy:				
	USD	Accounts payable	16,886	–	(432)
	EUR		\$ 18	\$ –	\$ (0)

March 31, 2017

Hedge accounting method	Type of transaction	Hedged item	Notional amount	Over 1 year	Fair value
<i>(Millions of yen)</i>					
Currency forward contracts	Forward foreign exchange contracts:				
	Sell:				
	USD	Accounts receivable	¥ 257	¥ –	(Note 2)
	Buy:				
	USD		362	–	(Note 2)
	EUR	Accounts payable	74	–	(Note 2)
	SEK		0	–	(Note 2)
	JPY		3	–	(Note 2)
Deferral hedge accounting	Sell:				
	USD	Accounts receivable	25	–	(0)
	HKD		5	–	(0)
	Buy:				
	USD	Accounts payable	246	–	(3)
	EUR		¥ 0	¥ –	¥ (0)

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.

18. 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, 2018 and 2017 was ¥737 million (\$6,937 thousand) and ¥752 million, respectively. The Company recorded ¥194 million (\$1,826 thousand) and ¥46 million of gain on sales of rental properties as other income for the years ended March 31, 2018 and 2017, respectively. The Company recorded ¥2 million of impairment loss on rental properties as other expenses for the year ended March 31, 2017. There was no impairment loss on rental properties for the year ended March 31, 2018.

The carrying amount and the fair value of such rental properties as of March 31, 2018 and 2017 were as follows:

March 31, 2018				Fair value as of March 31, 2018 <i>(Millions of yen)</i>
<i>Carrying amount (Millions of yen)</i>				
Beginning of year	Net change during year	End of year		
¥ 10,099	¥ (1,505)	¥ 8,594		¥ 20,114

March 31, 2018				Fair value as of March 31, 2018 <i>(Thousands of U.S. dollars)</i>
<i>Carrying amount (Thousands of U.S. dollars)</i>				
Beginning of year	Net change during year	End of year		
\$ 95,058	\$ (14,166)	\$ 80,892		\$ 189,326

March 31, 2017				Fair value as of March 31, 2017 <i>(Millions of yen)</i>
<i>Carrying amount (Millions of yen)</i>				
Beginning of year	Net change during year	End of year		
¥ 10,267	¥ (167)	¥ 10,099		¥ 21,523

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.

19. Segment Information

(a) Segment information

(1) Overview of reportable segments

Reportable 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 reportable 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 reportable 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 reportable segment

	As of and for the year ended March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Sales and operating income:							
Net sales to third parties	¥ 170,907	¥ 7,579	¥ 78,043	¥ 174,072	¥ 430,602	¥ –	¥ 430,602
Intra-group sales and transfers	1,529	13,570	11,410	384	26,895	(26,895)	–
Total net sales	<u>172,437</u>	<u>21,149</u>	<u>89,453</u>	<u>174,457</u>	<u>457,498</u>	<u>(26,895)</u>	<u>430,602</u>
Segment income	10,385	1,465	17,791	8,166	37,809	(1,307)	36,502
Segment assets	118,052	22,448	142,298	68,368	351,167	(4,246)	346,921
Other items:							
Depreciation and amortization	6,275	1,235	3,664	1,062	12,237	785	13,023
Amortization of goodwill	543	–	108	–	651	–	651
Increase in property, plant and equipment and intangible assets	¥ 7,563	¥ 1,464	¥ 5,124	¥ 3,470	¥ 17,622	¥ 558	¥ 18,180

	As of and for the year ended March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Thousands of U.S. dollars)</i>						
Sales and operating income:							
Net sales to third parties	\$ 1,608,687	\$ 71,338	\$ 734,591	\$ 1,638,478	\$ 4,053,106	\$ –	\$ 4,053,106
Intra-group sales and transfers	14,391	127,729	107,398	3,614	253,153	(253,153)	–
Total net sales	<u>1,623,089</u>	<u>199,068</u>	<u>841,989</u>	<u>1,642,102</u>	<u>4,306,268</u>	<u>(253,153)</u>	<u>4,053,106</u>
Segment income	97,750	13,789	167,460	76,863	355,882	(12,302)	343,580
Segment assets	1,111,182	211,295	1,339,401	643,524	3,305,412	(39,966)	3,265,446
Other items:							
Depreciation and amortization	59,064	11,624	34,487	9,996	115,182	7,388	122,580
Amortization of goodwill	5,111	–	1,016	–	6,127	–	6,127
Increase in property, plant and equipment and intangible assets	\$ 71,187	\$ 13,780	\$ 48,230	\$ 32,661	\$ 165,869	\$ 5,252	\$ 171,121

Notes

Adjustments are as follows:

- (1) Adjustments of ¥(1,307) million (\$ (12,302) thousand) in segment income mainly represent expenses relating to the corporate division of the Company, which totaled ¥(1,163) million (\$ (10,946) thousand).
- (2) Adjustments of ¥(4,246) million (\$ (39,966) thousand) in segment assets represent the elimination of intersegment assets and assets relating to the corporate division of the Company, which totaled ¥119,253 million (\$1,122,486 thousand). Assets relating to the corporate division of the Company consist mainly of cash and deposits and investment securities.
- (3) Adjustments of ¥785 million (\$7,388 thousand) in depreciation and amortization consist of depreciation of assets relating to the corporate division of the Company.
- (4) Adjustments of ¥558 million (\$5,252 thousand) in increase in property, plant and equipment and intangible assets consist of asset acquisitions of the corporate division of the Company.

As of and for the year ended March 31, 2017							
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Sales and operating income:							
Net sales to third parties	¥ 165,964	¥ 7,754	¥ 71,926	¥ 156,529	¥ 402,174	¥ –	¥ 402,174
Intra-group sales and transfers	1,373	13,281	9,857	338	24,851	(24,851)	–
Total net sales	167,337	21,035	81,783	156,868	427,025	(24,851)	402,174
Segment income	8,306	1,443	16,251	7,648	33,649	(806)	32,842
Segment assets	114,779	22,326	136,940	64,109	338,155	23,092	361,248
Other items:							
Depreciation and amortization	6,078	1,166	3,027	959	11,232	960	12,192
Amortization of goodwill	4,826	–	135	–	4,961	–	4,961
Increase in property, plant and equipment and intangible assets	¥ 5,853	¥ 977	¥ 3,464	¥ 1,165	¥ 11,461	¥ 704	¥ 12,165

Notes

Adjustments are as follows:

- (1) Adjustments of ¥(806) million in segment income mainly represent expenses relating to the corporate division of the Company, which totaled ¥(751) million.
- (2) Adjustments of ¥23,092 million in segment assets represent the elimination of intersegment assets and assets relating to the corporate division of the Company, which totaled ¥143,223 million. Assets relating to the corporate division of the Company consist mainly of cash and deposits and investment securities.
- (3) Adjustments of ¥960 million in depreciation and amortization consist of depreciation of assets relating to the corporate division of the Company.
- (4) Adjustments of ¥704 million in increase in property, plant and equipment and intangible assets consist of asset acquisitions of the corporate division of the Company.

(b) Related information

Information by geographical area

Sales				
For the year ended March 31, 2018				
<i>(Millions of yen)</i>				
Amount	Japan	North America	Other	Total
	¥ 180,091	¥ 182,257	¥ 68,254	¥ 430,602
Sales				
For the year ended March 31, 2018				
<i>(Thousands of U.S. dollars)</i>				
Amount	Japan	North America	Other	Total
	\$ 1,695,133	\$ 1,715,521	\$ 642,451	\$ 4,053,106
Sales				
For the year ended March 31, 2017				
<i>(Millions of yen)</i>				
Amount	Japan	North America	Other	Total
	¥ 176,672	¥ 167,677	¥ 57,824	¥ 402,174

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

Note: "North America" is managed as one region, and it is difficult to classify sales to third parties by individual country, so the sales amount for each country is not disclosed.

Property, plant and equipment

As of March 31, 2018				
<i>(Millions of yen)</i>				
Net book value	Japan	United States	Other	Total
	¥ 70,825	¥ 25,224	¥ 14,071	¥ 110,121

Property, plant and equipment As of March 31, 2018 (Thousands of U.S. dollars)					
Net book value	Japan	United States	Other	Total	
	\$ 666,650	\$ 237,424	\$ 132,445	\$ 1,036,530	

Property, plant and equipment As of March 31, 2017 (Millions of yen)					
Net book value	Japan	United States	Other	Total	
	¥ 69,746	¥ 23,942	¥ 12,655	¥ 106,344	

Information regarding loss on impairment of fixed assets by reportable segment

	For the year ended March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Impairment loss	¥ —	¥ 50	¥ 90	¥ —	¥ 141	¥ —	¥ 141

	For the year ended March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Thousands of U.S. dollars)</i>						
Impairment loss	\$ —	\$ 470	\$ 847	\$ —	\$ 1,327	\$ —	\$ 1,327

	For the year ended March 31, 2017						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Impairment loss	¥ —	¥ —	¥ 443	¥ —	¥ 443	¥ —	¥ 443

Information regarding the balance of goodwill by reportable segment

	As of March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Goodwill ending balance	¥ 3,863	¥ —	¥ 1,218	¥ —	¥ 5,081	¥ —	¥ 5,081

	As of March 31, 2018						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Thousands of U.S. dollars)</i>						
Goodwill ending balance	\$ 36,361	\$ —	\$ 11,464	\$ —	\$ 47,825	\$ —	\$ 47,825

	As of March 31, 2017						
	Domestic Foods – Manufacturing and Sales	Domestic Others	Overseas Foods – Manufacturing and Sales	Overseas Foods – Wholesale	Total	Adjustments	Consolidated
	<i>(Millions of yen)</i>						
Goodwill ending balance	¥ 4,406	¥ —	¥ 1,420	¥ —	¥ 5,826	¥ —	¥ 5,826

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

20. Subsequent Events

(a) Cancellation of treasury stock

The Board of Directors of the Company at its meeting held on April 26, 2018, resolved that the Company would cancel a portion of its shares held as treasury stock pursuant to Article 178 of the Companies Act of Japan, and cancelled the shares on May 15, 2018 as follows:

1. Type of shares cancelled Common stock
2. Number of shares cancelled 16,500,000 shares
(7.84% of the total number of outstanding shares before cancellation)
3. Date of cancellation May 15, 2018

The total number of outstanding shares after cancellation is 193,883,202 shares.

(b) Cash dividends

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements as of and for the year ended March 31, 2018, were approved at the general meeting of shareholders held on June 26, 2018.

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash dividends (¥17.00 = \$0.16 per share)	<u>¥3,264</u>	<u>\$30,722</u>

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, 2018, 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, 2018, 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.

Ernst & Young ShinNihon LLC

June 26, 2018
Tokyo, Japan

Corporate Data

As of March 31, 2018

<p>Name Kikkoman Corporation</p> <p>Head Office 250 Noda, Noda-shi, Chiba 278-8601, Japan</p>	<p>Date of Establishment December 7, 1917</p> <p>Paid-in Capital ¥11,599 million</p> <p>Number of Shares Authorized: 600,000,000 Issued and outstanding: 210,383,202</p>	<p>Number of Employees (Consolidated) 7,105</p> <p>Stock Exchange Listings Tokyo</p>	<p>Shareholder Registry Administrator Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan</p>
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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.



Kikkoman Corporation

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Tokyo Head Office
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