# Annual Report
## 2017

*December 1, 2016 to November 30, 2017*

## Kewpie Corporation

The information contained in this report is derived from Kewpie Corporation's (the "Company") Annual Securities Report in Japanese filed with the Commissioner of the Financial Services Agency on February 28, 2018 in accordance with the Financial Instruments and Exchange Law, and has been translated into English for the convenience of readers outside Japan.

| | |
|---|---|
| Document Title: | Annual Securities Report |
| Corporate Name: | KEWPIE KABUSHIKI-KAISHA |
| English Corporate Name: | Kewpie Corporation |
| Name and Title of Representative: | Osamu Chonan<br>Representative Director<br>President and Chief Executive Corporate Officer |
| Location of Head Office: | 4-13, Shibuya 1-chome, Shibuya-ku,<br>Tokyo 150-0002, Japan |
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# I. Outline of the Company

## 1. Principal Management Indexes

### (1) Consolidated principal management indexes for the five years ended November 30, 2017

| Period ended | | Nov. 2013 | Nov. 2014 | Nov. 2015 | Nov. 2016 | Nov. 2017 |
|---|---|---|---|---|---|---|
| Net sales | (millions of yen) | 530,549 | 553,404 | 549,774 | 552,306 | 561,688 |
| Ordinary income | (millions of yen) | 23,749 | 25,368 | 27,224 | 31,364 | 32,511 |
| Profit attributable to owners of parent | (millions of yen) | 12,567 | 13,366 | 16,973 | 17,093 | 18,099 |
| Comprehensive income | (millions of yen) | 19,256 | 18,968 | 26,159 | 10,955 | 33,897 |
| Total net assets | (millions of yen) | 210,285 | 220,397 | 244,717 | 245,861 | 263,432 |
| Total assets | (millions of yen) | 334,655 | 356,994 | 373,017 | 385,914 | 419,207 |
| Net assets per share | (yen) | 1,230.32 | 1,284.36 | 1,403.05 | 1,420.63 | 1,539.94 |
| Earnings per share | (yen) | 83.94 | 88.69 | 111.82 | 113.47 | 121.05 |
| Earnings per share – diluted | (yen) | — | — | — | — | — |
| Equity ratio | (%) | 55.0 | 54.6 | 57.1 | 55.1 | 54.0 |
| Return on equity | (%) | 7.1 | 7.0 | 8.3 | 8.0 | 8.2 |
| Price earnings ratio | (times) | 17.3 | 21.9 | 26.4 | 23.8 | 23.8 |
| Cash flows from operating activities | (millions of yen) | 27,369 | 34,392 | 28,094 | 45,260 | 27,234 |
| Cash flows from investing activities | (millions of yen) | (21,897) | (30,847) | (31,181) | (32,046) | (31,421) |
| Cash flows from financing activities | (millions of yen) | (2,307) | (3,149) | (7,101) | (5,805) | 4,010 |
| Cash and cash equivalents at the end of the fiscal year | (millions of yen) | 43,963 | 44,788 | 34,841 | 40,790 | 41,411 |
| Number of regular full-time employees, and average number of temporary employees in brackets | | 12,598 [11,316] | 12,933 [11,840] | 13,478 [11,519] | 14,095 [11,150] | 14,924 [11,456] |

(Notes) 1. Consumption taxes are not included in net sales.
2. Figures presented for the fiscal year ended November 30, 2015, have been retrospectively adjusted to reflect changes in accounting policy with respect to policies for recording net sales, taking effect from the fiscal year ended November 30, 2016.
3. Earnings per share – diluted is not presented because of no issue of potential shares.

## (2) Non-consolidated principal management indexes for the five years ended November 30, 2017

| Period ended | | Nov. 2013 | Nov. 2014 | Nov. 2015 | Nov. 2016 | Nov. 2017 |
|---|---|---|---|---|---|---|
| Net sales | (millions of yen) | 236,213 | 237,655 | 210,426 | 205,102 | 204,072 |
| Ordinary income | (millions of yen) | 11,023 | 10,992 | 11,472 | 12,973 | 16,060 |
| Profit | (millions of yen) | 6,978 | 6,905 | 7,910 | 9,161 | 12,691 |
| Paid-in capital | (millions of yen) | 24,104 | 24,104 | 24,104 | 24,104 | 24,104 |
| Total number of issued shares | | 153,000,000 | 153,000,000 | 153,000,000 | 153,000,000 | 150,000,000 |
| Total net assets | (millions of yen) | 139,767 | 147,461 | 152,916 | 152,232 | 153,669 |
| Total assets | (millions of yen) | 222,219 | 238,781 | 228,291 | 242,768 | 261,193 |
| Net assets per share | (yen) | 933.42 | 970.75 | 1,007.57 | 1,017.15 | 1,045.05 |
| Annual dividends per share, and interim dividends per share in brackets | (yen) | 22.0 [11.0] | 23.0 [11.5] | 29.0 [12.5] | 34.5 [15.0] | 36.5 [18.0] |
| Earnings per share | (yen) | 46.61 | 45.78 | 52.12 | 60.82 | 84.88 |
| Earnings per share – diluted | (yen) | — | — | — | — | — |
| Equity ratio | (%) | 62.9 | 61.8 | 67.0 | 62.7 | 58.8 |
| Return on equity | (%) | 5.1 | 4.8 | 5.3 | 6.0 | 8.3 |
| Price earnings ratio | (times) | 31.2 | 42.4 | 56.7 | 44.4 | 34.0 |
| Dividend payout ratio | (%) | 47.2 | 50.2 | 55.6 | 52.6 | 43.0 |
| Number of regular full-time employees, and average number of temporary employees in brackets | | 2,580 [799] | 2,549 [918] | 2,520 [963] | 2,510 [926] | 2,523 [853] |

(Notes) 1. Consumption taxes are not included in net sales.
2. Figures presented for the fiscal year ended November 30, 2015, have been retrospectively adjusted to reflect changes in accounting policy with respect to policies for recording net sales, taking effect from the fiscal year ended November 30, 2016.
3. Earnings per share – diluted is not presented because of no issue of potential shares.

## 2. Nature of Business

The Kewpie Group (the "Group") consists of the Company, seventy-six consolidated subsidiaries, six affiliated companies, and one other associated company. The Group's principal businesses are manufacturing, wholesaling, transportation and warehousing of food products.

The business categories of the Group and the position of the Company and these principal associated companies in the relevant businesses are summarized below.

The business categories shown below are the same categories as the reportable segments.

<table>
<tr><th>Business category</th><th>The Company and principal companies</th><th>Major handling items / services</th></tr>
<tr><td rowspan="2">Condiments products</td><td>Kewpie Corporation<br>Q&B Foods, Inc.<br>Dispen Pak Japan Co., Inc.<br>Hangzhou Kewpie Corporation<br>Kpack Co., Ltd.<br>BEIJING KEWPIE CO., LTD.<br>Kewpie (Thailand) Co., Ltd.</td><td>Mayonnaise and dressings</td></tr>
<tr><td>Kewpie Jyozo Co., Ltd.</td><td>Vinegar</td></tr>
<tr><td rowspan="3">Egg products</td><td>Kewpie Egg Corporation<br>Zen-noh Kewpie Egg-station Co., Ltd.</td><td>Liquid egg, frozen egg, and dried egg</td></tr>
<tr><td>Kewpie Corporation<br>Kanae Foods Co., Ltd.</td><td>Egg spread, thick omelet, and shredded egg</td></tr>
<tr><td>Henningsen Foods, Inc.</td><td>Dried egg</td></tr>
<tr><td rowspan="3">Delicatessen products</td><td>Kewpie Corporation<br>Deria Foods Co., Ltd.<br>Shunsai Deli Co., Ltd.<br>Potato Delica Co., Ltd.</td><td>Salads and delicatessen foods</td></tr>
<tr><td>Gourmet Delica Co., Ltd.</td><td>Boxed lunches and rice balls</td></tr>
<tr><td>Salad Club, Inc.</td><td>Packaged salads</td></tr>
<tr><td>Processed foods</td><td>Kewpie Corporation<br>Aohata Corporation<br>Co-op Foods Co., Ltd.</td><td>Bottled and/or canned foods including jams, pasta sauces, and sweet corn, baby foods, and nursing care foods</td></tr>
<tr><td>Fine chemical products</td><td>Kewpie Corporation</td><td>Hyaluronic acid and others</td></tr>
<tr><td rowspan="3">Distribution system</td><td>K.R.S. Corporation</td><td>Transportation and warehousing of food products</td></tr>
<tr><td>K. Tis Corporation<br>S.Y. Promotion Co., Ltd.</td><td>Transportation of food products</td></tr>
<tr><td>Kewso Services Corporation</td><td>Sale of vehicles, distribution equipment, fuel and other products related to transportation and warehousing of food products</td></tr>
<tr><td>Common business operations</td><td>Shiba Seisakusyo Co., Ltd.</td><td>Sale of food production equipment</td></tr>
</table>

The Group Business Network chart on the next page shows the relationships of the business activities of Group companies.

K.R.S. Corporation, a consolidated subsidiary, is listed on the first section of the Tokyo Stock Exchange (TSE), while Aohata Corporation, a consolidated subsidiary, is listed on the second section of the TSE.

# (Group Business Network)

Business partners

↑ ↑ ↑

Kewpie Group

## Domestic

### Condiments products
Kewpie Corporation
Kewpie Jyozo Co., Ltd.
Kpack Co., Ltd.
Deft Co., Ltd.
Dispen Pak Japan Co., Inc.
Other

### Egg products
Kewpie Corporation
Kewpie Egg Corporation
Kanae Foods Co., Ltd.
Zen-noh Kewpie Eggstation Co., Ltd.
Kewpie-Egg World Trading Co., Ltd.

### Delicatessen products
Kewpie Corporation
Deria Foods Co., Ltd.
Gourmet Delica Co., Ltd
Salad Club, Inc.
Shunsai Deli Co., Ltd.
Other

### Processed foods
Kewpie Corporation
Aohata Corporation
Co-op Foods Co., Ltd.
Hashikami Kewpie Co., Ltd.
Kowa Delica Co., Ltd.
Other

### Fine chemical products
Kewpie Corporation
Tou Kewpie Co., Ltd.

### Distribution system
K.R.S. Corporation
K. Tis Corporation
S.Y. Promotion Co., Ltd.
Sun Family Corporation
Kewso Services Corporation
Other

### Common business operations
Kewpie Corporation
San-ei Provisions Co., Ltd.
TO AD KEWPIE CO., LTD.
Shiba Seisakusyo Co., Ltd.
K.System Co., Ltd.
Other

## Overseas

### Condiments products
Hangzhou Kewpie Corporation
BEIJING KEWPIE CO., LTD.
Q&B Foods, Inc.
Kewpie (Thailand) Co., Ltd.
Other

### Egg products
Henningsen Foods, Inc.
Other

### Common business operations
Kifuki U.S.A. Co., Inc.

# 3. Outline of Associated Companies

## (1) Parent company

Not applicable.

## (2) Consolidated subsidiaries

| Trade name | Address | Paid-in capital/ equity investment | Business lines | Percentage of our voting rights (Note 2) | Relationship with the Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Interlocking directors (D) or audit & supervisory board members (A) | Finance from the Company | Operating transactions | Lease transactions |
| Kewpie Egg Corporation (Notes 1 & 4) | Chofu-shi, Tokyo | 350 million yen | Production and sale of liquid and frozen egg | 100.0 | D or A 2<br>Employees 9 | None | Purchase of products and raw materials, etc. | Leases of offices and factories |
| Deria Foods Co., Ltd. | Chofu-shi, Tokyo | 50 million yen | Sale of salads and delicatessen foods | 100.0 | D or A 2<br>Employees 4 | 684 million yen | Sale of products | Leases of offices |
| Kewpie Jyozo Co., Ltd. | Chofu-shi, Tokyo | 450 million yen | Production and sale of vinegar | 100.0 | D or A 3<br>Employees 2 | None | Purchase of products and raw materials | Leases of offices |
| K.R.S. Corporation (Notes 1, 3, 4, 5 & 6) | Chofu-shi, Tokyo | 4,063 million yen | Warehousing and transportation | 45.7<br>(0.3)<br>[5.9] | Employee 1 | None | Consignment of storage and transportation of products and raw materials of Group companies | Leases of offices, land and warehouses |
| San-ei Provisions Co., Ltd. | Chofu-shi, Tokyo | 57 million yen | Sale of products for commercial use | 66.2 | D or A 1<br>Employees 4 | None | Sale of products and purchase of raw materials | Leases of offices |
| Co-op Foods Co., Ltd. | Chofu-shi, Tokyo | 250 million yen | Production and sale of bottled, canned and/or retort pouch foods | 100.0 | D or A 2<br>Employees 3 | 701 million yen | Purchase of products | Leases of offices |
| Kanae Foods Co., Ltd. (Note 1) | Chofu-shi, Tokyo | 50 million yen | Production and sale of processed egg, including egg spread, thick omelet and shredded egg | 100.0 | D or A 2<br>Employees 3 | None | Purchase of products | Leases of offices and factories |
| Zen-noh Kewpie Egg-station Co., Ltd. | Goka-machi, Sashima-gun, Ibaraki | 105 million yen | Production and sale of dried egg and liquid egg | 51.4 | D or A 2<br>Employees 3 | 426 million yen | Purchase of products and raw materials | Leases of factories |
| Q&B Foods, Inc. | California, USA | 4,800 thousand U.S. dollars | Production and sale of mayonnaise and dressings | 100.0<br>(100.0) | D or A 1<br>Employees 2 | None | None | None |
| Kifuki U.S.A. Co., Inc. | Delaware, USA | 7.17 U.S. dollars | Investment in and management of U.S. associates | 100.0 | D or A 3 | None | Overall management of U.S. associates | None |
| Henningsen Foods, Inc. | Nebraska, USA | 1.92 thousand U.S. dollars | Production and sale of egg products and dried meats | 100.0<br>(100.0) | D or A 2<br>Employees 2 | Liabilities for guarantee 64 million yen | None | None |
| Gourmet Delica Co., Ltd. | Chofu-shi, Tokyo | 98 million yen | Production and sale of delicatessen foods | 100.0 | D or A 2<br>Employees 8 | 6,213 million yen | Sale of products | Leases of offices |
| Hashikami Kewpie Co., Ltd. | Hashikami-cho, Sannohe-gun, Aomori | 10 million yen | Production and processing of foods; outsourced work | 100.0 | Employee 1 | None | Consignment of production | Leases of factories |
| Kowa Delica Co., Ltd. | Kamisu-shi, Ibaraki | 10 million yen | Production of canned foods | 100.0 | D or A 1<br>Employees 2 | 623 million yen | Purchase of products | None |
| Dispen Pak Japan Co., Inc. | Minami-Ashigara-shi, Kanagawa | 140 million yen | Production and sale of foods, and subdividing and packing work | 51.0 | D or A 2<br>Employees 3 | None | Purchase of products | Leases of offices and factories |
| Shiba Seisakusyo Co., Ltd. | Kawasaki-ku, Kawasaki-shi, Kanagawa | 10 million yen | Production of machinery and equipment | 100.0 | Employees 5 | 29 million yen | Purchase of machinery and equipment | None |
| Salad Mate Co., Ltd. | Minato-ku, Tokyo | 10 million yen | Sale of condiments and processed foods | 100.0 | Employees 2 | None | Purchase and sale of products | None |
| Potato Delica Co., Ltd. | Azumino-shi, Nagano | 50 million yen | Production of frozen and chilled foods | 100.0<br>(0.9) | Employees 6 | 452 million yen | Purchase of products | Leases of factories |
| Deft Co., Ltd. | Shibuya-ku, Tokyo | 10 million yen | Sale of condiments, frozen and processed foods | 100.0 | Employees 4 | None | Sale of products | Leases of offices |
| K.System Co., Ltd. | Machida-shi, Tokyo | 50 million yen | Consigned clerical work | 80.0 | Employees 4 | None | Consignment of clerical work | Leases of offices |
| Kpack Co., Ltd. | Goka-machi, Sashima-gun, Ibaraki | 30 million yen | Production and sale of condiments | 100.0 | Employees 6 | None | Purchase of products | Leases of offices |
| Tosu Kewpie Co., Ltd. | Tosu-shi, Saga | 10 million yen | Production and processing of foods; outsourced work | 100.0 | Employees 2 | None | Consignment of production | Leases of factories |
| Hangzhou Kewpie Corporation | Zhejiang Province, China | 140 million yuan | Production and sale of foods | 66.4<br>(7.1) | D or A 1<br>Employees 4 | None | None | None |
| S.Y. Promotion Co., Ltd. | Koto-ku, Tokyo | 200 million yen | Transportation | 88.4<br>(51.0) | Employee 1 | None | Consignment of transportation services | None |
| Seto Delica Co., Ltd. | Seto-shi, Aichi | 30 million yen | Production and sale of delicatessen foods | 100.0<br>(100.0) | Employees 4 | 454 million yen | Sale of products | None |

| Trade name | Address | Paid-in capital/ equity investment | Business lines | Percentage of our voting rights (Note 2) | Relationship with the Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Interlocking directors (D) or audit & supervisory board members (A) | Finance from the Company | Operating transactions | Lease transactions |
| Ishikari Delica Co., Ltd. | Teine-ku, Sapporo-shi, Hokkaido | 30 million yen | Production and sale of delicatessen foods | 100.0 (100.0) | Employees 5 | None | Sale of products | None |
| Hanshin Delica Co., Ltd. | Itami-shi, Hyogo | 10 million yen | Production and sale of delicatessen foods | 100.0 (100.0) | Employees 6 | None | Sale of products | Leases of factories |
| Salad Club, Inc. | Chofu-shi, Tokyo | 300 million yen | Processing and sale of fresh vegetables | 51.0 | D or A 2<br>Employees 2 | None | Sale of products and purchase of raw materials | Leases of offices and factories |
| K. Tis Corporation | Chofu-shi, Tokyo | 82 million yen | Warehousing and transportation | 100.0 (100.0) | None | None | None | None |
| BEIJING KEWPIE CO., LTD. | Beijing, China | 42 million yuan | Production and sale of foods | 65.0 | D or A 1<br>Employees 5 | None | None | None |
| Tosu Delica Co., Ltd. | Tosu-shi, Saga | 10 million yen | Production and sale of delicatessen foods | 100.0 (100.0) | Employees 4 | None | Sale of products | Leases of factories |
| Kewpie Ai Co., Ltd. | Machida-shi, Tokyo | 30 million yen | Consigned clerical work | 100.0 | Employees 6 | None | Consignment of clerical work | Leases of offices |
| Kitakami Delica Co., Ltd. | Kitakami-shi, Iwate | 20 million yen | Production and sale of delicatessen foods | 100.0 (100.0) | Employee 1 | 124 million yen | Sale of products | None |
| Fujiyoshida Kewpie Co., Ltd. | Fujiyoshida-shi, Yamanashi | 10 million yen | Production and processing of foods; outsourced work | 100.0 | Employees 2 | None | Consignment of production | Leases of factories |
| K.SS Co., Ltd. | Shibuya-ku, Tokyo | 10 million yen | Planning, production and services for sales promotion | 100.0 | Employees 5 | None | Consignment of sales | Leases of offices |
| Kewso Services Corporation | Chofu-shi, Tokyo | 30 million yen | Sale of equipment for cars | 100.0 (100.0) | None | None | Rental of cars for factories | Rental of cars for factories |
| KLQ Corporation | Toyokawa-shi, Aichi | 30 million yen | Transportation | 100.0 (100.0) | None | None | None | None |
| San-ei Logistics Corporation | Akishima-shi, Tokyo | 38 million yen | Transportation | 100.0 (100.0) | None | None | None | None |
| Kewpie (Thailand) Co., Ltd. (Note 5) | Bangkok, Thailand | 260 million baht | Production and sale of condiment sauce, powdered condiments and bottled and/or canned foods | 44.0 | D or A 3<br>Employees 5 | None | None | None |
| Shunsai Deli Co., Ltd. | Akishima-shi, Tokyo | 20 million yen | Production and sale of delicatessen foods | 100.0 (100.0) | Employees 8 | None | Sale of products | Leases of factories |
| Osaka San-ei Logistics Corporation | Hirakata-shi, Osaka | 66 million yen | Transportation | 90.0 (90.0) | None | None | None | None |
| Sun Family Corporation | Yoshikawa-shi, Saitama | 99 million yen | Transportation | 90.0 (90.0) | None | None | None | None |
| KAT Corporation | Hirakata-shi, Osaka | 20 million yen | Transportation | 100.0 (100.0) | None | None | None | None |
| Kewpie Malaysia Sdn. Bhd. | Malacca, Malaysia | 57 million ringgit | Production and sale of condiments | 70.0 | Employees 5 | 150 million yen | None | None |
| Kewpie Vietnam Co., Ltd. | Binh Duong, Vietnam | 256.4 billion dong | Production and sale of condiments | 80.0 | Employees 3 | 168 million yen | None | None |
| PT. Kewpie Indonesia | West Java, Indonesia | 255.8 billion rupiah | Production and sale of condiments | 60.0 (3.5) | Employees 3 | None | None | None |
| Kewpie-Egg World Trading Co., Ltd. | Chofu-shi, Tokyo | 100 million yen | Sale of egg and processed egg | 100.0 (51.0) | D or A 2<br>Employees 5 | None | Purchase of raw materials | Leases of offices |
| Green Message Co., Ltd. | Yamato-shi, Kanagawa | 100 million yen | Processing and sale of fresh vegetables | 51.0 | D or A 2<br>Employees 3 | 400 million yen | Sale of products | None |
| Tou Kewpie Co., Ltd. | Shibuya-ku, Tokyo | 10 million yen | Mail-order business | 70.0 | Employees 4 | 459 million yen | Sale of products | Leases of offices |
| Aohata Corporation (Notes 3, 5 & 6) | Takehara-shi, Hiroshima | 644 million yen | Production and sale of canned foods | 45.7 [8.9] | None | None | Purchase of products | Leases of offices |
| Nantong Kewpie Corporation (Note 1) | Jiangsu Province, China | 184 million yuan | Production and sale of vinegar, processed egg and salads | 100.0 | D or A 1<br>Employees 5 | None | None | None |
| Mosso Kewpie Poland Sp. z o.o. (Note 1) | Puchały, Poland | 160,300 thousand Polish zloty | Production and sale of condiments | 100.0 | Employees 5 | 1,897 million yen | None | None |
| Fresh Delica Network. Co., Ltd. | Akishima-shi, Tokyo | 20 million yen | Freight forwarding business | 100.0 [100.0] | Employees 4 | None | None | None |
| TO AD KEWPIE CO., LTD. | Shibuya-ku, Tokyo | 4 million yen | Agency service for advertising, publicity, and exhibitions | 50.0 | Employees 2 | None | Advertising agency services | Leases of offices |
| Other: 1 | | | | | | | | |

(Notes)
1. Kewpie Egg Corporation, K.R.S. Corporation, Kanae Foods Co., Ltd., Nantong Kewpie Corporation, and Mosso Kewpie Poland Sp. z o.o. are classified under Japanese tax law as *tokutei kogaisha*, a special category of subsidiary.
2. The figures in parentheses under "Percentage of our voting rights" indicate the proportion of indirect ownership and are included in the respective figures above.
3. The companies file their own annual securities report to the Commissioner of the Financial Services Agency.
4. Net sales of Kewpie Egg Corporation (excluding sales from intra-group transactions) exceed 10% of the Company's consolidated net sales. Its major profit/loss information is as follows:

(1) Net sales ¥77,033 million
(2) Ordinary income ¥4,449 million
(3) Profit ¥3,094 million
(4) Total net assets ¥23,585 million
(5) Total assets ¥32,904 million

Net sales of K.R.S. Corporation (excluding sales from intra-group transactions) exceed 10% of the Company's consolidated net sales. However, specific details regarding its major profit/loss information are not published here as K.R.S. Corporation files its own annual securities report to the Commissioner of the Financial Services Agency.

5. K.R.S. Corporation, Kewpie (Thailand) Co., Ltd. and Aohata Corporation are treated as subsidiaries, even though the voting rights held by the Company as a percentage of total voting rights are 50% or less, in view of the substantial control exerted over their management.
6. In the "Percentage of our voting rights" column, the figures shown in square brackets indicate the percentage of voting rights of closely related persons or persons whose consents are obtained, which are excluded from the respective figures above.

### (3) Equity-method affiliates

| Trade name | Address | Paid-in capital/ equity investment | Business lines | Percentage of our voting rights | Relationship with the Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Interlocking directors (D) or audit & supervisory board members (A) | Finance from the Company | Operating transactions | Lease transactions |
| Summit Oil Mill Co., Ltd. | Mihama-ku, Chiba-shi, Chiba | 97 million yen | Production of vegetable oil | 49.0 | D or A 1<br>Employee 1 | None | Sale of products and purchase of raw materials | None |
| Kunimi Nosankako Co., Ltd. | Kunisaki-shi, Oita | 80 million yen | Production and sale of frozen and chilled foods | 20.1 | D or A 1<br>Employee 1 | 245 million yen | Purchase of products | None |
| To Solutions Co., Ltd. | Chofu-shi, Tokyo | 90 million yen | Planning, development, sale, maintenance and operational support of computer systems | 20.0 | Employee 1 | None | Consignment of calculation work, etc. | Rental of offices and office equipment |

### (4) Other associated company

| Trade name | Address | Paid-in capital/ equity investment | Business lines | Percentage of their voting rights (Note) | Relationship with the Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Interlocking directors (D) or audit & supervisory board members (A) | Finance from the Company | Operating transactions | Lease transactions |
| NAKASHIMATO CO., LTD. | Shibuya-ku, Tokyo | 50 million yen | Sale of processed foods | 18.5<br>(5.9) | D or A 2 | None | Purchase of products, etc. | Rental of offices |

(Note) The figure in parentheses under "Percentage of their voting rights" indicates the proportion of indirect ownership by Nakashimato and is included in the respective figure above.

## 4. Employees

### (1) The Company and its consolidated subsidiaries

(As of November 30, 2017)

| Number of employees |
|---|
| 14,924 (11,456) |

(Note) The employee figure indicates registered regular employees and long-term special contract employees, excluding the Group employees dispatched outside the Group but including workers from outside employed within the Group on dispatch. The figure in parentheses indicates the annual average number of short-term contract non-regular employees and workers hired on a daily, weekly or seasonal basis, and is excluded from the figure above.

### (2) The labor union

Formed on July 14, 1962, the Kewpie labor union is the main labor union of the Group.

The labor-management relations are stable and there are no matters that should be reported.

# II. Business Operations

## 1. General

### (1) Business performance (consolidated)

◊ General

During the fiscal year ended November 30, 2017, although the Japanese economy saw a trend of modest recovery in corporate earnings and the employment and income environment, personal consumption was sluggish.

In the food industry amid an environment where changing lifestyles have led to greater consumer demand for simple/ready-to-serve meals such as ready-made foods, concerns over food safety and fluctuations in vegetable prices due to unfavorable weather conditions were the major impacts on consumer spending.

In the food distribution industry, the general business environment was tough due to such factors as a rise in transportation costs due to shortages in manpower and vehicles and a renewed upward trend in fuel procurement costs.

◊ Status of the Group (consisting of the Company and its consolidated subsidiaries)

The Group has been making a group-wide effort to further boost corporate value through four management policies, which stem from the aim of making the most of our unique capabilities and an ability to create new products, markets and demand, in the three-year Medium-term Business Plan starting from the fiscal year ended November 30, 2016. The policies consist of strengthening our management base, enhancing our cost competitiveness, creating added value, and taking up challenges in new fields. These policies are designed to achieve dramatic growth by pursuing new challenges for the Group.

- Net sales

  Despite the impact of a suspension of Aohata Tokachi corn sales and a decline in the US shell egg market, due to strong sales in the Condiments products business, the Delicatessen products business and the Distribution system business, consolidated net sales rose by ¥9,382 million (1.7%) year on year to ¥561,688 million.

- Profit

  Despite the impact of decline in the US shell egg market, operating income increased by ¥1,434 million (4.8%) year on year to ¥31,261 million, ordinary income increased by ¥1,147 million (3.7%) year on year to ¥32,511 million, and profit attributable to owners of parent increased by ¥1,006 million (5.9%) year on year to ¥18,099 million as a result of increased sales of value-added products and cost improvements, as well as the effect of the one-time write-off in the first quarter of 2016 of residual book value in association with changes in depreciation method.

◊ Business overview by segment

[Breakdown of net sales]

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) | Change (amount) | Change (ratio) |
|---|---|---|---|---|
| Condiments products | 144,099 | 150,435 | 6,336 | 4.4% |
| Egg products | 102,204 | 100,463 | (1,741) | (1.7)% |
| Delicatessen products | 111,799 | 115,507 | 3,708 | 3.3% |
| Processed foods | 51,252 | 46,604 | (4,648) | (9.1)% |
| Fine chemical products | 10,863 | 10,593 | (270) | (2.5)% |
| Distribution system | 126,926 | 131,237 | 4,311 | 3.4% |
| Common business operations | 5,160 | 6,847 | 1,687 | 32.7% |
| Total | 552,306 | 561,688 | 9,382 | 1.7% |

[Breakdown of operating income]

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) | Change (amount) | Change (ratio) |
|---|---|---|---|---|
| Condiments products | 13,668 | 15,296 | 1,628 | 11.9% |
| Egg products | 5,483 | 4,368 | (1,115) | (20.3)% |
| Delicatessen products | 3,465 | 3,847 | 382 | 11.0% |
| Processed foods | 517 | 199 | (318) | (61.5)% |
| Fine chemical products | 1,031 | 864 | (167) | (16.2)% |
| Distribution system | 4,889 | 5,892 | 1,003 | 20.5% |
| Common business operations | 763 | 792 | 29 | 3.8% |
| Total | 29,818 | 31,261 | 1,443 | 4.8% |

(Note) Results presented for the previous fiscal year include the one-time write-off of residual book value (negative ¥2,777 million) as a result of the change in the depreciation method for tangible fixed assets and the change in the useful life and residual value.

Condiments products
- Sales increased, driven by growth in overseas sales of mayonnaise and dressings.
- Operating income increased, reflecting growth in value-added products and the effect of changes in depreciation method.

Egg products
- Both sales and operating income decreased due in part to the effects of a decline in the US shell egg market, but sales of value-added products grew.

Delicatessen products
- Sales increased due to growth of delicatessen foods and cut vegetables and expansion into new sales channels in areas such as home delivery and restaurants.
- Operating income increased as a result of factors including higher income associated with sales growth and growth in value-added products.

Processed foods
- Sales decreased due to the suspension of Aohata Tokachi corn sales and the impact of change in the fiscal year of Aohata Corporation occurred in 2016.
- Operating income decreased due to the suspension of corn product sales, but progress was made in the growth of value-added products and the elimination of unprofitable products.

Fine chemical products
- Sales decreased due to a decline in shipments of EPA for medical use, but products for mail-order sales were strong.
- Operating income decreased due to a rise in sales promotion expenses, but sales of hyaluronic acid for medical use grew.

Distribution system
- Sales increased as a result of progresses made in the expansion of service areas with existing customers as well as the acquisition of new customers.

- Operating income increased as a result of higher sales, efforts to streamline storage and transportation, as well as changes in depreciation method despite an increase of costs due to operations of new distribution locations.

Common business operations

- Both sales and operating income increased due to higher sales of production equipment to food manufacturers.

(2) Cash flows

Cash and cash equivalents at the end of the current fiscal year amounted to ¥41,411 million, which represents an increase of ¥621 million from the end of the previous fiscal year.

Status of cash flows is as follows:

Net cash provided by operating activities came to ¥27,234 million for the current fiscal year, down from ¥45,260 million for the previous fiscal year. This was the result of profit before income taxes of ¥30,783 million, depreciation and amortization of ¥16,794 million and income taxes paid of ¥12,464 million.

Net cash used in investing activities amounted to ¥31,421 million, compared with ¥32,046 million used in the previous fiscal year. This was the result of purchases of tangible fixed assets of ¥25,499 million and payments for transfer of business of ¥4,568 million.

Net cash provided by financing activities amounted to ¥4,010 million, compared with ¥5,805 million used in the previous fiscal year. This was the result of a net increase in loans payable of ¥22,259 million, a repayment of lease obligations of ¥1,785 million, dividend payments of ¥5,639 million and purchase of treasury stock of ¥10,024 million.

(Note) Amounts shown in “II. Business Operations” are exclusive of consumption taxes.

## 2. Management Policy, Business Environment, Tasks Ahead, Etc.

Forward-looking statements included in this section are based on the Group's judgment of information available as of the balance sheet date.

(1) Basic policies of Company management

The Group's mission is to unceasingly contribute to better and healthier dietary lifestyles of people from around the world premised on the notions of good taste, kindness and uniqueness, acting as a corporate group in the food sector which forms an essential part of human existence.

We will remain committed to our insistence on the highest product quality, which has been the most fundamental concern of the Group since its establishment. At the same time, every one of our executives and employees will remain continually aware of our aims that involve wholeheartedly providing selective products and services that only the Kewpie Group can provide, and putting such aims into practice.

(2) Medium- to long-term business strategies, business environment, tasks ahead, etc.

In the three-year Medium-term Business Plan starting from the fiscal year ended November 30, 2016, in addition to aiming for dramatic growth by maximizing Group strengths, the Group has been focusing efforts on strengthening the management base through initiatives such as providing training for our human resources grounded on the enhancement of educational programs on management's philosophy and conducting environment related activities.

In the fiscal year ending November 30, 2018, the last year of the Business Plan, the Group is facing various uncertainties in relation to the business environment, such as fluctuation in the prices of major raw materials and changes in consumer behavior.

Amid such a climate, the Group will be working inside Japan to utilize Group cooperation to expand sales through product development and menu offerings that is fast to encapsulate the changes in food and the needs of customers. Also, aiming to improve cost competitiveness through improving efficiency in production, sales and distribution and implementing innovative production technologies, the Group will work to improve its profit generating capabilities.

With regard to overseas, the Group is striving to expand sales by extending the lineups of core products via proposals that accurately capture the needs of areas, particularly in China and Southeast Asia, where there is either ongoing population growth or ongoing assimilation into Western food culture, while at the same time developing new categories that utilize technologies that the Group has developed in Japan.

As for earnings forecasts, for the fiscal year ending November 30, 2018, the Group is currently forecasting net sales of ¥580.0 billion, operating income of ¥33.0 billion, ordinary income of ¥34.1 billion and profit attributable to owners of parent of ¥18.6 billion.

◊ Three-year Medium-term Business Plan starting from fiscal year ended November 30, 2016

The Group has set out four management policies, which stem from the aim of making the most of our unique capabilities and an ability to create new products, markets and demand, in the three-year Medium-term Business Plan starting from the fiscal year ended November 30, 2016. The policies consist of strengthening our management base, enhancing our cost competitiveness, creating added value, and taking up challenges in new fields. Under the plan, we aim to achieve dramatic growth by pursuing new challenges.

A. Main strategies in Japan and overseas

| In Japan | | Overseas |
|---|---|---|
| <Create added value><br>• Create value that captures needs<br>• Utilize and develop sales channels<br>• Strengthen core product proposals | <Enhance our cost competitiveness><br>• Streamline production, sales and distribution<br>• Technologically revolutionize product manufacturing<br>• Strengthen raw material buying power | <Penetrate KEWPIE brand><br>• Make proposals that capture area-specific needs<br>• Expand new categories<br>• Strengthen export expansion areas using strategic products |

B. Main strategies by business category

| Business category | Main strategies |
|---|---|
| Condiments products | • Create demand for mayonnaise and dressings through proposals for new salad styles<br>• Expand the market for mayonnaise and dressings through proposals that capture area-specific needs |
| Egg products | • Cultivate the food services market by making full use of a new factory in the Tokyo metropolitan area<br>• Pick up the pace of expansion into the household market |
| Delicatessen products | • Achieve labor savings by adopting new technologies and enhance profitability by overhauling its production structure<br>• Continue expansions through newly developed sales channels and develop new sales channels |
| Processed foods | • Strengthen business fundamentals by revitalizing its mainstay products and shifting more toward value-added products<br>• Strengthen business foundations by optimizing its production structure and revamping product categories |
| Fine chemical products | • Improve costs by reconstructing the raw materials procurement system<br>• Create new functions for hyaluronic acid and build a selling system overseas |
| Distribution system | • Strengthen business foundations by using resources more efficiently and reorganizing the networks of its distribution locations<br>• Expand service areas through new expansion |

(Fundamental policy on control of the Company)

(1) Fundamental policy on what the person(s) should be like to control the determination of the financial and business policies of the Company

The Company considers that in the event that its shares are to be purchased for the purpose of a large purchase, it should be left to final judgment of the shareholders whether or not the Company will agree thereto, and does not deny any import or effect of vitalization of its corporate activities through a change in the controlling interest.

However, for the management of the Company and the Group, it is essential to have a good understanding of a broad range of know-how and accumulated experience, as well as the relationships fostered with its stakeholders, including customers and employees. Without such good understanding, it would be impossible to properly judge the share-holder value that may be raised in the future. We, who are responsible for management as receiving a mandate from the shareholders, have focused our efforts on IR activities to get the fair value of the shares of the Company understood by the shareholders and investors. However, in the event of a sudden large purchase of the shares, for the shareholders who are required to properly judge whether the price for the acquisition offered by the purchaser is adequate or not in a short period, we consider it vital to be provided with adequate and sufficient information from both the purchaser and the Board of Directors of the Company. Additionally, for the shareholders in considering whether or not to continue holding the shares of the Company, we believe that such information as the impact of the acquisition on the Company, the details of the management policy and business plans and past investing activities of the purchaser when the purchaser proposes to participate in the management of the Company and the opinion of the Board of Directors as to the acquisition will be important for making a decision.

In consideration of these factors, we have judged that any prospective purchaser of the shares of the Company for the purpose of a large purchase should be required to provide with the Board of Directors in advance such necessary and sufficient information as to allow the shareholders to consider the acquisition in accordance with some reasonable rules prescribed by the Company and publicized in advance, and to commence the acquisition only after the lapse of a specified evaluation period for the Board of Directors.

In fact, some large purchase may cause permanent damage to the Company and materially injure its corporate value and the common interests of its shareholders. We, responsible for the management of the Company, recognize that we are naturally responsible for protecting against such large purchase the fundamental philosophy and brands of the Company and the interests of its shareholders and other stakeholders.

To fulfill such responsibility, the Board of Directors recognizes that with regard to any purchase of shares for the purpose of a large purchase (or any proposed purchase), it is necessary to carefully investigate and judge the effect of such purchase (or such proposed purchase) that may have on the corporate value of the Company and the common interests of its shareholders, in consideration of the nature of business, future business plans and past investing activities of the purchaser, etc.

Hence, we believe that to protect the corporate value of the Company and the common interests of its shareholders, it is necessary for the Board of Directors to take measures it considers adequate in accordance with some reasonable rules prescribed by the Company and disclosed in advance.

(The aforementioned fundamental policy on what the person(s) should be like to control the determination of the financial and business policies of the Company will be referred to as the “Fundamental Policy” hereinafter.)

(2) Special measures to facilitate the implementation of the Company’s Fundamental Policy

A. Special measures to facilitate the implementation of the Company’s Fundamental Policy

To encourage many investors to invest in the Company on a continued, long-term basis, it has implemented the following measures to facilitate the enhancement of its corporate value and the common interests of its shareholders:

a) Institution of the Group’s Medium-term Business Plan
The Group has instituted the three-year Medium-term Business Plan starting from the fiscal year ended November 30, 2016 to further enhance its corporate value.

The Medium-term Business Plan which begins from the fiscal year ended November 30, 2016, stipulates four management policies focused on making the most of our unique capabilities and an ability to create new products, markets and demand, with the aim of enabling the Group to achieve dramatic growth by pursuing new challenges. To that end, the four policies call for us to strengthen our management base, enhance our cost competitiveness, create added value, and take up challenges in new fields.

To put the Medium-term Business Plan into action, the Group will make proactive business and capital investments to strengthen revenue-generating base and enhance asset efficiency at each business, with the policies of the plan at the core of these efforts. We believe that doing so will help to further enhance its corporate value and the common interests of its shareholders.

b) Streamlining of corporate governance
To continuously increase its corporate value and the common interests of its shareholders through efficient and sound management, the Group regards the streamlining of its organizations, schemes and systems of management and timely and proper implementation of necessary measures as one of the most important management challenges.

To more clearly define the management responsibility for each fiscal year and establish a management structure that can respond to changes in the business environments with agility, the Company sets the term of office of directors to one year. Additionally, to further strengthen its audit system, the Company employs five audit & supervisory board members, including three outside audit & supervisory board members.

B. Assessment of the measures noted in above (2) A. by the Board of Directors of the Company and reasons for the assessment
The Board of Directors of the Company assesses the measures as follows. The measures noted in above (2) A. a) and b) increase the Group’s corporate value and the common interests of its shareholders and consequently decrease the risk of appearance of any Large Purchaser who may materially injure the Company’s corporate value and the common interests of its shareholders. So, the measures live up to the Fundamental Policy. In addition, it is clear that the measures do not injure the common interests of the shareholders and is not contemplated to maintain the positions of directors or audit & supervisory board members of the Company because such measures naturally increase the Group’s corporate value.

(3) Measures to prevent the determination of the financial and business policies of the Company from being controlled by any inadequate person in consideration of the Fundamental Policy (a defense plan against large purchase actions of the shares of the Company (takeover defense plan))

A. Measures by the defense plan against large purchase actions of the shares of the Company (takeover defense plan)
The Company decided by the resolution at a meeting of the Board of Directors of the Company held on January 25, 2017 to continue to adopt the defense plan against large purchase actions (hereinafter referred to as the “Defense Plan”) as measures to prevent the determination of the financial and business policies of the Company from being controlled by any person considered inadequate as described by the Fundamental Policy; subject to approval of the 104th Ordinary General Meeting of Shareholders on February 24, 2017. The continuous adoption of the Defense Plan was approved at the 104th Ordinary General Meeting of Shareholders.

The outline of the Defense Plan is as follows:

a) Coverage of purchase actions
The Defense Plan covers a purchase of shares and other securities of the Company to make the ratio of voting rights of any specified shareholder group 20% or more, or a purchase of

shares and other securities of the Company resulting in making the ratio of voting rights of any specified shareholder group 20% or more (whether by market trading, by takeover bid (TOB) or otherwise; however any purchase action agreed to by the Board of Directors in advance will not be covered by the Defense Plan).

b) Particulars of the Large Purchase Rules

The Company will institute Large Purchase Rules under which any Large Purchaser can commence a large purchase action only after (i) Large Purchaser provides the Board of Directors of the Company with necessary and sufficient information on the large purchase action in advance and (ii) in principle, 60 days (in case of purchase of all shares of the Company by TOB for cash (in yen) only) or 90 days (in other cases of large purchases), which is the period for the Board of Directors of the Company to evaluate, examine, negotiate, form opinions, make alternative plans, determine whether it is necessary to confirm shareholders' intention and determine whether to take counter measures (hereinafter referred to as "Directors' Evaluation Period"), pass.

With regard to the Large Purchase Rules, the Company will (iii) establish an Independent Committee to ensure the Defense Plan to be implemented properly and prevent arbitrary judgments by the Board of Directors as far as possible and (iv) follow procedures for confirming the intention of the shareholders as the necessity arises from the perspective of respecting their intention. The Independent Committee shall consist of at least three members, who shall be appointed from among outside experts independent of the management responsible for execution of business of the Company, outside directors of the Company and outside audit & supervisory board members of the Company, to enable them to make fair and indifferent judgments. To confirm the intention of the shareholders, a resolution shall be adopted at a General Meeting of Shareholders under the Companies Act of Japan. In the event that such General Meeting of Shareholders is held, the Board of Directors shall, pursuant to the resolution adopted thereat, trigger, or not trigger, the Defense Measure against the proposed large purchase action as the case may be. The date of the General Meeting of Shareholders shall be fixed within the initially fixed Directors' Evaluation Period, in principle. However, in any unavoidable circumstance where it takes time procedurally to convene a General Meeting of Shareholders or otherwise, the Board of Directors may extend the Directors' Evaluation Period for 30 days upon recommendation from the Independent Committee.

c) Defense Measure when a large purchase action is taken

(i) In case the Large Purchaser observes the Large Purchase Rules

In case the Large Purchaser observes the Large Purchase Rules, the Board of Directors will not trigger the Defense Measure against the large purchase action, in principle. Whether or not to agree to the purchase proposal by the Large Purchaser will be left to the judgment of the respective shareholders.

However, if the Large Purchaser is considered not to seriously aim for reasonable management but the large purchase actions by the Large Purchaser is considered to cause permanent damage to the Company, whereby materially injuring its corporate value and the common interests of its shareholders, the Board of Directors may exceptionally implement any appropriate measure to protect the interests of its shareholders.

(ii) In case the Large Purchaser does not observe the Large Purchase Rules

In case the Large Purchaser does not observe the Large Purchase Rules, in order to protect the corporate value of the Company and the common interests of its shareholders, the Board of Directors will trigger the Defense Measure, including the issuance of stock acquisition rights, as authorized by the Companies Act and other laws or ordinances and the Articles of Incorporation of the Company, against the large purchase action by taking into consideration the necessity and adequacy thereof. The Board of Directors will determine whether or not the Large Purchaser observes the Large

Purchase Rules and whether or not it is appropriate to trigger the Defense Measure, by reference to the opinions of third-party experts and by respecting recommendations from the Independent Committee to the maximum extent possible.

(iii) Defense Measure

The Company will adopt a concrete measure that the Board of Directors assesses as the most appropriate at the time among measures, including an allocation of stock acquisition rights without compensation, which are authorized by the Companies Act and the Articles of Incorporation of the Company by taking into consideration the necessity and adequacy thereof. In the case that the Company makes an allocation of stock acquisition rights without compensation, the Company will set conditions that, for example, the exercise of the stock acquisition rights by the Large Purchaser is rejected. It is not contemplated that any cash will be delivered as a consideration for the acquisition of the stock acquisition rights held by any person not having the right to exercise the stock acquisition rights.

(iv) Cessation of the triggering of the Defense Measure

Even after the determination to trigger the Defense Measure, in the event that the Large Purchaser revokes or alters the large purchase action or otherwise the Board of Directors judges it inappropriate to trigger the Defense Measure, it may alter or cease the triggering of the Defense Measure by respecting recommendations from the Independent Committee to the maximum extent possible.

d) Impacts on the shareholders and investors

(i) Impact of the Large Purchase Rules on the shareholders and investors

We believe that the institution of the Large Purchase Rules, which are intended to help the shareholders and investors make appropriate investment judgments, will benefit the shareholders of the Company and investors.

(ii) Impact on the shareholders and investors when the Defense Measure is triggered

In case the Large Purchaser does not observe the Large Purchase Rules, the Board of Directors may trigger the Defense Measure, as authorized by the Companies Act and other laws or ordinances and the Articles of Incorporation of the Company, to protect the corporate value of the Company and the common interests of its shareholders. However, under the scheme of the Defense Measure, it is not assumed that the shareholders (excluding the Large Purchaser against which the Defense Measure is triggered) of the Company will incur any specific loss on their legal rights or economic interests. In the event that the Board of Directors ceases to issue stock acquisition rights or acquire the issued stock acquisition rights without compensation, the stock value per share will not be diluted. Hence, any shareholder or investor who trades in the shares, assuming that the stock value of the Company will be diluted on or after the ex-date relating to the free allocation of stock acquisition rights may incur an unexpected loss due to stock price movements.

(iii) Procedures to be followed by the shareholders when the Defense Measure is triggered

In the event that the Board of Directors of the Company determines to make a free allocation of stock acquisition rights as a vehicle for the Defense Measure, stock acquisition rights shall be allocated without compensation to shareholders recorded in the shareholder register of the Company as of the record date for the allocation of the stock acquisition rights without compensation for which the Company gave public notice. Accordingly, for the shareholders to receive an allocation of stock acquisition rights, they must be recorded in the final shareholder register as of the record date. For further details of the methods of allocation, the exercise of stock acquisition rights and the acquisition thereof by the Company, information will be disclosed or notified to the shareholders after the determination of the Board of Directors with regard to the Defense Measure.

e) Effective period of the Defense Plan
The Defense Plan shall expire at the close of the 107th Ordinary General Meeting of Shareholders to be held no later than February 29, 2020.

B. Assessment of the Defense Plan noted in above (3) A. by the Board of Directors and reasons for the assessment

a) The Defense Plan's compliance with the Fundamental Policy
The Defense Plan stipulates the particulars of the Large Purchase Rules, the defense plan in case of a large purchase action, the establishment of an Independent Committee and the impacts on the shareholders and investors.

The Defense Plan requires any Large Purchaser to provide the Board of Directors with necessary and sufficient information on a large purchase action in advance and commence the large purchase action only after the lapse of the Directors' Evaluation Period and specifies that the Board of Directors may trigger any defense measure against the Large Purchaser not observing the Large Purchase Rules.

The Defense Plan also stipulates that even in the event that the Large Purchaser observes the Large Purchase Rules, if its large purchase action is considered by the Board of Directors to materially injure the corporate value of the Company and the common interests of its shareholders, the Board of Directors may trigger against the Large Purchaser any defense measure considered appropriate to protect the corporate value of the Company and the common interests of its shareholders.

Hence, we believe the Defense Plan complies with the Fundamental Policy.

b) The Defense Plan's non-injuring of the common interests of the shareholders of the Company
As described in above (1) "Fundamental policy on what the person(s) should be like to control the determination of the financial and business policies of the Company," the Fundamental Policy is based on respect for the common interests of its shareholders. The Defense Plan, which is designed according to the philosophy of the Fundamental Policy, is intended to afford the opportunities to the shareholders of the Company to receive information necessary for them to judge whether or not to agree to a large purchase action, have the Board of Directors put forward its opinion thereon and have any alternative proposal offered to them. The Defense Plan will allow the shareholders of the Company and investors to make appropriate investment judgments. Thus, we believe that the Defense Plan will not injure the common interests of the shareholders of the Company but rather benefit their interests.

In addition, the effectuation and extension of the Defense Plan is subject to the approval of the shareholders. The Defense Plan has no dead-hand clause (a clause that prevents canceling a takeover defense measure if any member of the Board of Directors that adopted the measure is replaced) or slow-hand clause (a clause that prevents canceling a takeover defense measure for a specified period even if a majority of the members of the Board of Directors that adopted the measure are replaced) and consequently, the shareholders of the Company can abolish the Defense Plan whenever they wish to do. Thus, we believe that the Defense Plan gives assurance that the common interests of the shareholders of the Company will not be injured.

c) The fact that the Defense Plan is not intended to maintain the position of the directors or audit & supervisory board members of the Company
Based on the principle of leaving the final judgment to the shareholders of the Company as to whether or not to agree to a large purchase action, the Defense Plan allows the Board of Directors to request compliance with the Large Purchase Rules and trigger a defense measure to the extent necessary to protect the corporate value of the Company and the common interests of its shareholders. The Defense Plan discloses the conditions on the triggering of defense measures by the Board of Directors in advance and in details and any defense measure by the Board of Directors shall be triggered in accordance with the

provisions of the Defense Plan. The Board of Directors cannot effectuate or extend the Defense Plan by itself, but subject to the approval of the shareholders of the Company.

In addition, in triggering a defense measure, the Board of Directors shall seek advice from third-party experts whenever necessary against a large purchase action or otherwise and consult with the Independent Committee consisting of the members independent of the management responsible for execution of business and respect recommendations from the Independent Committee to the maximum extent possible. Furthermore, the Board of Directors can follow procedures for confirming the intention of the shareholders as the necessity arises from the perspective of respecting their intention. The Defense Plan contains procedures to ensure the proper operation thereof by the Board of Directors.

Thus, we believe that the Defense Plan clearly is not contemplated to maintain the position of the directors or audit & supervisory board members of the Company.

## 3. Operational Risks

Among the various factors relating to the business operations and financial information of the Group described in the Annual Securities Report that may exert a significant effect on the decisions of investors are the following matters.

The Group, recognizing the risks inherent in the Group's business, takes all reasonable measures to inhibit or avoid the occurrence of risks. An overview of the risks involved is given below, but this is not intended to be an exhaustive list of all risks attendant on the Group's business operations.

Forward-looking statements included in this section are based on the Group's judgment of information available as of the balance sheet date.

(1) Market trends in the condiments for salads

Condiments for salads (mayonnaise and dressings) is the product category with the highest degree of contribution to both sales and profits for the Group.

Consequently, in the event of a shrinkage in the market for condiments for salads as a result of a decline in demand, or in the event that the market share of the Company's products falls sharply owing to competition with other manufacturers' products, the business performance and financial position of the Group would be severely impacted. In the short term, the volume of consumption of condiments for salads is affected by fluctuations in the prices of vegetables.

To reduce such effects, the Group is working to develop and expand the scale of its other product category.

Regarding condiments for salads, while putting efforts into proposing new occasions for eating and menus, and developing and updating products to suit consumer preferences such as responding to health needs, we continued to cut costs through initiatives involving collaboration between business units. In these ways, we aim to stimulate the market and uncover new areas of latent demand, and at the same time strengthen our competitiveness. We are also expanding our business in China and Southeast Asia, which have good prospects for future growth.

(2) Fluctuations in the prices of principal ingredients

The principal ingredients from which the products of the Group are made consist of shell eggs and edible oils.

Fluctuations in the prices of eggs are attributable to changes in the number of eggs laid, which, in turn, depends on the number of egg-laying hens as well as changes in demand due to varying household buying patterns. In the case of edible oils, price changes are caused by fluctuations in the market prices of soybeans and/or rapeseed, movements on the foreign exchange market, and changes in the balance of supply and demand.

The Group's procurement of eggs and edible oils entails measures to ensure that we have the necessary volume, at a reasonable cost. Accordingly, our procurement of eggs is conducted under a combination of annual fixed-volume contracts with major egg producers, fixed-price contracts and supplementary spot contract purchases on the open market. Since we have long-established relationships of trust with major producers of edible oils, we do not buy oil through spot purchases, but under long-term contracts such as forward trading.

In the Egg products business, we also make constant effort to improve our response to fluctuations in the eggs market prices by increasing the correlation between our product prices and market prices.

We cannot, however, rule out the possibility of sharp rises in market prices, and in such an event, there is a possibility that the business performance and financial position of the Group would be adversely affected.

(3) Product safety and other hygiene and health related concerns

To prevent the occurrence of incidents causing damage to the health of consumers, such as the insertion of foreign matter into the Group's products, and false or mistaken indications on product labels, insistence on the highest product quality has been the most fundamental concern of the Group since its establishment. In line with this, we rigorously and systematically pursue investment in product quality assurance systems through the acquisition of Food Safety System Certification (FSSC 22000 and others), trans-group quality monitoring, product quality assurance and traceability systems that make use of data processing systems used in factory automation, self-monitoring by group companies, and strict control of procured ingredients focused on insistence on meeting our safety and hygiene standards.

On the other hand, we place great importance on ensuring a high level of awareness regarding product quality among our employees. To this end, the Group helps employees acquire necessary knowledge and technology and instills them a focus on policy by offering them training opportunities such as on-the-job training and training sessions. Accordingly, the Group takes appropriate measures to provide safe and high-quality products, which is the foundation of the persistent business development.

Nevertheless, the Group's products may be affected by problems of a wider social scale and thus beyond the control of the Group. In such cases, the business performance and financial position of the Group would unavoidably be subject to an adverse impact of major proportions.

(4) Social turmoil from contingencies such as natural disasters or diseases in areas of operation

The Group has business operations in Japan and overseas areas including China, the US and Southeast Asia. The following contingencies, such as natural disasters or diseases, should they occur, could cause worse-than-expected social turmoil, resulting in such problems as damage to manufacturing or distribution facilities, etc. or difficulties in obtaining raw materials, energy or the human resources necessary for operations. This could result in deterioration in the Group's production and sales capabilities, significantly affecting the Group's business performance and financial position.

- Large-scale natural disasters such as severe earthquakes or torrential rainfall
- Epidemics of highly virulent, infectious diseases

- Large-scale incidents not caused by natural disasters, such as sustained, wide-ranging electric power cuts
- Political problems such as terrorism or disputes

(5) Relationship with K.R.S. Corporation, a consolidated subsidiary

Net sales of the Distribution system business for the current fiscal year amounted to ¥131.2 billion (23.0% of total net sales), and operating income came to ¥5.8 billion (19.0% of total operating income). This growth was mostly attributed to K.R.S. Corporation and its subsidiaries.

The Company currently holds 46.0% of the total voting rights of K.R.S. Corporation (this figure includes voting rights attendant on shares held indirectly; inclusive of voting rights held by persons with a close relationship to the Company or persons whose consents are obtained, the total percentage is 52.0%). In the event of a decline in the percentage of the Company's voting rights in the future, or changes in the personal and/or the trading relationship between the two companies, K.R.S. Corporation may lose the status of consolidated subsidiary of the Company. It is estimated that such a development would have a significant effect on the business performance and financial position of the Group.

In order that the Group continues to grow in the future, the management of the Company recognizes that it is necessary to secure an efficient and competitive foods distribution system service, as high-quality storage and delivery of food products is a key element in realizing the safety and reliability that forms the basis of the Group's business.

That being so, we are confident that it will contribute to raising the corporate value of the Group as a whole to maintain the status of K.R.S. Corporation as a consolidated subsidiary.

## 4. Material Contracts

There are no material contracts to report for the reporting period.

## 5. Research and Development

The Group dedicates itself to producing and selling food products setting a high value on good taste, kindness, and uniqueness at reasonable prices to contribute to better and healthier dietary lifestyles of people from around the world. In line with this corporate stance, we carry out extensive Research and Development (R&D) in all of our separate lines of business – "Condiments products," "Egg products," "Delicatessen products," "Processed foods" and "Fine chemical products."

R&D is carried out through cooperation among the Company's R&D Division and Production Technology Department, and the R&D units of consolidated subsidiaries at home and abroad, including Aohata Corporation, Kanae Foods Co., Ltd., Deria Foods Co., Ltd., Kewpie Jyozo Co., Ltd., Co-op Foods Co., Ltd., and Salad Club, Inc., all of which are based in Japan, and overseas facilities including Henningsen Foods, Inc., BEIJING KEWPIE CO., LTD., Hangzhou Kewpie Corporation, Kewpie (Thailand) Co., Ltd., Kewpie Malaysia Sdn. Bhd., Kewpie Vietnam Co., Ltd., and PT. Kewpie Indonesia.

The Company's R&D Division, in particular, plays a central role in the Group's R&D activities. Accordingly, it carries out such R&D activities with the aims of creating technologies, raw materials and ingredients full of originality, using such technologies to impress customers through our products, and bringing about innovations with respect to the lifestyles of customers worldwide through food products.

The Company's R&D Division makes the most of Group-wide synergies in R&D and strengthens the Group's ability to create added value by making use of the Sengawa Kewport facility whose role is that of "manufacturing and new value creation" within the Group office. In the area of external collaboration, the Group vigorously pursues open innovation with research institutes both in Japan and overseas, and accelerated high-value R&D.

Working in tandem with these R&D activities, the production technology units utilize the abundant and unique skills they have built up in production technology and development technology to develop facilities and equipment that will create products developed by research units with an emphasis on quality. They also make full use of their creative and unique on-site IT technologies to develop production environments and standardized systems that will raise the level of production efficiency of the Group and enhance its quality assurance systems.

Total research and development expenses for the Group for the current fiscal year amounted to ¥4,058 million.

The following is a summary of the research and development activities by the reportable segments.

(1) Condiments products, Egg products, Delicatessen products, Processed foods, and Fine chemical products

During the current fiscal year, twenty-nine presentations were made and twenty-three essays were submitted and published regarding research results created in our R&D activities. The table below shows the main presentations made.

<Presentations>

| Title | Annual Meeting | Collaborator |
|---|---|---|
| Comparison of the physicochemical properties between enzymatic and alkaline hydrolysates of eggshell membrane | 2017 IFT Annual Meeting & Food Expo | |
| EFFECTS OF INGESTION OF EGG WHITE PEPTIDES ON MUSCLE FATIGUE AMONG MIDDLE-AGED MARATHON RUNNERS IN ENDURANCE TRAINING | 40th National Strength and Conditioning Association | Hokkaido University of Education, etc. |
| Differences in the changes of the softness of potatoes produced through the storage of different types of potatoes | 64th Annual Meeting of the Japanese Society for Food Science and Technology | |
| The effects of differences in cultivation methods (plant factories and outdoor growing) on the product characteristics of leaf lettuce | 64th Annual Meeting of the Japanese Society for Food Science and Technology | |
| Structural analysis of freeze-denatured egg yolks using 31P NMR | 64th Annual Meeting of the Japanese Society for Food Science and Technology | Tokyo University of Agriculture and Technology |
| The gelled characteristics of high-performance dried egg whites and applications in food products | 64th Annual Meeting of the Japanese Society for Food Science and Technology | Tokyo University of Agriculture |
| Preventing the release of hydrogen sulfide from egg whites with cystine | 64th Annual Meeting of the Japanese Society for Food Science and Technology | Tokyo University of Agriculture and Technology |
| Altering the physical properties of egg yolk plasma through electrolytic treatment | 64th Annual Meeting of the Japanese Society for Food Science and Technology | Tokyo University of Agriculture and Technology |
| Effects of mayonnaise on the physical properties and the taste of chicken breast | The Japan Society of Cookery Science (2017 Annual Meeting) | |
| Easy cooking idea even when anorexia using mayonnaise | The Japan Society of Cookery Science (2017 Annual Meeting) | |

| Title | Annual Meeting | Collaborator |
|---|---|---|
| The effect of additional consumption of one egg per day on serum lipids and antioxidant parameters in healthy and moderately hypercholesterolemic males | ICN 21st (21st International Congress of Nutrition) | Ochanomizu University The University of Tokyo |
| An evaluation using various testing methods of the activation of heat-denatured lysozyme containing alcohol preparations | Japanese Society of Food Microbiology (The 113th Academic Lectures) | Tokyo University of Marine Science and Technology |

<Essays>

| Title | Journal of Publication | Collaborator |
|---|---|---|
| Co-aggregation of ovalbumin and lysozyme | Food Hydrocolloids | University of Tsukuba |
| Dietary egg-white protein increases body protein mass and reduces body fat mass through an acceleration of hepatic β-oxidation in rats | British Journal of Nutrition 2017 Sep;118(6):423-430 | Kyushu University |
| Maintaining good miRNAs in the body keeps the doctor away?: Perspectives on the relationship between food-derived natural products and microRNAs in relation to exosomes/extracellular vesicles. | Molecular Nutrition and Food Research 2017 Jun 8. | National Cancer Center |
| Observations using Phosphorus-31 Nuclear Magnetic Resonance (31P NMR) of Structural Changes in Freeze-Thawed Hen Egg Yolk | Food Chemistry Volume 244, 1 April 2018, Pages 169-176 | Tokyo University of Agriculture and Technology |

<Condiments products>

In one of our mainstay and core products, the mayonnaise for household use category, we worked toward the renewal of *Kewpie Light*, one of our health-conscious products. By thoroughly polishing good taste, one of the basic functions of food products, and further increasing the calorie-cut ratio to 80%, we differentiated ourselves from competitors. With the introduction of egg-flavored oil, newly developed after many years of egg research, we worked to balance good taste with performance by enhancing the rich flavor of eggs. Furthermore, as with *Kewpie Mayonnaise*, we extended the best-before period from ten to twelve months after production, focusing on the issue of food disposal loss and improving usability for our customers, working to polish our product strengths.

In the dressings category, we expanded the items being proposed as power salads, which are being promoted as a new salad style. As menu-specific items, we developed *Choregi Salad Dressing*, which allows Korean-style salads to be enjoyed easily at the home dining table, and newly developed three products, *Lemon Dressing*, *Onion and White Grape Dressing*, and *Carrot and Orange Dressing,* which are dressings in the *Green Cap* series that allow customers to enjoy how well a wide variety of ingredients and vegetables go together. These dressing combine fruit vinegar using Kewpie Jyozo Co., Ltd.'s original technology with fruit juice, developing a flavor that brings out the taste of the vegetables and expanding the breadth of our power salad menu offerings.

As an item to expand power salads in the food services market, we developed *Grated Carrot Dressing* to connect to colorful salad offerings. This product won The Japan Food Journal Co., Ltd.'s 21st Blockbuster Processed Food for Industrial Use Award (Western Food Category), also receiving praise from the distribution industry.

In non-dressing salad condiments, we developed a three-product *Fruit Vinegar* series. For the various types of brewed vinegar, the determining factor in flavor, we utilized raw materials with original characteristics produced by Kewpie Jyozo Co., Ltd. and differentiated ourselves from competitors.

Based on the trend of condiments with many ingredients, we applied the technology for condiments with many ingredients that we have developed thus far to develop a three-product *Table Vinegar* series as a condiment series with plenty of added chopped vegetables that can be used in a variety of cooking. These products use spices, fruit juice, and brewed vinegar, which go well with main courses such as meat and fish dishes and fall into a different category than dressing.

Furthermore, from the standpoint of health consciousness, we carried out a renewal of our *Non-Oil Dressing* series. To allow a wide range of customers to enjoy the series, we worked to reduce the saltiness. As one of our flavor technologies, we have pursued technological development focused on flavor which renders satisfying flavors even in non-oil dressings and commercialized the results of this development.

A consolidated subsidiary Kewpie Jyozo Co., Ltd. has been developing products that draw more value from Western-style vinegars, and has accordingly launched the sales of its *Malt Vinegar* and its *Red Wine Vinegar* products featuring rich aromas and full-bodied flavors.

In commercial-use condiments, we launched sales for *jelly style sauce (sushi seasoning flavor)* and *seasoning to improve egg product texture*, a flavoring liquid that improves the product texture of processed eggs. In the business of delicatessen food seasonings for commercial use, we launched sales of *lemon flavor condiment sauce*.

<Egg products>

In the consumer markets, we carried out a renewal to improve the taste of *Tsubushite-oishii egg salad*, a product in our *KEWPIE-NO-TAMAGO* brand, contributing to increased sales for the series. In terms of new products, we expanded the sales network of our *Fluffy Egg Omelet*, made using original soft-boiled-egg technology, nationwide, and conducted test marketing in the Tokyo metropolitan area of *Thick and Creamy Chef's Scrambled Eggs*, newly developed.

In the food services market, we launched sales of *Egg Salad*, a product in our *Salad by Kewpie* brand which recreates the taste of handmade egg salad through newly developed production methods, receiving positive feedback from customers including retail bakeries with challenges including personnel shortages.

Furthermore, we conducted product development using our white-colored egg ingredient *Pure White*, launching sales of *Thick and Creamy Chef's Omelet (white)* in our *Snowman* brand as a ready-to-eat product, and *Frozen Liquid Whole Egg "Pure White (for cooking)"* and *Frozen Liquid Egg for White Pudding* as ingredient products which can be used by customers in cooking and desserts. These products have attracted popularity from customers of food and beverage category from the rare whiteness of the egg and the ability of the chef to design menus without the inconvenience of the egg yolk, and have also been used as the focal point of Easter events.

With respect to product development using egg ingredients, utilizing the *French Toast Base (Egg-Royal)*, eggs born from the voices of pastry chefs, while developing products in response to the individual demands of mainly processing manufacturers and delicatessen foods vendors, we have worked to stabilize the quality of the raw materials and contribute to increased product quantities.

Through a market evaluation, we improved our *Excel Egg SP* liquid whole egg product for which we launched sales the year before last and were able to respond to the demands of customers who could not use pasteurized liquid eggs from a quality standpoint.

Furthermore, we also focused on the development of replacements for the shelled eggs used in mass-retail delicatessen foods such as *katsudon* and *okonomiyaki*, as well as on twin-pack liquid eggs to respond to individual demands including usability, contributing to increased sales.

<Delicatessen products>

In the Delicatessen products business, we worked closely with the Company's R&D Division and other partners including consolidated subsidiaries Deria Foods Co., Ltd. and Salad Club, Inc. to polish our processing technology to provide safe, delicious salad and delicatessen foods and to conduct product development for the growing market.

In delicatessen foods, sales have been boosted in part by item expansion that includes products looking toward new sales channels (home delivery and business offices), and delicatessen foods using ingredients such as flaxseed oil and lactic acid catering to the health food trend.

As for packaged salads (cut vegetables), we have expanded product sizes to meet customer demand (family size), driving sales for the entire category.

Furthermore, for health-conscious customers concerned with calories and sugar, we developed *Veggie Noodles*, carrots and daikon radish cut into the shape of noodles, as a new way to eat vegetables.

In the area of long shelf life (LL) salads for commercial use, in our *Salad by Kewpie* brand, we conducted a renewal sales launch of four items in the *DAICHI NO HAGUKUMI BURDOCK ROOT SALAD* series as products featuring a rich flavor accented with the essence of mellow white-grape vinegar and the other ingredients.

<Processed foods>

Our development efforts in the Processed foods business involve close collaboration between the R&D units of our respective Group companies and the Company's own R&D Division. In so doing, we focus on short-, medium- and long-term research and development themes, leveraging the strengths of each of those entities.

The Company's R&D Division plays a central role in developing nursing care foods, baby foods, healthcare products and other products requiring special preparation technologies, as well as *National Brand (NB) Products*. The division also plays a central role in other areas such as engaging in medium- to long-term product development initiatives with respect to developing new technologies and raw materials, and creating new product categories that will assume a leading role in the next generation.

With respect to the major products we developed, in household-use products, we introduced the new product series *Dress Pasta Sauce*, featuring new ingredients created with original production methods, which can simply be paired with boiled pasta for a delicious meal. We also added new flavors to our popular *Kewpie Three-minutes cooking Brand soup ingredients*, allowing a variety of menus to be enjoyed. We also carried out a renewal of our *Bistro Quick* series and *Pasta Sauce for hot pot cooking* series, making both series more delicious and easier to prepare by improving the packaging and cooking methods. As for baby foods, to respond to customer demands, we increased production locations to two, while also implementing a scrap and build of our product lines to boost profitability.

In commercial-use products, we launched sales of *Vichyssoise*, with a focus on ingredients and flavor. Through our original ingredients and cooking technology, we also proposed cooking sauces to restaurant chains and convenience stores (CVS), succeeding in having products adopted. Furthermore, in terms of products for hospital and nursing care facilities, we carried out a scrap and build of our product items, starting with a renewal of our liquid foods and colonoscopic examination foods.

Furthermore, we worked to help reconstruct Nihon Kanzume, Inc., which was hit by disaster last year, and focused on the development of products meeting the demands of customers which have been loyal to us for many years.

Using their own original raw materials and production facilities, our Group companies have been developing various products that include processed agricultural foods such as fruits, beans, Chinese yams, burdock root and basil, as well as prepared foods such as pasta sauces, cooking sauces and soups, and also processed products such as domestically sourced chicken and anchovies.

<Fine chemical products>

In the fine chemicals business, we are moving forward with research and product development to maximize the possibilities of hyaluronic acid, egg components and our original performance ingredients.

With respect to hyaluronic acid, we launched sales of *HAbooster*, a high-performance cosmetic hyaluronic acid which acts on the collagen cycle of the skin. Furthermore, for the application filed with the Taiwan authorities, we received authorization to use fermented hyaluronic acid in food applications and newly began market development of the food product field in Taiwan.

With respect to egg components, we conducted a large-scale revision of the production methods of the hydrolyzed eggshell membrane sold as a raw material for cosmetics and began sales of *PEPTEM* overseas.

Last year, we launched sales of an alcohol preparation including heat-denatured lysozyme derived from egg whites which effectively deactivates the norovirus, and to further expand the scope of use beyond alcohol preparations, moved forward with development of a powder-type heat-denatured lysozyme preparation, and began introducing it to users.

Furthermore, we reduced the cost of *YOITOKI*, a food product which mitigates the negative effects of alcohol consumption which is the first of its kind in the world to use acetic acid bacteria enzyme and was developed as a result of having focused our attention on the alcohol degrading enzyme found in acetic acid bacteria which produces the vinegar that is used as a raw material in mayonnaise, making the price more affordable and launching sales.

In overseas product development efforts, in the condiments field, we pursued product development meeting the needs of customers by individual area, launching sales of large-sized (30oz) sesame dressing in America and sales of 350g mayonnaise in Europe using a new container. In China, we newly launched sales of seafood dressing and lemon dressing as new dressing flavors to match local tastes.

In the processed foods field, in China we launched sales of white peach jam and taro salad as new products, and in the commercial-use processed egg product field, we launched sales of scrambled eggs in China and Thailand and thick omelets in Indonesia.

(2) Common business operations and Distribution system

There is nothing to be reported regarding the R&D of these segments for the reporting period.

# 6. Financial Position, Operating Results and Cash Flows

Forward-looking statements included in this section are based on information available to the Group's management as of the balance sheet date.

(1) Summary of significant accounting policies and estimates

The consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles in Japan, and necessarily include amounts based on estimates and assumptions by management regarding period-end balances of assets and liabilities, as well as income and expenses for the reporting period.

The Group has continuously estimated, judged and assumed based on a number of factors that are considered to be reasonable under the past business results and surrounding conditions. Because of uncertainty unique to estimates, actual results could differ from these estimates.

The significant accounting policies adopted for the consolidated financial statements are described in V. Financial Information. We consider the following significant accounting policies to have a material effect on our estimates.

a) Allowances for doubtful accounts

To provide for a possible bad-debt loss, the Group provides the expected uncollectible amount as allowances for doubtful accounts. The said amount is calculated by using credit-loss prediction ratios based on historical data for general accounts receivable, and by reference to the individual collectability for special receivables, such as those in danger of being uncollectible. If our customers' ability to pay falls due to financial deterioration in the future, larger allowance or bad-debt loss will be recognized.

b) Impairment losses on investment securities

Investment securities with readily determinable fair value are stated at fair value, while those without readily determinable fair value are stated at cost. Based on reasonable criteria, the Company recognizes impairment losses on investment securities, taking into consideration declines in prices of equity shares and the deterioration of the business performance of companies in which the Group has invested.

The Group has appropriately posted impairment losses on investment securities. However, because of the above criteria, posting of additional impairment losses would be necessary if fall in market or deterioration of the Group's investment destination cause further losses or defaults to occur in the future.

c) Deferred tax assets

Deferred tax assets are reported in the amount deemed collectible based on reasonable assessment of future taxable income. Changes in estimated collectible amounts, however, could have an effect on earnings due to reversal of or additional provision to deferred tax assets.

(2) Analysis of operating results

a) Sales

Net sales increased by ¥9,382 million (1.7%) year on year to ¥561,688 million on a consolidated basis.

Breaking this down into reportable segments, sales of the Condiments products segment increased by ¥6,336 million (4.4%) year on year to ¥150,435 million. This was mainly attributable to steady growth in operations in China and Southeast Asia. In the Delicatessen products segment, sales increased ¥3,708 million (3.3%) year on year to ¥115,507 million, mainly due to sales growth in delicatessen foods for supermarkets, as well as an expansion into new sales routes such as home delivery. In the Processed foods segment, sales decreased ¥4,648 million (9.1%) year on year to ¥46,604 million. The decrease was attributable to the suspension of Aohata Tokachi corn sales and the impact of change in the fiscal year of Aohata Corporation occurred in the previous fiscal year.

b) Operating income

Operating income increased by ¥1,443 million (4.8%) year on year to ¥31,261 million.

Breaking this down into reportable segments, operating income for the Condiments products segment increased by ¥1,628 million (11.9%) year on year to ¥15,296 million. This was largely due to growth of value-added products and the effects of changes in depreciation method. In the Egg products segment, operating income decreased ¥1,115 million (20.3%) year on year to ¥4,368 million, mainly as a result of decline in the US shell egg market. In the Distribution system segment, operating income increased ¥1,003 million (20.5%) year on year to ¥5,892 million, as a result of our efforts to streamline storage and transportation, as well as changes in depreciation method.

c) Ordinary income

Net non-operating income decreased by ¥295 million year on year mainly due to decrease in equity in earnings of affiliates and the increase in business commencement expenses. Ordinary income increased by ¥1,147 million (3.7%) year on year to ¥32,511 million.

d) Profit attributable to owners of parent

Extraordinary gains/losses amounted to a loss of ¥655 million due to the occurrence of losses on termination of retirement benefit plans.

As a result of the above, profit before income taxes amounted to ¥30,783 million, an increase of ¥493 million (1.6%) year on year. Income taxes amounted to ¥8,926 million, income taxes — deferred to ¥296 million and profit attributable to non-controlling interests to ¥3,460 million. Consequently, profit attributable to owners of parent rose by ¥1,006 million (5.9%) year on year to ¥18,099 million.

Earnings per share for the current fiscal year came to ¥121.05 (compared with ¥113.47 for the previous fiscal year), and return on equity (ROE) came to 8.2% (compared with 8.0% for the previous fiscal year).

(3) Financial condition

a) Assets

Current assets increased by ¥6,172 million year on year to ¥156,332 million. This was mainly due to a ¥6,176 million decrease in cash and deposits, a ¥3,078 million increase in notes and accounts receivable - trade, and a ¥7,000 million increase in securities.

Fixed assets increased by ¥27,121 million year on year to ¥262,875 million mainly due to a ¥10,428 million increase in machinery, equipment and vehicles, a ¥7,087 million increase in investment securities, and a ¥5,217 million increase in assets for retirement benefits.

As a result of the above, total assets increased by ¥33,293 million year on year to ¥419,207 million.

b) Liabilities and net assets

Total liabilities increased by ¥15,722 million year on year to ¥155,775 million. This was mainly attributable to a ¥4,527 million decrease in accounts payable — other, a ¥6,276 million decrease in accrued expenses, a ¥3,011 million decrease in accrued income taxes, a ¥23,449 million increase in long-term loans payable and a ¥3,933 million increase in deferred tax liabilities (non-current liabilities).

The ending balance of interest-bearing debt increased by ¥24,054 million year on year to ¥60,120 million.

Net assets rose by ¥17,571 million year on year to ¥263,432 million mainly due to a ¥3,818 million increase in earned surplus, ¥4,513 million increase in unrealized holding gains (losses) on securities and a ¥4,120 million increase in accumulated adjustments for retirement benefits.

As a result, the equity ratio declined by 1.1 percentage points to 54.0%, and net assets per share rose by ¥119.31 to ¥1,539.94.

c) Cash flow analysis

Further details regarding cash flow analysis during the current fiscal year is given in II. Business Operations, 1. General, (2) Cash flows.

Movements in the principal cash flow-related indicators of the Company, on a consolidated basis, are as follows.

| | | Fiscal year 2013 | Fiscal year 2014 | Fiscal year 2015 | Fiscal year 2016 | Fiscal year 2017 |
|---|---|---|---|---|---|---|
| Equity ratio | (%) | 55.0 | 54.6 | 57.1 | 55.1 | 54.0 |
| Equity ratio based on market value | (%) | 65.1 | 82.6 | 120.1 | 104.8 | 101.2 |
| Interest-bearing debt to cash flows ratio | (year) | 0.9 | 0.8 | 1.1 | 0.8 | 2.2 |
| Interest coverage ratio | (times) | 105.1 | 116.0 | 89.5 | 146.4 | 75.8 |

Figures presented for the fiscal year ended November 30, 2015, have been adjusted retrospectively to reflect changes in policies for recording net sales.

(Definition)
Equity ratio = Shareholders' equity / Total assets
Equity ratio based on market value = Total market value of the stock / Total assets
Interest-bearing debt to cash flows ratio = Interest-bearing debt / Cash flows
Interest coverage ratio = Cash flows / Interest paid

(Notes)
1. Each index is calculated based on consolidated financial figures.
2. Total market value of the stock is calculated by multiplying the final market price by the number of issued shares at the end of fiscal year (excluding treasury stock).
3. Interest-bearing debt includes all consolidated balance sheet-reported liabilities on which interest is paid.
4. Cash flows and Interest paid are the same figures as found under "Net cash provided by operating activities" and "Interest paid" reported in the Consolidated Statements of Cash Flows, respectively.

# III. Facilities and Equipment

## 1. Investments in Facilities and Equipment

As a result of continuous investments to augment, upgrade and streamline facilities, the Group invested a total of ¥27,182 million in facilities and equipment during the current fiscal year. These investments were part of the Company's efforts to preserve the environment and were made for the purpose of improving product safety, reducing production costs, and developing products that meet customers' needs.

Investments in facilities and equipment by segments were as follows:

| Segment | Amount of capital investment (millions of yen) | Main contents |
|---|---|---|
| Condiments products | 12,023 | Augmenting and streamlining facilities for production of mayonnaise, dressings |
| Egg products | 3,821 | Augmenting and streamlining facilities for production of liquid egg, egg spread, thick omelet |
| Delicatessen products | 1,786 | Augmenting and streamlining facilities for production of salads, delicatessen foods |
| Processed foods | 1,762 | Augmenting and streamlining facilities for production of jams, pasta sauces |
| Fine chemical products | 305 | Augmenting and streamlining facilities for production of hyaluronic acid |
| Distribution system | 6,893 | Warehouse facilities, vehicles |
| Common business operations | 588 | Software |

(Notes) 1. The amounts of capital investment include investment in intangible fixed assets and long-term prepaid expenses.
2. Consumption taxes are not included in the above amounts.

There were no sales or removals of facilities and equipment that have a significant impact on production capacity.

## 2. Principal Facilities and Equipment

Investments in facilities and equipment, and the number of employees working at each site as of November 30, 2017 are as follows:

(1) The Company

| Site | Segment | Facilities and equipment | Book value (millions of yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment and vehicles | Land ($m^2$) | Lease assets | Other | Total | |
| Hashikami Factory (Hashikami-cho, Sannohe-gun, Aomori) | Condiments products<br>Egg products<br>Delicatessen products<br>Processed foods | For foods | 585 | 355 | 553<br>(46,365) | — | 30 | 1,523 | 1<br>(—) |
| Goka Factory (Goka-machi, Sashima-gun, Ibaraki) | Condiments products<br>Processed foods<br>Fine chemical products | For foods | 6,866 | 3,496 | 3,734<br>(221,051) | 47 | 124 | 14,269 | 298<br>(147) |
| Nakagawara Factory (Fuchu-shi, Tokyo) | Condiments products<br>Processed foods | For foods | 4,897 | 1,676 | 405<br>(43,484) | 2 | 97 | 7,079 | 151<br>(94) |
| Fujiyoshida Factory (Fujiyoshida-shi, Yamanashi) | Condiments products<br>Processed foods | For foods | 1,387 | 619 | 272<br>(59,399) | — | 23 | 2,302 | 1<br>(3) |
| Koromo Factory (Toyota-shi, Aichi) | Condiments products<br>Egg products | For foods | 1,104 | 1,695 | 16<br>(37,876) | 0 | 34 | 2,852 | 146<br>(149) |
| Itami Factory (Itami-shi, Hyogo) | Egg products | For foods | 1,059 | 588 | 2,337<br>(37,919) | — | 18 | 4,004 | 41<br>(147) |
| Kobe Factory (Higashinada-ku, Kobe-shi, Hyogo) | Condiments products | For foods | 7,696 | 7,060 | 1,601<br>(16,776) | 164 | 334 | 16,857 | 110<br>(9) |
| Izumisano Factory (Izumisano-shi, Osaka) | Condiments products<br>Processed foods | For foods | 799 | 499 | 663<br>(18,576) | — | 27 | 1,989 | 64<br>(74) |
| Tosu Factory (Tosu-shi, Saga) | Condiments products<br>Processed foods | For foods | 2,561 | 765 | 363<br>(53,958) | — | 17 | 3,707 | 1<br>(—) |
| Head Office (Shibuya-ku, Tokyo) | — | For others | 761<br>[5,560] | — | —<br>(—) | 165 | 353 | 1,280 | 730<br>(159) |
| Complex of facilities (Chofu-shi, Tokyo) | — | For others | 6,970 | 183 | 138<br>(16,510) | 1 | 476 | 7,771 | 278<br>(11) |
| Tokyo Branch and other 8 branches and 17 sales offices | — | For others | 77<br>[16,866] | 0 | —<br>(—) | — | 28 | 106 | 702<br>(60) |
| Kobe Distribution Center (Higashinada-ku, Kobe-shi, Hyogo) | Distribution system | For warehousing and distribution system | 4,566 | 671 | 6,075<br>(47,252) | — | 19 | 11,333 | —<br>(—) |

## (2) Domestic subsidiaries

| Trade name | Site | Segment | Facilities and equipment | Book value (millions of yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land ($m^2$) | Lease assets | Other | Total | |
| Kewpie Egg Corporation | Head Office, Factory and Office, etc. (Chofu-shi, Tokyo, etc.) | Egg products | For foods | 3,377 | 4,281 | 2,843 (68,248) | — | 177 | 10,680 | 1,015 (147) |
| Deria Foods Co., Ltd. | Head Office and Branch, etc. (Chofu-shi, Tokyo, etc.) | Delicatessen products | For foods | 2,424 | 61 | 217 (13,790) | 18 | 22 | 2,745 | 178 (68) |
| Kewpie Jyozo Co., Ltd. | Head Office and Factory (Chofu-shi, Tokyo, etc.) | Condiments products | For foods | 1,296 | 993 | 2,163 (69,749) | 20 | 64 | 4,537 | 212 (118) |
| K.R.S. Corporation | Head Office and Branch Office, etc. (Chofu-shi, Tokyo, etc.) | Distribution system | For warehousing and distribution system | 8,986 | 3,009 | 12,067 (202,281) | 1,017 | 843 | 25,922 | 660 (272) |
| Co-op Foods Co., Ltd. | Head Office and Factory (Chofu-shi, Tokyo, etc.) | Processed foods | For foods | 2,018 | 1,368 | 281 (72,409) | 26 | 44 | 3,739 | 166 (229) |
| Kanae Foods Co., Ltd. | Head Office and Factory (Chofu-shi, Tokyo, etc.) | Egg products | For foods | 1,613 | 2,604 | 2,162 (45,997) | — | 100 | 6,480 | 389 (673) |
| Zen-noh Kewpie Egg-station Co., Ltd. | Head Office and Factory (Goka-machi, Sashima-gun, Ibaraki, etc.) | Egg products | For foods | 766 | 750 | 405 (10,287) | — | 15 | 1,937 | 151 (146) |
| Gourmet Delica Co., Ltd. | Head Office and Factory (Chofu-shi, Tokyo, etc.) | Delicatessen products | For foods | 5,297 | 662 | 2,261 (56,576) | 1,028 | 51 | 9,302 | 348 (1,388) |
| Dispen Pak Japan Co., Inc. | Head Office and Factory (Minami-Ashigara-shi, Kanagawa, etc.) | Condiments products | For foods | 264 | 674 | 836 (7,697) | — | 16 | 1,792 | 101 (85) |
| Potato Delica Co., Ltd. | Head Office and Factory, etc. (Azumino-shi, Nagano, etc.) | Delicatessen products | For foods | 977 | 397 | 518 (32,635) | 305 | 10 | 2,210 | 99 (181) |
| S.Y. Promotion Co., Ltd. | Head Office and Office, etc. (Koto-ku, Tokyo, etc.) | Distribution system | For warehousing and distribution system | 726 | 2,621 | 2,335 (111,362) | — | 47 | 5,730 | 461 (122) |
| Seto Delica Co., Ltd. | Head Office and Factory (Seto-shi, Aichi) | Delicatessen products | For foods | 220 | 143 | — (—) | 897 | 14 | 1,277 | 54 (249) |
| Salad Club, Inc. | Head Office, Factory, Office and Branch, etc. (Chofu-shi, Tokyo, etc.) | Delicatessen products | For foods | 650 | 997 | 117 (9,782) | 13 | 22 | 1,801 | 288 (809) |
| K.Tis Corporation | Head Office and Office (Chofu-shi, Tokyo, etc.) | Distribution system | For warehousing and distribution system | 465 | 1,882 | 2,682 (54,680) | 76 | 14 | 5,120 | 1,304 (265) |
| Shunsai Deli Co., Ltd. | Head Office and Office (Akishima-shi, Tokyo, etc.) | Delicatessen products | For foods | 625 | 691 | 200 (4,761) | 63 | 50 | 1,632 | 208 (602) |

| Trade name | Site | Segment | Facilities and equipment | Book value (millions of yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land (m²) | Lease assets | Other | Total | |
| Sun Family Corporation | Head Office and Office, etc. (Yoshikawa-shi, Saitama, etc.) | Distribution system | For warehousing and distribution system | 580 | 125 | 517 (10,889) | 583 | 40 | 1,847 | 1,225 (1,543) |
| Green Message Co., Ltd. | Head Office and Factory (Yamato-shi, Kanagawa) | Delicatessen products | For foods | 1,066 | 441 | — (—) | — | 18 | 1,526 | 27 (152) |
| Aohata Corporation | Head Office, Factory and Office, etc. (Takehara-shi, Hiroshima, etc.) | Processed foods | For foods | 1,731 | 1,621 | 1,331 (53,752) | — | 129 | 4,813 | 348 (200) |

## (3) Foreign subsidiaries

| Trade name | Site | Segment | Facilities and equipment | Book value (millions of yen) | | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land (m²) | Lease assets | Other | Total | |
| Henningsen Foods, Inc. | Nebraska, USA | Egg products | For foods | 544 | 793 | 20 (56,170) | 186 | 134 | 1,679 | 169 (—) |
| Hangzhou Kewpie Corporation | Zhejiang Province, China | Condiments products | For foods | 467 | 1,386 | — (—) | — | 59 | 1,913 | 588 (—) |
| BEIJING KEWPIE CO., LTD. | Beijing, China | Condiments products | For foods | 931 | 1,000 | — (—) | — | 38 | 1,969 | 640 (—) |
| Kewpie (Thailand) Co., Ltd. | Bangkok, Thailand | Condiments products | For foods | 477 | 507 | 144 (105,004) | 38 | 469 | 1,638 | 1,079 (9) |
| PT. Kewpie Indonesia | West Java, Indonesia | Condiments products | For foods | 547 | 247 | 348 (25,902) | 10 | 17 | 1,171 | 84 (104) |
| Nantong Kewpie Corporation | Jiangsu Province, China | Condiments products | For foods | 1,557 | 726 | — (—) | — | 64 | 2,348 | 94 (—) |
| Mosso Kewpie Poland Sp. z o.o. | Puchały, Poland | Condiments products | For foods | 829 | 197 | 254 (11,599) | 73 | 14 | 1,369 | 157 (—) |

(Notes regarding above-mentioned (1) The Company, (2) Domestic subsidiaries and (3) Foreign subsidiaries)

1. "Other" listed under Book value includes tools, furniture and fixtures (construction in progress is excluded), and the amounts exclude consumption taxes.
2. The figures in brackets under Buildings and structures indicate the total area (m²) of leased properties.
3. Under Number of employees, the figures in parentheses indicate the number of temporary employees.

# IV. The Company

## 1. Shares

### (1) Number of authorized and issued shares

a) Authorized shares

| Class | Number of authorized shares |
|---|---|
| Common stock | 500,000,000 |
| Total | 500,000,000 |

b) Issued shares

| Class | Number of issued shares | | Stock exchange | Remarks |
|---|---|---|---|---|
| | End of period (Nov. 30, 2017) | Filing date (Feb. 28, 2018) | | |
| Common stock | 150,000,000 | 150,000,000 | Tokyo Stock Exchange (First Section) | • Ordinary shares of the Company with no restrictions on shareholders' rights<br>• Number of unit share: 100 shares |
| Total | 150,000,000 | 150,000,000 | — | — |

### (2) Stock acquisition rights

Not applicable.

### (3) Exercise of bonds with stock acquisition rights containing a clause for exercise price revision

Not applicable.

### (4) Rights plan

Not applicable.

### (5) Principal shareholders

(As of November 30, 2017)

| Trade name | Address | Number of the Company's shares held (A) (thousand) | Ratio of (A) to the total number of issued shares (%) |
|---|---|---|---|
| NAKASHIMATO CO., LTD. | 4-13, Shibuya 1-chome, Shibuya-ku, Tokyo | 18,571 | 12.38 |
| TOHKA CO., LTD. | 4-13, Shibuya 1-chome, Shibuya-ku, Tokyo | 8,622 | 5.75 |
| Japan Trustee Service Bank, Ltd. (Trust account) | 8-11, Harumi 1-chome, Chuo-ku, Tokyo | 7,195 | 4.80 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 11-3, Hamamatsu-cho 2-chome, Minato-ku, Tokyo | 5,084 | 3.39 |
| Trust & Custody Services Bank, Ltd.: trustee of sub-trust of Mizuho Trust & Banking Co., Ltd. Employee Retirement Benefit Trust Account for Mizuho Bank, Ltd. | 8-12, Harumi 1-chome, Chuo-ku, Tokyo | 4,827 | 3.22 |
| Kieikai Research Foundation | 4-13, Shibuya 1-chome, Shibuya-ku, Tokyo | 4,251 | 2.83 |
| Sumitomo Mitsui Banking Corporation | 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 3,208 | 2.14 |
| Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.) | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo (11-3, Hamamatsu-cho 2-chome, Minato-ku, Tokyo) | 3,039 | 2.03 |
| The Dai-ichi Life Insurance Company, Limited (standing proxy: Trust & Custody Services Bank, Ltd.) | 13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo) | 3,012 | 2.01 |
| Kewpie Corporation | 4-13, Shibuya 1-chome, Shibuya-ku, Tokyo | 2,955 | 1.97 |
| Total | — | 60,767 | 40.51 |

(Note) The 4,827 thousand shares held by Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust (for Mizuho Bank, Ltd.) are the trust assets entrusted by Mizuho Bank for its retirement benefit trust.

(6) Stock options

Not applicable.

## 2. Acquisition of the Company's Treasury Stock

[Types of shares repurchased]
Shares of common stock repurchased as defined by Article 155, Items 7 and Article 163 of the Companies Act

### (1) Purchase of treasury stock based on a resolution by the General Meeting of Shareholders

Not applicable.

### (2) Purchase of treasury stock based on a resolution by the Board of Directors

Shares of common stock repurchased in accordance with the provisions of Article 163 of the Companies Act

| Item | Number of shares | Total price (yen) |
|---|---|---|
| Repurchase approved at the Board of Directors' meeting held on July 26, 2017<br>(Repurchase period: From July 27, 2017 to September 29, 2017) | 4,530,100 | 10,990,022,600 |
| Treasury stock held prior to the current fiscal year | — | — |
| Shares repurchased during the current fiscal year | 4,120,000 | 9,995,120,000 |
| Total remaining number and value of shares resolved to be repurchased | 410,100 | 994,902,600 |
| Percentage of unexercised portion as of final day of the current fiscal year (%) | 9.1 | 9.1 |
| Shares repurchased during the specified period | — | — |
| Percentage of unexercised portion as of the document filing date (%) | 9.1 | 9.1 |

(Notes) The repurchased shares of treasury stock presented above are acquired by means of tender offer, pursuant to the resolution adopted at the Board of Directors' meeting held on July 26, 2017.

1. Board of Directors' resolution regarding the treasury stock acquisition
   - Type of shares to be purchased: Common stock
   - Total number of shares to be purchased: 4,530,100 shares (maximum)
   - Total acquisition price: ¥10,990,022,600 (maximum)
   - Acquisition period: From July 27, 2017 to September 29, 2017
2. Summary of the purchases, etc.
   - Period of the purchases, etc.: From July 27, 2017 to August 24, 2017
   - Date of public notice of the commencement of the tender offer: July 27, 2017
   - Price of the purchases, etc.: ¥2,426 per common stock
   - Commencement date of settlement: September 15, 2017
3. Result of the purchases
   - Total number of shares acquired: 4,120,000 shares
   - Aggregate acquisition prices: ¥9,995,120,000

### (3) Purchase of treasury stock not based on a resolution by the General Meeting of Shareholders or the Board of Directors

Shares of common stock repurchased in accordance with the provisions of Article 155, Item 7 of the Companies Act

| Item | Number of shares | Total price (yen) |
|---|---|---|
| Shares repurchased during the current fiscal year | 1,530 | 4,380,138 |
| Shares repurchased during the specified period | 216 | 649,155 |

(Note) "Shares repurchased during the specified period" does not include shares resulting from the purchase of treasury stock less than one unit between February 1, 2018 and the document filing date of the Annual Securities Report.

### (4) Disposal of repurchased shares and balance of treasury stock

| Item | Current fiscal year | | Specified period | |
|---|---|---|---|---|
| | Number of shares | Total disposal value (yen) | Number of shares | Total disposal value (yen) |
| Number of shares repurchased via solicitation | — | — | — | — |
| Number of repurchased shares retired | 3,000,000 | 6,745,110,000 | — | — |
| Repurchased shares transferred via a merger, share exchange or division of the company | — | — | — | — |

| | | | | |
|---|---|---|---|---|
| Other (Disposition of the shares of treasury stock by way of third-party allotment) | 1,500,000 | 1,500,000 | — | — |
| Balance of treasury stock held | 2,955,521 | — | 2,955,737 | — |

(Notes) 1. The Company conducted the retirement of 3,000,000 shares of treasury stock on October 13, 2017, pursuant to the resolution adopted at the Board of Directors' meeting held on September 27, 2017.

2. The Company resolved, at the Board of Directors' meeting held on December 26, 2016, to conduct disposition of treasury stock by way of third-party allotment, for the purpose of funding the activities of the Kewpie Mirai Tamago Foundation, a general incorporated foundation, and disposed 1,500,000 shares of treasury stock by way of third-party allotment due to their allocation to a third party on May 15, 2017.

3. "Balance of treasury stock held" in "Specified period" does not include shares resulting from the purchase of treasury stock less than one unit between February 1, 2018 and the document filing date of the Annual Securities Report.

## 3. Dividend Policy

The Company maintains a basic policy of providing returns to its shareholders with top priority on dividend payments, and accordingly aims to continue providing stable dividends while also reviewing options for repurchasing and retiring treasury stock as necessary, giving consideration to factors such as stock price trends and financial conditions.

As for internal reserves, the Company endeavors to adequately secure them to strengthen its financial position and provide an adequate supply of funds for future expansion. The Company will take a medium to long-term view and continue to allocate funds to the improvement of its facilities and equipment, research and development, and the further streamlining of operations in order to enhance its competitiveness.

With respect to determining the amounts to be paid in dividends, the Company will maintain a consolidated dividend payout ratio of at least 30% in principle, and target a ratio of consolidated DOE ratio of at least 2.2%.

As for dividends, the Articles of Incorporation of the Company stipulate that dividends from surplus can be paid twice a year, comprising of interim and year-end dividends based on the resolution by the Board of Directors, in accordance with the provisions of Article 459, Paragraph 1 and Article 454, Paragraph 5 of the Companies Act.

For the current fiscal year, the Company intends to pay a year-end dividend of ¥18.50 per share. The annual dividends will be ¥36.50 per share, which includes the interim dividend of ¥18 paid in August, for an increase of ¥2 per share in comparison with the previous fiscal year.

As a result, the Company’s consolidated dividend payout ratio and consolidated DOE came to 30.2% and 2.5% respectively for the current fiscal year.

The Company is a company subject to consolidated dividend regulations, meaning that it calculates the distributable amount for dividends on a consolidated basis.

## 4. Corporate Governance

### (1) Corporate governance

(a) Corporate governance structure

Basic policy

To maximize the Company’s corporate value through efficient management, the Company has recognized the following as priority tasks: the reorganization of the management structure and system of the Company and the entire group; the appropriate execution of required measures; and sharing the benefits created by the successful conduct of its business with its customers, employees, business partners, shareholders, investors, and other stakeholders. These various measures, taken together, constitute good corporate governance, in the view of the management of the Group.

The Company fully recognizes that compliance is indispensable to its lasting development, and promotes the formulation of a compliance program and its implementation in order to enable all directors and employees of the Company to conduct business not only in full compliance with laws and regulations, but also with the highest ethical view.

Overview of corporate governance structure

The Company utilizes the conventional management organization system, under which the decision making of the Board of Directors is monitored by audit & supervisory board members.

The Board of Directors of the Company, as its highest-level decision-making body, meets at least once every month. In addition, a Management Council, a body supporting the Board of Directors and Representative Director and President Corporate Officer of the Company, has been set up for deliberation on important management issues in accordance with the Company's basic management policies. To enable a speedy and effective response to changes in the business environment, the scope of matters requiring discussion by the Board of Directors, and the limits of decision-making authority delegated to Company officers depending on position are subject to constant review with the goal of ensuring swift decision making and execution of orders at the operational level.

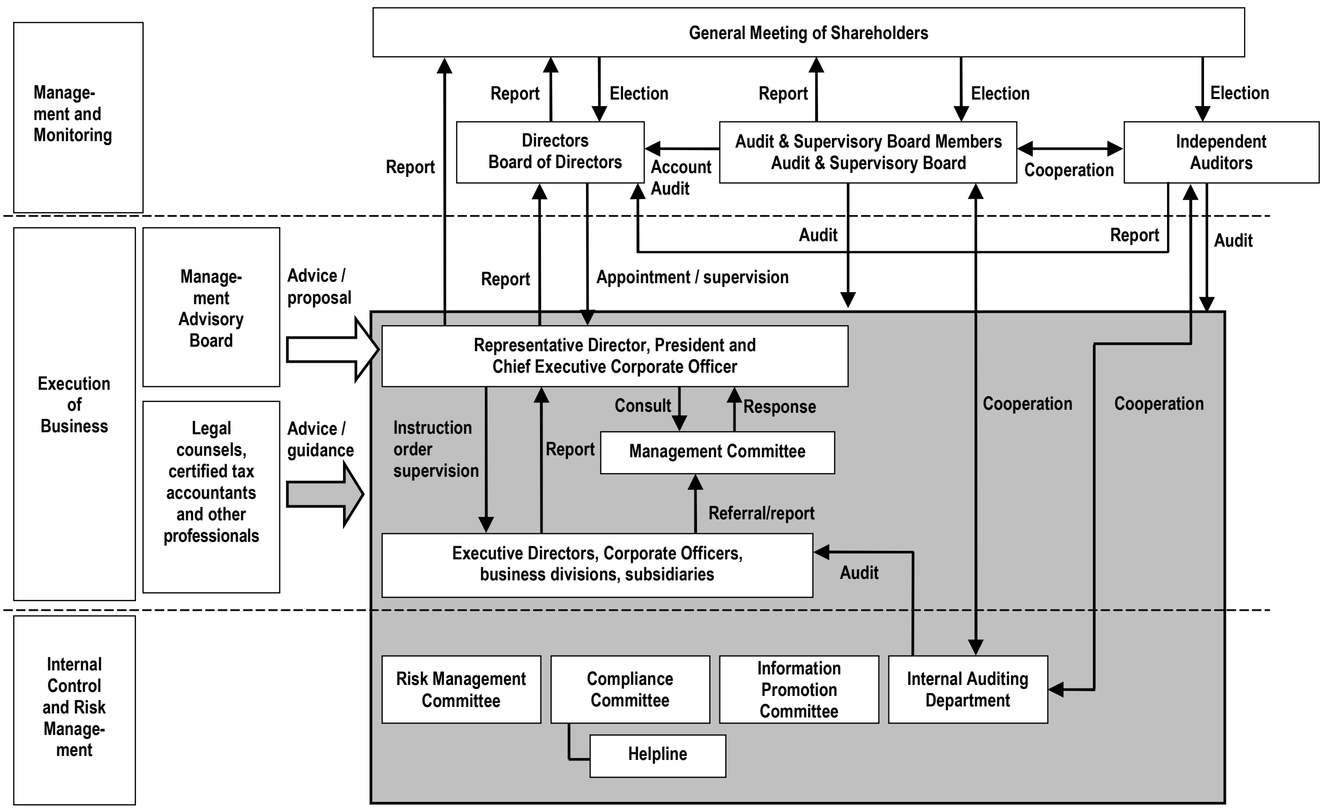
The managements of the nine subsidiaries that form the core of the Group regularly participate in meetings of the Management Council. Participants in these meetings work to further advance Group management by such means as holding debates on Group policies.

There is also a Management Advisory Board composed of experts from outside the Company. This was set up with the goal of obtaining advice and recommendations so that the Group may boost the soundness, fairness and transparency of its management and thus better serve society and its customers.

Furthermore, we have reviewed the corporate officer system and have accordingly assigned to Corporate Officers positions that had previously been assigned to Directors, with the aim of promoting delegation of authority to Corporate Officers, clarifying roles and responsibilities, and expediting management.

At present, in the opinion of the management of the Company, no particular organizational problem exists with regard to management decision making, execution, or supervision, but the management will continue to examine and debate this matter at regular intervals so as to ensure that appropriate corporate governance is always conducted.

## The Corporate Governance System of the Group



Reason for adopting the Group's corporate governance structure

The Company places the establishment of the corporate governance structure etc. and the appropriate execution of required measures as one of the most important tasks of management.

The Company receives opinion and guidance from the two outside directors and the three outside audit & supervisory board members concerning the overall management of the Company. They also serve the important role of monitoring the Representative Director and President Corporate Officer and the executive directors, and the Company believes in ensuring that the monitoring and advising function provided to the management is sufficiently working, and that it is objective and neutral.

In addition, the directors' term of office is one year in order to clarify management responsibilities each fiscal year and establish a management structure that can respond swiftly to changes in the business environment.

Progress made in establishing internal control system

The Company, through the Board of Directors, has passed the following resolutions concerning basic policy for building an internal control system.

A. Outline

The resolutions concerning the basic policy of building the Company's internal control system were passed at the Board of Directors' meeting in accordance with Article 362, Paragraph 5 of the Companies Act. The aforesaid resolutions provide the broad framework for articles and paragraphs required for the system establishment of an internal control system as provided by Article 100 of the Ordinance for Enforcement of the Companies Act.

While the Company's objective for the internal control system based on the aforesaid resolutions is rapid implementation, the Company aims to review the system on a regular basis, or when otherwise required, for the purpose of improvement, and through such, aims to create an efficient and proper system for corporate operations.

B. System to ensure storage and management of information relating to the execution of duties of directors

a) The director in charge of the Management Promotion Division shall implement operations for the proper preservation and management (including disposal) of documents and other information relating to the execution of duties of directors by using documents or electronic information created in accordance with document management rules, the regulations on the use of Company information, basic principles on the protection of personal information and manuals related to the storage and management of such information, and when required, the aforesaid director shall inspect the state of such operation and review the respective rules.

b) At all times, the directors and audit & supervisory board members shall be able to view these documents or electronic information.

C. System for rules relating to management of risks of loss and other rules

a) The Company shall follow its risk management basic policy with respect to each individual risk, and continuously monitor the organization etc. associated with the risk. It shall centralize information related to all company risks in the Risk Management Committee headed by the Company's Representative Director and President Corporate Officer. The Risk Management Committee shall evaluate, and manage the overall order of priority of the risks.

b) The Internal Audit Office shall audit the day-to-day risk management situation of the respective division or department of the Company or its subsidiaries in cooperation with the division or department's staff member charged with the auditing of matters relating to product quality and environmental protection, and, when reporting on a regular basis to the Risk Management Committee, Board of Directors and Audit & Supervisory Board, shall not only report on matters related to risk management, but also report on the progress of the establishment of the risk management system inside the Company.

c) The Company shall create a crisis management manual based on its risk management basic policy. It shall first identify and categorize concrete risks and then establish information transmission and emergency response systems that provide a quick and proper response in times of emergency.

D. System to ensure directors can efficiently execute their duties

a) While providing group-wide management targets to be shared by directors and employees and working to ensure group-wide permeation of such, the Company, aiming to achieve these management targets, shall strive to achieve an optimized organization through restructuring and the Representative Director and President Corporate Officer shall appoint person in charge of such duties for each business unit by resolution of the Board of Directors. By delegating authority to the aforesaid persons in charge of such duties, it shall be possible to efficiently and quickly execute duties.

b) With regard to execution of duties based on resolution of the Board of Directors, the respective scope of responsibility and decision-related procedures shall be provided in a form stating decision-reporting procedures.

c) Measures deciding the forward course of management activities shall, in accordance with the basic policy on execution of duties that was resolved by the Board of Directors, be entrusted to scheduled or unscheduled discussions held in the Management Council that serves as an advisory body directed by the Representative Director and President Corporate Officer, which shall make decisions and realize flexible execution of duties.

E. System necessary to ensure the execution of duties by Company personnel complies with laws and regulations and the Articles of Incorporation of the Company

a) The Company shall establish provisions relating to the compliance system and provide the Group Guidelines to ensure directors and employees act in a way that complies with laws and regulations, the Articles of Incorporation of the Company and the motto and precepts of the Company. Moreover, to ensure the thoroughness of such compliance, the Company shall appoint a director in charge of compliance to supervise the Compliance Committee. Through doing this, the Company led by the Compliance Committee, while striving to establish a compliance system that extends laterally across the Company and keep abreast of problematic issues, shall create compliance manuals and train employees. The director in charge of compliance shall regularly report these activities to the Board of Directors and Audit & Supervisory Board.

b) Under the Compliance Committee, and serving as an internal reporting system for the protection scheme of people reporting information in the public interest, a “helpline” shall be established where outside lawyers, third-party bodies or audit & supervisory board members, etc. are the information recipients. Upon receiving a report or notice from an information recipient, the Compliance Committee shall investigate the substance of the report or notice and if a violation is apparent, it shall hold discussion with the unit responsible for the violation and decide upon measures that will prevent the reoccurrence of such a violation. In addition to releasing an internal company report that includes the result of disciplinary action, it shall carry out measures that will prevent the reoccurrence of such a violation within the Company.

F. System necessary to ensure the properness of operations in the corporate group that is formed by the Company, its parent company and its subsidiaries

a) Subsidiaries of the Company shall report to directors of the Company, on a monthly basis, on the risks involving business results and management. Moreover, directors of the Company who have been dispatched as directors of a subsidiary and are present at the subsidiary's Board of the Directors' meeting shall report to the director designated by the Representative Director and President Corporate Officer of the Company regarding the status of discussions by the subsidiary's Board of Directors and management issues.

b) The committee members of Risk Management Committee of the Company shall include person in charge of subsidiary oversight and this committee shall also manage the risks of its subsidiaries. Moreover, subsidiaries shall also be included in the scope of activities of the Compliance Committee and the internal auditing unit, and have access to the helpline as well.

c) Consolidated management targets and policy on business operations of the corporate group shall be shared at the Group Joint Management Council and in meetings of different business areas. Moreover, the entire Group shall work toward optimization with respect to the organization and human resources, and financing. Also, with regard to execution of duties, the Company shall define areas of authority for managing subsidiaries based on the "group-wide form stating decision-making and reporting procedures," and shall also streamline delegation of authority while achieving balance with Group management.

d) To ensure proper operations of subsidiaries, the Company shall share its motto and precepts, along with the Group's goal of "unceasingly contributing to better and healthier dietary lifestyles of people from around the world premised on the notions of good taste, kindness and uniqueness" which make up the Group's philosophy. Furthermore, all Directors and employees shall adhere to the Group Policies which encompass the Code of Ethics and Code of Conduct.

e) A Management Advisory Board has been set up as an advisory body to the Representative Director and President Corporate Officer of the Company, who receives the board's advice and recommendations for maintaining and improving the Group's soundness, fairness and transparency, and reflects these in decision making.

f) The Group shall, as a member of society, never become involved with anti-social forces that are a menace to social order and security, and shall resolutely refuse improper solicitation.

g) To construct a system necessary to ensure the properness of financial reporting, the Group shall establish various provisions related to financial reporting and aim to enhance internal controls related to financial reporting by conducting educational programs and promoting awareness of compliance of accounting standards and other related laws and regulations. Moreover, the Company's unit in charge of finance reporting, in cooperation with audit & supervisory board members of subsidiaries, shall construct a scheme for regularly evaluating and improving the state of the design and operation of this system.

h) For K.R.S. Corporation and Aohata Corporation, which are subsidiaries of the Company, systems necessary to ensure properness of operations shall be independently constructed at each company as they are listed on the Tokyo Stock Exchange and have independent corporate groups. However, the said companies will still share with the rest of the Group the consolidated management targets and there shall be a close exchange of information relating to risk management and compliance.

G. Placement of employees to assist in audit & supervisory board member duties

The Internal Audit Office executes internal auditing of matters requested by the audit & supervisory board members through deliberation with the Audit & Supervisory Board and reports the results of such audits to the Audit & Supervisory Board. Moreover, if the Audit & Supervisory Board requests to appoint an employee to assist in such duties, the Internal Audit Office shall expeditiously comply with such a request.

H. Independence from the directors of employees who assist in audit & supervisory board member duties and ensuring effectiveness of audit & supervisory board member instructions conveyed to such employees

a) Employees belonging to the Internal Audit Office who receive a request from the audit & supervisory board members to carry out necessary internal auditing duties shall not receive instructions or orders that relate to such internal auditing from directors etc. except the director in charge of the Internal Audit Office. Moreover, in order to ensure independence, when the Audit & Supervisory Board requests the placement of an employee to assist in auditing duties, that employee shall not receive instructions or orders from directors.

b) Committees contributing to the internal control system such as the Risk Management Committee and the Compliance Committee, the Internal Audit Office, and staff members in each division or department in charge of auditing duties shall respect the opinions of each audit & supervisory board member as they pertain to ensuring that the audit by the audit & supervisory board members is effective.

I. System for reporting to the audit & supervisory board members including system for directors and employees, and directors, audit & supervisory board members and employees of subsidiaries to report to the audit & supervisory board members

a) Directors and employees, and directors, audit & supervisory board members and employees of subsidiaries shall report the information necessary to respond to respective audit & supervisory board member requests in accordance with the stipulation of the Audit & Supervisory Board.

b) The subjects of the information matters mentioned in the previous paragraph are mainly:
- Content of agenda items for resolution at the General Meeting of Shareholders
- Status of activities at units concerning the construction of the Company's internal control system
- Status of activities of audit & supervisory board members, the Internal Audit Office, and staff members in divisions or departments in charge of auditing matters of the Company's subsidiaries or affiliates
- Material accounting policies and accounting standards of the Company and changes thereof
- Details of announcements of operating results and operating forecasts, and details of material disclosure documents
- Operation and details of reports of the internal reporting system
- Behavior in violation of laws and regulations or the Articles of Incorporation, or fraudulent behavior
- Matters entailing risk of inflicting substantial damage on the Company or a subsidiary thereof

c) The Company shall establish a system, as part of the "helpline" internal reporting system in order to enable direct contact with the Company's audit & supervisory board members.

J. System to ensure that persons who have reported as aforementioned in section "I." above are not treated disadvantageously for making such reports

a) Compliance regulations applicable across the Group shall ensure protection of persons who seek consultation or report issues.

b) The Company shall, within the "helpline" internal reporting system, set up an internal reporting contact point operated by an outside third-party entity, and shall establish a system that enables directors and employees, as well as officers and employees of subsidiaries, to anonymously report to audit & supervisory board members through that contact point.

K. Policy on procedures for prepaying or reimbursing expenses incurred by audit & supervisory board members in the course of executing their duties, and other matters involving handling of expenses or debts incurred through execution of such duties

a) The Company shall undertake budgetary measures annually with respect to audit expenses necessary to ensure the smooth execution of audit & supervisory board member duties.

b) The Company shall cover extraordinary expenses claimed by audit & supervisory board members, such as those incurred in enlisting the cooperation of outside specialists (such as lawyers and accountants), unless the nature of the expense claimed is deemed unreasonable.

L. Other system necessary to ensure auditing of audit & supervisory board members is effectively executed

a) The Audit & Supervisory Board shall not only make the opportunity for hearings from executive directors and important employees, but also make the opportunity for regular exchange of opinions from the Representative Director and President Corporate Officer and the accounting auditors.

b) Audit policies and important audit matters of respective fiscal years are to be reported to the Board of Directors and shared with the directors.

<u>Progress made in operating the internal control system</u>

Details regarding the operational status of the internal control system for the current fiscal year are summarized as follows.

a) System to ensure compliance with laws and regulations and the Articles of Incorporation
   - To address risks associated with potential instances of bribery, we worked to raise awareness regarding the “Kewpie Group Basic Policy on Anti-Bribery,” established and implemented the anti-bribery regulations at our Chinese subsidiaries.
   - To promote compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, we have performed the research on the actual state of contracting transactions, made necessary corrections, revised the manuals, held training sessions and upgraded our ordering system.

b) System for managing risk of loss
   - At its business offices in Japan and overseas, the Company has been conducting crisis management training sessions, media training sessions and disaster response training sessions.
   - To prevent the leakage of and promote the effective use of key technological information, the Key Technology Committee has worked to select and formulate operational guidelines for key technology, and to respond to the revised Act on the Protection of Personal Information, has revised the guidelines and principles on the protection of personal information.

c) System to ensure effective execution of duties
   - To ensure and improve on the knowledge required of the Board of Directors, we held executive training conducted by external instructors for the Group’s management, worked to expand information sharing with outside directors and audit & supervisory board members, and increased the number of opportunities for outside directors and audit & supervisory board members to visit business offices.
   - The Company has reorganized operations to accelerate the pace of Group cooperation and has been promoting the establishment of systems for overcoming challenges. At the same time, the Company has been actively reassigning personnel laterally across different business operations and sectors in order to develop professionals who will take charge in the future and in order to ensure the success of the Group’s diverse workforce.
   - While further developing the type of advertising and brand development unique to the Group, to respond immediately to diversifying consumer communication, we reorganized the Group’s internal organization related to advertising and branding.

d) System necessary to ensure properness of operations in the corporate group
   - At business offices both in Japan and overseas, by creating numerous opportunities for explanation and discussion of the Group's philosophy, starting with its motto and precepts, we worked to spread awareness on the Group's philosophy.

e) System to ensure that audit & supervisory board members perform audits effectively
   - The Company's audit & supervisory board members have been striving to assess the operational status of internal controls through efforts that include creating opportunities for regular exchange of opinions and other dialogue among the Representative Director, accounting auditors and the Internal Audit Office, as well as attending meetings of the Risk Management Committee, the Compliance Committee and other such bodies.

Risk management system

The Company's risk management basic policy has set specific, systematic procedures for risk management, under which each responsible unit exercises continuous oversight of each individual risk factor. In addition, the Company established a Risk Management Committee, chaired by the Representative Director and President Corporate Officer, to address risk factors that affect the Company as a whole by evaluating and prioritizing risks to comprehensively manage risk. A crisis management manual has been prepared to prepare for any foreseeable sudden risks to operations. In addition, in the event of a sudden incident or emergency, an Emergency Headquarters will be established immediately in accordance with the crisis management manual, to take action in order to deal swiftly and appropriately with the incident. The members of the Risk Management Committee include representatives from each of the Company's major subsidiaries. Furthermore, in order to manage operating risks at subsidiaries, each subsidiary reports on its management risks to the directors responsible for risk management, as needed.

In order to provide a solid legal compliance structure, the Company has established a Compliance Committee (chaired by the member of the Board of Directors responsible for compliance issue, with administrative work performed by members of the Internal Audit Office), which is at the center of various compliance activities. The Committee chairman reports back to the Board of Directors and the Audit & Supervisory Board on the status of compliance activities. In addition to establishing and publically releasing a document entitled "Group Policies," which explains to people both within and outside the Group the core values and activities expected of group companies, the Company also set up "helplines," that employees of Group companies can use to report information or seek guidance (there are many ways to contact this helpline, from both within and outside the Company), and set up a Compliance Investigation Committee to investigate any suggestions of illegal activity. In order to ensure that all employees have been instructed in, and have a proper understanding of what compliance entails, the Company has been conducting a "Mind Up Program," and has also been implementing employee awareness surveys (questionnaire format) every other year in order to assess how well employees of Group companies understand compliance matters, and also to gauge their awareness and conduct in that regard. In the event of non-compliance, such cases are fully reported (up to and including action taken against employees or directors found to be at fault) to employees of the whole Company and other Group companies, and companywide efforts are being implemented to prevent any recurrence.

With regard to information security, the Company has established and in accordance with the regulations on the use of Company information, as well as basic principles on the protection of personal information, as well as preparing operations manuals related to the storage and management of such information. In addition, the Information Promotion Committee (headed by the officer in charge of the Management Promotion Division or a person who is appointed by the said officer, with administrative work performed by the Management Promotion Division in charge) conducts training sessions to teach employees proper information management procedures, confirms that the specified procedures are being carried out, and reviews or revises each information management regulation. The directors and audit & supervisory board members have continuous access right to documents and electronic information related to the deliberations and activities of directors.

Evaluation of the effectiveness of the Board of Directors

From November through December 2016, the Company implemented an evaluation of the effectiveness of the Board of Directors (first evaluation) and worked to improve the Board of Directors based on those results. A summary of this process is as follows:

(1) Implementation methods and details

- Covering all Directors and Audit & Supervisory Board Members, we implemented a questionnaire using an external organization. The questionnaire was composed of fifty questions in both multiple-choice and free-response format, and included sections on "Thorough Deliberations at the Board of Directors," "Ensuring and Improving the Qualifications and Knowledge of the Directors and the Board of Directors," "Designing, Structuring, and Operating the Board of Directors and its Related Organizations," "The Mission, Roles, and Responsibilities of the Directors and the Board of Directors," "The Relationship and Dialogue with the Shareholders," and "The Handling of Non-Shareholder Stakeholders."
- The external organization analyzed and evaluated the responses to the questionnaire, and, following the reporting and sharing of those results with the Board of Directors, an exchange of opinions was held among all Directors at a meeting of the Board of Directors.

(2) Evaluation results

- No serious insufficiencies or structural failings were identified in our corporate governance centered on the Company's Board of Directors in terms of either the Companies Act or our Corporate Governance Code.
- Overall, our desired corporate governance stance was generally being realized, but certain issues were identified from the standpoint of the effectiveness of the Board of Directors.

(3) Improvement initiatives

- In regards to the expected role of outside Directors and Audit & Supervisory Board Members and priority items for discussion at the Board of Directors, management discussed and organized the issues.
- Mainly covering newly appointed Directors, executive training was conducted by external instructors.
- While working to expand information sharing with outside Directors and Audit & Supervisory Board Members, we increased the opportunities for outside Directors and Audit & Supervisory Board Members to tour business offices.

Furthermore, the second evaluation of the effectiveness of the Board of Directors mainly focused on the state of improvement of the main issues identified in the first evaluation and was implemented through a questionnaire given to Directors and Audit & Supervisory Board Members in December 2017 using an external organization.

Thereafter, following the reporting and sharing of the questionnaire results and evaluation by the external organization with the Board of Directors, an exchange of opinions was held among all directors and audit & supervisory board members at a meeting of the Board of Directors.

In the questionnaire, the evaluation showed that overall many of the issues had been improved, and future issues as well as plans for concrete initiatives will again be shared at a meeting of the Board of Directors as we work toward further improvement.

Going forward, an evaluation of the effectiveness of the Board of Directors will be implemented every year, and we will work to build a management framework that contributes to the medium- to long-term development of the Group.

Lawyers, accounting auditors, and other third parties

When the management of the Company requires advice on legal matters, they consult their legal advisors (lawyers).

In addition, the Company's auditing firm — Ernst & Young ShinNihon LLC — as part of its normal duties as an accounting auditor, provides the Company with advice relating to problems in the sphere of the Company's accounts and general management. (The Representative Director and President Corporate Officer of the Company regularly discusses such issues with accountants of Ernst & Young ShinNihon LLC). Neither Ernst & Young ShinNihon LLC as a corporate entity nor its accountants as individuals, have any particular interests in the Company that would cause conflict of interest in the performance of their contractual duties.

Auditing work for the Company during the reporting period was performed principally by the three certified public accountants listed below, assisted by forty-eight other qualified persons, including twenty-one CPAs and twenty-seven other qualified persons.

| Names & titles of CPAs | Auditing firm to which the CPA belongs |
|---|---|
| Masayuki Miyairi<br>Designated and Engagement Partner | Ernst & Young ShinNihon LLC |
| Yoshiyuki Sakuma<br>Designated and Engagement Partner | Ernst & Young ShinNihon LLC |
| Miyuki Nakamura<br>Designated and Engagement Partner | Ernst & Young ShinNihon LLC |

(Notes) 1. The number of successive years in which CPAs have covered the accounts of the Company has been omitted, as no CPAs have covered these accounts for more than seven years.

2. The auditing firm noted above takes measures so that its engagement partners do not participate in the accounting audits of the Company on a consecutive basis for over a certain number of years.

(b) Status of internal audits and audit & supervisory board member audits

The Audit & Supervisory Board determines the auditing policies as well as the division of responsibilities among audit & supervisory board members, and each audit & supervisory board member complies with the Board's policy directives and sits in on meetings of the Board of Directors and other important management meetings. Audit & supervisory board members hear business reports from individual directors and peruse the documents employed in the process of reaching decisions on important matters. Audit & supervisory board members conduct on-site investigations at the Company's Head Office and other important business places regarding business performance and financial position. Audit & supervisory board members also request reports from the managements of the Company's subsidiaries on their business performance. When deemed necessary, audit & supervisory board members visit subsidiaries to investigate the performance of their business and their financial position at first hand. The two standing audit & supervisory board members simultaneously act as audit & supervisory board members for the Company's main subsidiaries. Regular meetings are held between the Audit & Supervisory Board and the Representative Director and President Corporate Officer of the Company, and extraordinary meetings may be held when necessary: these meetings are utilized to exchange opinions regarding proposals covering the whole range of the Company's business activities.

The Company has set up an Internal Audit Office to act as its internal auditing unit with ten staff members. The staff of the Internal Audit Office perform auditing – in line with the directives laid down in the auditing plan for each year, as well as in accordance with requests received from the Representative Director and President Corporate Officer, the director in charge of the Internal Audit Office or audit & supervisory board members – to confirm that organized activities throughout the Group are being carried out properly and efficiently in conformity with the law, or in line with the Company's own internal regulations and the management's policies. If required, the Internal Audit Office cooperates with audit & supervisory board member as well as accounting auditors by exchanging information and other actions. Auditing activities are also conducted in cooperation with staff members of the

Company who are in charge of the auditing of matters relating to product quality, environmental protection, safety and labor.

(c) Outside directors and outside audit & supervisory board member

The Company has two outside directors and three outside audit & supervisory board members.

Outside director Mr. Kazunari Uchida is an external director of MITSUI-SOKO HOLDINGS Co., Ltd. and external director of Lion Corporation, and the Company has no special interests between the two companies. Consequently, it has no impact on the independence of Mr. Uchida.

Outside director Ms. Shihoko Urushi has abundant experience as an educator combined with broad insight as a corporate executive. Ms. Urushi has no material interest in the Company.

Outside audit & supervisory board member Ms. Emiko Takeishi has experience in the sector of public administration and broad knowledge about personnel systems and labor policies. Although Ms. Takeishi is an outside audit & supervisory board member of Tokio Marine & Nichido Fire Insurance Co., Ltd. and the Company has a business relationship, it is a regular business relationship and there are no special interests between the two companies. Consequently, it has no impact on the independence of Ms. Takeishi.

Outside audit & supervisory board member Mr. Kazuyoshi Tsunoda has the broad insight as management since he is in position responsible for both executing and supervising operations of business companies. Furthermore, Mr. Tsunoda is involved in the materials business of Hitachi Chemical Company, Ltd. and with the management of its subsidiaries, and has abundant knowledge related to both finance and accounting. Mr. Tsunoda has no material interest in the Company.

Outside audit & supervisory board member Mr. Kazumine Terawaki has specialist knowledge and broad insight as a legal expert. Mr. Terawaki has no material interest in the Company.

The Company stipulates the following as its criteria on independence for the purpose of appointing outside directors and outside audit & supervisory board members.

<Independence Criteria for Outside Directors and Outside Audit & Supervisory Board Members>

To judge the independence of outside Directors and outside audit & supervisory board members as stipulated in the Companies Act, we check the requirements for independent corporate officers stipulated by the Tokyo Stock Exchange, Inc. as well as checking whether the following apply.

(1) A major shareholder of the Company (holding 10% or more of voting rights either directly or indirectly), or a person who executes business for a major shareholder of the Group (*1)

(2) A person/entity for which the Group is a major client, or a person who executes business for such person/entity (*2)

(3) A major client of the Group or a person who executes business for such client (*3)

(4) A person who executes business for a major lender of the Group (*4)

(5) A senior partner or partner of the accounting auditor for the Company

(6) A provider of expert services, such as a consultant, attorney at law, or certified public accountant, who receives cash or other assets exceeding ¥10 million in one business year other than Director/Audit & supervisory board member compensation from the Company

(7) A person/entity receiving contributions from the Group exceeding ¥10 million in one business year, or a person who executes business for such person/entity

(8) A person to whom any one of (1) to (7) above has applied in the past three business years

(9) Where any of (1) to (8) above apply to a key person, and his or her immediate relatives, which includes his or her grandparents, grandchildren, siblings, spouse and his or her grandparents, siblings and grandchildren (*5)

(10) A special reason other than the preceding items that will prevent the person from performing their duties as an independent outside corporate officer, such as the potential for a conflict of interest with the Company.

*1 A person who executes business means an executive director, executive officer, corporate officer, or other employee, etc.
*2 A person/entity for which the Group is a major client means a person/entity who receives payments from the Group amounting to at least the higher of either 2% of their consolidated net sales or ¥100 million.
*3 A major client of the Group means a client that makes payments to the Group amounting to at least the higher of either 2% of the Company's consolidated net sales or ¥100 million.
*4 A major lender of the Group means a lender named as a major lender in the Group's business report.
*5 A key person means a director (excluding outside directors), audit & supervisory board member (excluding outside audit & supervisory board members), executive officer, corporate officer, or other person in the rank of senior general manager or above, or a corporate officer corresponding to these positions.

The Company works to secure outside directors and outside audit & supervisory board members that have a high degree of independence from an objective viewpoint. In that regard, the Company has registered five such individuals with the Tokyo Stock Exchange, Inc. as independent directors and independent audit & supervisory board members who pose no risk involving conflict of interests with ordinary shareholders, including Mr. Kazunari Uchida and Ms. Shihoko Urushi as outside directors, and Ms. Emiko Takeishi, Mr. Kazuyoshi Tsunoda and Mr. Kazumine Terawaki as outside audit & supervisory board members.

As such, the Company judges that the current structure is one under which management supervision functions adequately in terms of objectivity and neutrality from an outside perspective, which are considered important for corporate governance.

(d) Policies and procedures for election of directors and audit & supervisory board members

<Policy for nomination of Director candidates>

The Board of Directors of the Company, in working to follow the mandate of the shareholders, shall have the responsibility to respect the Company's corporate philosophy, promote sustainable corporate growth and the improvement of corporate value over the medium- to long-term, and enhance earnings power and capital efficiency. Concerning the election of Directors, the Board of Directors has set forth the following criteria through which the persons deemed capable of fulfilling these responsibilities are nominated as candidates.

(Inside Director)

1. Must respect the corporate philosophy of the Company and embody its values.
2. Must possess abundant knowledge on domestic and international market trends concerning the Group business.
3. Must have a strong ability for objective managerial judgment and business execution that will contribute beneficially to the Group's management direction.

(Outside Director)

1. Must provide a guiding role in particular fields, such as legal affairs, corporate management, overseas business, human resource development, and CSR and have a lot of experience and expertise in these fields.
2. Must be very familiar with the corporate philosophy and business of the Company, and possess the ability to express opinions, provide guidance and advice, and carry out supervision with respect to the inside Directors when deemed timely and appropriate to do so.
3. Must secure sufficient time to perform his or her duties as an outside Director of the Company.

<Policy for nomination of Audit & Supervisory Board member candidates>

The Audit & Supervisory Board members, in working to follow the mandate of the shareholders, have responsibilities to strive to prevent occurrences of infringements of laws and regulations and the Articles of Incorporation and maintain and improve the soundness of the Group's management and its trust from society. Concerning the election of Audit & Supervisory Board members, the Board of Directors has set forth the following criteria through which the persons deemed capable of fulfilling these responsibilities are nominated as candidates.

(Inside Audit & Supervisory Board member)

1. Must respect the corporate philosophy of the Company and embody its values.
2. Must maintain a stance of fairness and possess the capability to fulfill auditing duties.
3. Must have an overall grasp of the Group operations and be able to propose management tasks.

(Outside Audit & Supervisory Board member)

1. Must provide a guiding role in particular fields, such as legal affairs, corporate management, accounting, overseas business, human resource development, and CSR and have a lot of experience and expertise in these fields.
2. Must be very familiar with corporate philosophy and business of the Company, and possess the ability to express opinions, provide guidance, and carry out supervision with respect to the Directors from an objective and fair standpoint.
3. Must secure sufficient time to perform his or her duties as an outside Audit & Supervisory Board member of the Company.

<Procedures for Nomination of Directors and Audit & Supervisory Board members>

Concerning the nomination of candidates for Directors and Audit & Supervisory Board members, the Representative Director shall consider and recommend the candidates at an internal management meeting, which comprises full-time Directors, and the recommended candidates are reviewed and decided upon at a Board of Directors meeting.

As for decisions regarding the organizational structure of the Company and the composition of its personnel, and so forth, the Representative Director will establish opportunities to exchange opinions with outside directors and outside audit & supervisory board members as required.

As for Audit & Supervisory Board members, election propositions for the General Meeting of Shareholders must be approved by the Audit & Supervisory Board pursuant to stipulations in the Companies Act.

(e) Compensation of directors and audit & supervisory board members

(i) The total compensation of directors and audit & supervisory board members by type, total compensation by classification, and number of people receiving compensation

| Type of directors and audit & supervisory board members | Total compensation (millions of yen) | Total compensation by classification (millions of yen) | | Number of people receiving compensation |
|---|---|---|---|---|
| | | Basic compensation | Bonuses | |
| Directors (excluding outside directors) | 396 | 333 | 62 | 13 |
| Audit & supervisory board members (excluding outside audit & supervisory board members) | 51 | 51 | — | 2 |
| Outside directors and outside audit & supervisory board members | 54 | 54 | — | 5 |

(Note) The compensation amounts listed above exclude employee salaries (including bonuses) of those serving concurrently as employee and director.

(ii) Details and decision-making method of policy concerning compensation amounts of directors and audit & supervisory board members and calculation method thereof

The compensation paid to directors is in the form of monthly compensation and bonuses. The monthly compensation is decided separately according to each director’s status and is limited within the scope of the compensation limit resolved by the General Meeting of Shareholders. Bonuses are not paid to the outside directors.

The compensation paid to audit & supervisory board members is in the form of monthly compensation only. The individual compensation amounts are decided through negotiation with audit & supervisory board members within the scope of the compensation limit resolved by the General Meeting of Shareholders.

The rationale and calculation methods with respect to compensation of the directors and audit & supervisory board members are as follows:

<Policy for Determining Compensation of Directors and Audit & Supervisory Board Members>

1. Rationale and procedures for compensation of Directors, Audit & Supervisory Board members, and Corporate Officers
   1) The Company institutes a compensation system for compensation of Directors and Corporate Officers that is configured by monthly remuneration and bonuses, which are linked with the company's financial performance and reflects his or her responsibilities and achievements.
   2) The Company establishes opportunity for exchange of opinion with outside Directors and outside Audit & Supervisory Board members about the rationale behind the way the compensation system is designed, and raises its transparency and fairness.
   3) The total amount of bonuses paid to Directors must be approved at a general meeting of shareholders.
   4) The compensations of outside Directors and Audit & Supervisory Board members (inside and outside) shall respectively be fixed amounts and no bonuses will be paid.
2. Calculation method for monthly remuneration
   1) A monthly remuneration of a consistent amount will be paid for Director duties to inside Directors; provided, however that a separate, additional remuneration be provided to the individuals with representative authority.
   2) The monthly remuneration for Corporate Officers should be set at a suitable level that takes into consideration the Company's management environment, etc. and correspond to the rank (President and Chief Executive Corporate Officer, Senior Executive Corporate Officer, Executive Corporate Officer, and Senior Corporate Officer).
3. Calculation method for bonuses
   1) The bonus amount is calculated according to the rank of the Directors and Corporate Officer, using consolidated operating income and the goal attainment levels of the individual and assigned division of responsibility as an indicator.
   2) Bonuses based on single-year performance (calculation method for the 2016-2018 medium-term business plan)
      When calculating bonuses for the 2016-2018 medium-term business plan, the weighting for the bonus calculation is raised primarily according to the results of efforts to achieve quantitative targets and KPI (key performance indicators).
   3) Bonuses based on the target numerical values of the 2016-2018 medium-term business plan
      The Company will consider the addition of an incentive bonus based on indicators or coefficients when numerical targets are achieved.

(f) Status of individuals who have retired from the position of Representative Director, President and Chief Executive Corporate Officer, etc.

The Company has not currently appointed an Executive Corporate Adviser.

The Company, where the President and Chief Executive Corporate Officer recognizes a specific business need, shall, in accordance with the required internal procedures, delegate a retired President and Chief Executive Corporate Officer as an Executive Corporate Adviser, or a retired Director and Audit & Supervisory Board member as a Corporate Adviser.

The Executive Corporate Adviser, mainly for the smooth succession of management, shall provide advice where requested by the President and Chief Executive Corporate Officer, and shall fulfill other duties as requested by the President and Chief Executive Corporate Officer, including industry group activities and activities to maintain relationships with business partners. Furthermore, a Corporate Adviser will be delegated particularly when there is a specific mission to be requested based on the Corporate Adviser's knowledge and experience during their time as Director and Audit & Supervisory Board member.

Neither the Executive Corporate Adviser nor the Corporate Adviser have authority in the decision-making process of management, neither do they attend meetings of the Management Council or other internal meetings.

The terms shall be in principle one-year term with a maximum of two years for the Executive Corporate Adviser and a maximum of one year for the Corporate Adviser, meaning retired Directors and Audit & Supervisory Board members do not maintain long-term business relationships with the Company.

Furthermore, in terms of internal procedures, the delegation of the Executive Corporate Adviser requires a resolution by the Board of Directors, and the delegation of the Corporate Adviser requires a decision by the President and Chief Executive Corporate Officer reported to the Board of Directors.

(g) Status of shareholdings

(i) Investment shares held for purposes other than pure investment
Number of issues: 120 issues
Total book value on the balance sheet: ¥27,098 million

(ii) Holding classification, issue, number of shares, book value on the balance sheet, and purpose of shareholding for investment shares held for purposes other than pure investment

Previous fiscal year

Specified investment shares

| Issue | Number of shares | Book value on the balance sheet (millions of yen) | Purpose of shareholding |
|---|---|---|---|
| Nichirei Corporation | 1,554,500 | 3,598 | To strengthen trading relationship |
| Saha Pathanapibul Public Co., Ltd. | 16,072,583 | 2,310 | To strengthen business relationship |
| Kato Sangyo Co., Ltd. | 840,300 | 2,118 | To strengthen trading relationship |
| Nisshin Seifun Group Inc. | 1,003,981 | 1,609 | To strengthen trading relationship |
| Kikkoman Corporation | 374,000 | 1,309 | To strengthen trading relationship |
| Ono Pharmaceutical Co., Ltd. | 385,000 | 975 | To strengthen business relationship |
| Kirin Holdings Company, Limited | 507,000 | 945 | To strengthen trading relationship |
| Seven & i Holdings Co., Ltd. | 124,600 | 552 | To strengthen trading relationship |
| Sumitomo Mitsui Financial Group, Inc. | 112,483 | 473 | To maintain stable trading relationship with financial institution |
| Yoshinoya Holdings Co., Ltd. | 294,178 | 458 | To strengthen trading relationship |
| Inageya Co., Ltd. | 306,639 | 436 | To strengthen trading relationship |
| Taisho Pharmaceutical Holdings Co., Ltd. | 39,600 | 386 | To strengthen business relationship |
| Mizuho Financial Group, Inc. | 1,807,200 | 366 | To maintain stable trading relationship with financial institution |
| Mitsubishi UFJ Financial Group, Inc. | 495,500 | 331 | To maintain stable trading relationship with financial institution |
| Toho Co., Ltd. | 110,000 | 274 | To strengthen trading relationship |
| Casio Computer Co., Ltd. | 181,000 | 270 | To strengthen business relationship |
| Kadoya Sesame Mills Incorporated | 50,000 | 167 | To strengthen trading relationship |
| Showa Sangyo Co., Ltd. | 268,000 | 157 | To strengthen trading relationship |
| KAGOME CO., LTD. | 54,200 | 145 | To strengthen trading relationship |
| Morozoff Limited | 300,000 | 136 | To strengthen trading relationship |
| Dai-Ichi Life Holdings, Inc. | 74,200 | 136 | To strengthen business relationship |
| FamilyMart UNY Holdings Co., Ltd. | 18,950 | 135 | To strengthen trading relationship |
| Nakamuraya Co., Ltd. | 28,379 | 135 | To strengthen trading relationship |

Stocks regarded as holding shares

| Issue | Number of shares | Book value on the balance sheet (millions of yen) | Purpose of shareholding |
|---|---|---|---|
| Toyo Suisan Kaisha, Ltd. | 728,000 | 2,948 | Power to exercise voting rights |
| Seven & i Holdings Co., Ltd. | 485,000 | 2,150 | Power to exercise voting rights |
| Mitsubishi Shokuhin Co., Ltd. | 299,000 | 985 | Power to exercise voting rights |
| Sumitomo Corporation | 654,000 | 892 | Power to exercise voting rights |
| Kyowa Hakko Kirin Co., Ltd. | 475,000 | 775 | Power to exercise voting rights |
| Yamato Holdings Co., Ltd. | 219,000 | 504 | Power to exercise voting rights |
| Aeon Co., Ltd. | 220,000 | 346 | Power to exercise voting rights |

Current fiscal year

Specified investment shares

| Issue | Number of shares | Book value on the balance sheet (millions of yen) | Purpose of shareholding |
|---|---|---|---|
| Nichirei Corporation | 1,554,500 | 5,067 | To strengthen trading relationship |
| Kato Sangyo Co., Ltd. | 840,300 | 3,399 | To strengthen trading relationship |
| Saha Pathanapibul Public Co., Ltd. | 16,072,583 | 2,888 | To strengthen business relationship |
| Nisshin Seifun Group Inc. | 1,003,981 | 2,204 | To strengthen trading relationship |
| Kikkoman Corporation | 374,000 | 1,645 | To strengthen trading relationship |
| Kirin Holdings Company, Limited | 507,000 | 1,333 | To strengthen trading relationship |
| Ono Pharmaceutical Co., Ltd. | 385,000 | 985 | To strengthen business relationship |
| internet infinity INC. | 240,000 | 653 | To strengthen business relationship |
| Seven & i Holdings Co., Ltd. | 124,600 | 573 | To strengthen trading relationship |
| Inageya Co., Ltd. | 307,591 | 566 | To strengthen trading relationship |
| Yoshinoya Holdings Co., Ltd. | 295,098 | 549 | To strengthen trading relationship |
| Sumitomo Mitsui Financial Group, Inc. | 112,483 | 511 | To maintain stable trading relationship with financial institution |
| Mitsubishi UFJ Financial Group, Inc. | 495,500 | 392 | To maintain stable trading relationship with financial institution |
| Mizuho Financial Group, Inc. | 1,807,200 | 368 | To maintain stable trading relationship with financial institution |
| Taisho Pharmaceutical Holdings Co., Ltd. | 39,600 | 353 | To strengthen business relationship |
| Kadoya Sesame Mills Incorporated | 50,000 | 350 | To strengthen trading relationship |
| Toho Co., Ltd. | 110,000 | 301 | To strengthen trading relationship |
| Casio Computer Co., Ltd. | 181,000 | 297 | To strengthen business relationship |
| KAGOME CO., LTD. | 54,200 | 225 | To strengthen trading relationship |
| Morozoff Limited | 30,000 | 224 | To strengthen trading relationship |
| Dai-Ichi Life Holdings, Inc. | 74,200 | 170 | To strengthen business relationship |
| TAKARA HOLDINGS INC. | 125,000 | 157 | To strengthen trading relationship |
| Showa Sangyo Co., Ltd. | 53,600 | 154 | To strengthen trading relationship |

Stocks regarded as holding shares

| Issue | Number of shares | Book value on the balance sheet (millions of yen) | Purpose of shareholding |
|---|---|---|---|
| Toyo Suisan Kaisha, Ltd. | 728,000 | 3,479 | Power to exercise voting rights |
| Seven & i Holdings Co., Ltd. | 485,000 | 2,233 | Power to exercise voting rights |
| Sumitomo Corporation | 654,000 | 1,140 | Power to exercise voting rights |
| Mitsubishi Shokuhin Co., Ltd. | 299,000 | 1,022 | Power to exercise voting rights |
| Kyowa Hakko Kirin Co., Ltd. | 475,000 | 1,011 | Power to exercise voting rights |
| Yamato Holdings Co., Ltd. | 219,000 | 500 | Power to exercise voting rights |
| Aeon Co., Ltd. | 220,000 | 401 | Power to exercise voting rights |

(Notes) 1. Specified investment shares and stocks regarded as holding shares are not added together at the stage of selecting the top issues in terms of book value on the balance sheet.
2. Stocks regarded as holding shares are put into a trust to cover retirement benefit obligations. The amounts presented in the "Book value on the balance sheet" column are obtained by multiplying the market value as of the end of the current fiscal year by the number of shares that confer the power to exercise voting rights. The information presented in the "Purpose of shareholding" column describes the power the Company holds with respect to such shares.

(iii) Investment shares for pure investment purposes
Not applicable.

(h) Overview of content of limited liability contract
In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act and Article 28 of the Articles of Incorporation, the Company and its outside directors have entered into a limited liability contract. Also, in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act and Article 38 of the Articles of Incorporation, the Company and each of its outside audit & supervisory board members have entered into a limited liability contract. The amount of maximum liability stipulated in the contract is determined by each of the respective items under Article 425, Paragraph 1 of the Companies Act.
However the limitation of liability is applicable only in cases where the outside directors and outside audit & supervisory board members have performed their respective duties in good faith and without gross negligence.

(i) Number of directors
The Articles of Incorporation of the Company stipulate that the number of Company's directors is limited to not more than twenty members.

(j) Election and dismissal of directors
The Articles of Incorporation of the Company stipulate that election and dismissal of directors shall be made by the majority of the votes of the shareholders present at the meeting where the shareholders holding one third or more of the votes of the shareholders entitled to exercise their votes at such shareholders meeting are present, and prohibits the resolution of election of directors based on cumulative voting.

(k) Agenda at the General Meeting of Shareholders that can be decided by the Board of Directors
- Dividends from surplus
  As for matters listed in items of Article 459, Paragraph 1 of the Companies Act regarding dividends from surplus, the Articles of Incorporation of the Company stipulate that the Board of Directors reserves the right to make a resolution unless otherwise provided for in

laws and regulations. This is intended to realize mobile implementation of measures regarding dividend and capital policy.

(l) Exceptional agenda for resolutions at the General Meeting of Shareholders
As for exceptional agenda at the General Meeting of Shareholders provided for in Article 309, Paragraph 2 of the Companies Act, the Articles of Incorporation of the Company stipulate that the resolutions of those General Meetings of Shareholders shall be made by two thirds or more of the votes of the shareholders present at the meeting where the shareholders holding one third or more of the votes of the shareholders entitled to exercise their votes at such shareholders meeting are present. This is intended to facilitate the operation of the General Meetings of Shareholders by relaxing the restrictions imposed by the required number of shareholders present.

(2) Fees for auditing certificated public accountants

(a) Details of fees for auditing certificated public accountants

| Classification | Previous fiscal year | | Current fiscal year | |
|---|---|---|---|---|
| | Fees for audit or attestation services (millions of yen) | Fees for non-audit services (millions of yen) | Fees for audit or attestation services (millions of yen) | Fees for non-audit services (millions of yen) |
| The Company | 90 | 2 | 92 | 2 |
| Consolidated subsidiaries | 79 | 3 | 84 | 0 |
| Total | 169 | 5 | 176 | 2 |

(b) Other important details on fees
Fees paid to Ernst & Young, part of the same network as the auditing certificated public accountants of the Company, Ernst & Young ShinNihon LLC, by the Company and its consolidated subsidiaries was ¥59 million for audit services and ¥0 million for non-audit services, in the previous fiscal year, and ¥60 million for audit services and ¥7 million for non-audit services, in the current fiscal year.

(c) Non-audit services performed by auditing certificated public accountants for the Company
For services other than those provided in Article 2, Paragraph 1 of the Certified Public Accountants Law, the Company entrusts to the auditing certificated public accountants advisory services regarding preparation of the English-language financial statements, and pays fees to the auditing certificated public accountants for those services, in the previous fiscal year and current fiscal year.

(d) Policy for determining fees for auditing
The fees to auditing certificated public accountants of the Company is determined based on a verification of the scope, content and days, etc. of the audit plan of the auditing certificated public accountants and approved by the Audit & Supervisory Board in accordance with the provisions of the Companies Act.

# V. Financial Information

## 1. Preparation of the consolidated financial statements

The consolidated financial statements of the Company were prepared in accordance with the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

## 2. Audit

The audits were performed by Ernst & Young ShinNihon LLC on the consolidated financial statements for the fiscal year (from December 1, 2016 to November 30, 2017) in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Law.

## 3. Special measures for ensuring appropriateness of consolidated financial statements

The Company carries out special measures for ensuring appropriateness of consolidated financial statements. Specifically, for the purpose of both ensuring that the Company has an appropriate grasp of the contents of the accounting standards, and establishing a system by which it is possible to accurately respond to changes in accounting standards, the Company became a member of the Financial Accounting Standards Foundation, deepens its understanding of accounting standards and takes measures in response to new accounting standards.

# Consolidated Financial Statements

## (1) Consolidated financial statements

### (a) Consolidated Balance Sheets

(Millions of yen)

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 35,794 | 29,618 |
| Notes and accounts receivable — trade | 75,134 | 78,212 |
| Securities | 5,000 | 12,000 |
| Purchased goods and products | 15,669 | 16,355 |
| Work in process | 972 | 972 |
| Raw materials and supplies | 9,229 | 11,377 |
| Deferred tax assets | 3,264 | 2,823 |
| Other | 5,268 | 5,192 |
| Allowances for doubtful accounts | (173) | (222) |
| Total current assets | 150,160 | 156,332 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | *4 179,789 | *4 185,446 |
| Accumulated depreciation | (99,764) | (104,416) |
| Net book value | *2 80,024 | *2 81,030 |
| Machinery, equipment and vehicles | *4 161,169 | *4 170,766 |
| Accumulated depreciation | (122,204) | (121,373) |
| Net book value | 38,965 | 49,393 |
| Land | *2, *4 48,099 | *2, *4 49,820 |
| Lease assets | 8,102 | 9,729 |
| Accumulated depreciation | (3,427) | (4,257) |
| Net book value | 4,675 | 5,472 |
| Construction in progress | 7,238 | 4,571 |
| Other | *4 14,820 | *4 15,707 |
| Accumulated depreciation | (10,444) | (11,248) |
| Net book value | 4,375 | 4,459 |
| Total tangible fixed assets | 183,378 | 194,746 |
| Intangible fixed assets | | |
| Goodwill | 1,563 | 3,778 |
| Software | 3,129 | 3,210 |
| Other | 982 | 1,369 |
| Total intangible fixed assets | 5,675 | 8,359 |
| Investments and other assets | | |
| Investment securities | *1 27,408 | *1 34,495 |
| Long-term loans receivable | 450 | 519 |
| Assets for retirement benefits | 7,413 | 12,630 |
| Deferred tax assets | 1,984 | 2,027 |
| Other | *1 9,657 | *1 10,278 |
| Allowances for doubtful accounts | (213) | (182) |
| Total investments and other assets | 46,700 | 59,769 |
| Total fixed assets | 235,754 | 262,875 |
| Total assets | 385,914 | 419,207 |

(Millions of yen)

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable — trade | 47,050 | 48,008 |
| Short-term loans payable | *2 8,301 | *2 8,037 |
| Accounts payable — other | 22,074 | 17,547 |
| Accrued expenses | 12,809 | 6,533 |
| Accrued income taxes | 7,016 | 4,005 |
| Deferred tax liabilities | 1 | 11 |
| Reserves for sales rebates | 749 | 801 |
| Reserves for bonuses | 1,826 | 1,831 |
| Reserves for directors' bonuses | 160 | 121 |
| Other reserves | 91 | 100 |
| Other | 2,162 | 3,699 |
| Total current liabilities | 102,245 | 90,697 |
| Non-current liabilities | | |
| Bonds | 10,000 | 10,000 |
| Long-term loans payable | *2 12,498 | *2 35,947 |
| Lease obligations | 3,774 | 4,506 |
| Deferred tax liabilities | 5,135 | 9,068 |
| Liabilities for retirement benefits | 3,893 | 3,147 |
| Asset retirement obligations | 1,112 | 1,120 |
| Other | 1,392 | 1,286 |
| Total non-current liabilities | 37,807 | 65,077 |
| Total liabilities | 140,053 | 155,775 |
| Net assets | | |
| Shareholders' equity | | |
| Paid-in capital | 24,104 | 24,104 |
| Capital surplus | 30,300 | 29,425 |
| Earned surplus | 166,765 | 170,583 |
| Treasury stock | (6,123) | (6,603) |
| Total shareholders' equity | 215,047 | 217,509 |
| Accumulated other comprehensive income | | |
| Unrealized holding gains (losses) on securities | 8,916 | 13,429 |
| Unrealized gains (losses) on hedges | 79 | (3) |
| Foreign currency translation adjustments | (3,947) | (1,141) |
| Accumulated adjustments for retirement benefits | (7,474) | (3,354) |
| Total accumulated other comprehensive income | (2,426) | 8,929 |
| Non-controlling interests | 33,240 | 36,992 |
| Total net assets | 245,861 | 263,432 |
| Total liabilities and net assets | 385,914 | 419,207 |

## (b) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
### Consolidated Statements of Income

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | | Current fiscal year (From December 1, 2016 to November 30, 2017) | |
|---|---|---|---|---|
| Net sales | | 552,306 | | 561,688 |
| Cost of sales | *1 | 428,848 | *1 | 432,773 |
| Gross profit | | 123,457 | | 128,915 |
| Selling, general and administrative expenses | *2, *3 | 93,639 | *2, *3 | 97,654 |
| Operating income | | 29,818 | | 31,261 |
| Non-operating income | | | | |
| Interest income | | 79 | | 69 |
| Dividends income | | 458 | | 514 |
| Equity in earnings of affiliates | | 295 | | 93 |
| Subsidy income | | 291 | | 269 |
| Other | | 1,222 | | 1,215 |
| Total non-operating income | | 2,347 | | 2,162 |
| Non-operating expenses | | | | |
| Interest expenses | | 311 | | 376 |
| Business commencement expenses | | 68 | | 139 |
| Other | | 422 | | 395 |
| Total non-operating expenses | | 801 | | 911 |
| Ordinary income | | 31,364 | | 32,511 |
| Extraordinary gains | | | | |
| Gains on sales of investment securities | | 396 | | 1,179 |
| Gains on sales of fixed assets | *4 | 160 | *4 | 87 |
| Other | | 173 | | 65 |
| Total extraordinary gains | | 730 | | 1,331 |
| Extraordinary losses | | | | |
| Losses on termination of retirement benefit plans | | – | *5 | 1,309 |
| Losses on disposal of fixed assets | *6 | 1,178 | *6 | 1,062 |
| Losses on impairment of fixed assets | *7 | 89 | *7 | 581 |
| Other | | 536 | | 107 |
| Total extraordinary losses | | 1,804 | | 3,060 |
| Profit before income taxes | | 30,290 | | 30,783 |
| Income taxes | | 11,245 | | 8,926 |
| Income taxes — deferred | | (989) | | 296 |
| Total income taxes | | 10,255 | | 9,223 |
| Profit | | 20,034 | | 21,560 |
| Profit attributable to non-controlling interests | | 2,941 | | 3,460 |
| Profit attributable to owners of parent | | 17,093 | | 18,099 |

## Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Profit | 20,034 | 21,560 |
| Other comprehensive income | | |
| Unrealized holding gains (losses) on securities | (375) | 4,591 |
| Unrealized gains (losses) on hedges | 113 | (102) |
| Foreign currency translation adjustments | (4,179) | 3,383 |
| Adjustments for retirement benefits | (4,638) | 4,465 |
| Total other comprehensive income | * (9,079) | * 12,337 |
| Comprehensive income | 10,955 | 33,897 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 9,141 | 29,456 |
| Comprehensive income attributable to non-controlling interests | 1,814 | 4,441 |

(c) Consolidated Statements of Changes in Net Assets
Previous fiscal year (From December 1, 2015 to November 30, 2016)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Paid-in capital | Capital surplus | Earned surplus | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the current fiscal year | 24,104 | 30,302 | 154,421 | (1,416) | 207,412 |
| Changes of items during the fiscal year | | | | | |
| Dividends from surplus | | | (4,749) | | (4,749) |
| Profit attributable to owners of parent | | | 17,093 | | 17,093 |
| Purchase of treasury stock | | | | (4,706) | (4,706) |
| Disposal of treasury stock | | | | | |
| Retirement of treasury stock | | | | | |
| Changes in equity in controlled subsidiaries | | (2) | | | (2) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the fiscal year | — | (2) | 12,343 | (4,706) | 7,635 |
| Balance at the end of the current fiscal year | 24,104 | 30,300 | 166,765 | (6,123) | 215,047 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Unrealized holding gains (losses) on securities | Unrealized gains (losses) on hedges | Foreign currency translation adjustments | Accumulated adjustments for retirement benefits | Total accumulated other comprehensive income | | |
| Balance at the beginning of the current fiscal year | 9,330 | (8) | (552) | (3,243) | 5,525 | 31,780 | 244,717 |
| Changes of items during the fiscal year | | | | | | | |
| Dividends from surplus | | | | | | | (4,749) |
| Profit attributable to owners of parent | | | | | | | 17,093 |
| Purchase of treasury stock | | | | | | | (4,706) |
| Disposal of treasury stock | | | | | | | — |
| Retirement of treasury stock | | | | | | | — |
| Changes in equity in controlled subsidiaries | | | | | | | (2) |
| Net changes of items other than shareholders' equity | (414) | 88 | (3,395) | (4,230) | (7,951) | 1,460 | (6,491) |
| Total changes of items during the fiscal year | (414) | 88 | (3,395) | (4,230) | (7,951) | 1,460 | 1,143 |
| Balance at the end of the current fiscal year | 8,916 | 79 | (3,947) | (7,474) | (2,426) | 33,240 | 245,861 |

Current fiscal year (From December 1, 2016 to November 30, 2017)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Paid-in capital | Capital surplus | Earned surplus | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the current fiscal year | 24,104 | 30,300 | 166,765 | (6,123) | 215,047 |
| Changes of items during the fiscal year | | | | | |
| Dividends from surplus | | | (5,639) | | (5,639) |
| Profit attributable to owners of parent | | | 18,099 | | 18,099 |
| Purchase of treasury stock | | | | (9,999) | (9,999) |
| Disposal of treasury stock | | (875) | (1,897) | 2,773 | 1 |
| Retirement of treasury stock | | | (6,745) | 6,745 | — |
| Changes in equity in controlled subsidiaries | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the fiscal year | — | (875) | 3,818 | (480) | 2,462 |
| Balance at the end of the current fiscal year | 24,104 | 29,425 | 170,583 | (6,603) | 217,509 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Unrealized holding gains (losses) on securities | Unrealized gains (losses) on hedges | Foreign currency translation adjustments | Accumulated adjustments for retirement benefits | Total accumulated other comprehensive income | | |
| Balance at the beginning of the current fiscal year | 8,916 | 79 | (3,947) | (7,474) | (2,426) | 33,240 | 245,861 |
| Changes of items during the fiscal year | | | | | | | |
| Dividends from surplus | | | | | | | (5,639) |
| Profit attributable to owners of parent | | | | | | | 18,099 |
| Purchase of treasury stock | | | | | | | (9,999) |
| Disposal of treasury stock | | | | | | | 1 |
| Retirement of treasury stock | | | | | | | — |
| Changes in equity in controlled subsidiaries | | | | | | | — |
| Net changes of items other than shareholders' equity | 4,513 | (82) | 2,805 | 4,119 | 11,356 | 3,752 | 15,108 |
| Total changes of items during the fiscal year | 4,513 | (82) | 2,805 | 4,119 | 11,356 | 3,752 | 17,570 |
| Balance at the end of the current fiscal year | 13,429 | (3) | (1,141) | (3,354) | 8,929 | 36,992 | 263,432 |

## (d) Consolidated Statements of Cash Flows

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 30,290 | 30,783 |
| Depreciation and amortization | 18,254 | 16,794 |
| Losses on impairment of fixed assets | 89 | 581 |
| Losses on termination of retirement benefit plans | — | 1,309 |
| Amortization of goodwill | 221 | 407 |
| Retirement benefit expenses | 993 | 1,740 |
| Equity in losses (earnings) of affiliates | (295) | (93) |
| Losses (gains) on valuation of investment securities | 320 | 14 |
| Increase (decrease) in liabilities for retirement benefits | 154 | (706) |
| Decrease (increase) in assets for retirement benefits | (1,837) | (1,821) |
| Increase (decrease) in reserves for sales rebates | (71) | 51 |
| Increase (decrease) in reserves for directors' bonuses | (9) | (39) |
| Increase (decrease) in reserves for bonuses | 334 | (53) |
| Increase (decrease) in allowances for doubtful accounts | (287) | 1 |
| Interest and dividends income | (538) | (584) |
| Interest expenses | 311 | 376 |
| Losses (gains) on sales of investment securities | (396) | (1,179) |
| Losses (gains) on sales and disposal of fixed assets | 1,025 | 988 |
| Decrease (increase) in notes and accounts receivable — trade | 2,114 | (2,064) |
| Decrease (increase) in inventories | 1,905 | (1,477) |
| Increase (decrease) in notes and accounts payable — trade | 2,072 | (1,152) |
| Increase (decrease) in accounts payable — other | 1,416 | (1,058) |
| Increase (decrease) in accrued consumption taxes | (450) | 676 |
| Increase (decrease) in long-term accounts payable | (185) | (70) |
| Other | (1,646) | (3,989) |
| Sub-total | 53,787 | 39,436 |
| Interest and dividends income received | 670 | 622 |
| Interest paid | (309) | (359) |
| Income taxes paid | (8,888) | (12,464) |
| Net cash provided by (used in) operating activities | 45,260 | 27,234 |

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Cash flows from investing activities | | |
| Purchases of tangible fixed assets | (31,148) | (25,499) |
| Purchases of intangible fixed assets | (1,290) | (1,169) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | — | (82) |
| Purchases of investment securities | (123) | (892) |
| Proceeds from sales of investment securities | 653 | 1,651 |
| Net decrease (increase) in short-term loans receivable | 333 | (279) |
| Payments of long-term loans receivable | (39) | (264) |
| Collection of long-term loans receivable | 24 | 126 |
| Payments into time deposits | (3) | (219) |
| Proceeds from withdrawal of time deposits | 3 | — |
| Payments for transfer of business | — | *2 (4,568) |
| Other | (456) | (223) |
| Net cash provided by (used in) investing activities | (32,046) | (31,421) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (1,312) | (1,180) |
| Repayment of lease obligations | (1,350) | (1,785) |
| Proceeds from long-term loans payable | 8,640 | 25,700 |
| Repayment of long-term loans payable | (1,942) | (2,261) |
| Proceeds from share issuance to non-controlling interests | 254 | — |
| Cash dividends paid | (4,749) | (5,639) |
| Cash dividends paid to non-controlling interests | (610) | (767) |
| Purchase of treasury stock | (4,734) | (10,024) |
| Other | — | (30) |
| Net cash provided by (used in) financing activities | (5,805) | 4,010 |
| Effects of exchange rate changes on cash and cash equivalents | (1,458) | 797 |
| Increase (decrease) in cash and cash equivalents | 5,949 | 621 |
| Cash and cash equivalents at the beginning of the fiscal year | 34,841 | 40,790 |
| Cash and cash equivalents at the end of the fiscal year | *1 40,790 | *1 41,411 |

Notes

Significant Matters Forming the Basis for the Preparation of Consolidated Financial Statements

1. Consolidated subsidiaries

The Company has fifty-five consolidated subsidiaries in the current fiscal year. The principal consolidated subsidiaries are Kewpie Egg Corporation, Deria Foods Co., Ltd., Kewpie Jyozo Co., Ltd., K.R.S. Corporation, Kanae Foods Co., Ltd., Gourmet Delica Co., Ltd., Salad Club, Inc. and Aohata Corporation.

In the current fiscal year, there was a net decrease of one company in the number of consolidated subsidiaries. Specifically, one subsidiary was included in the scope of consolidation through the acquisition of shares of TO AD KEWPIE CO., LTD. by the Company and two subsidiaries were decreased as a result of two separate mergers: consolidated subsidiaries Salad Club, Inc., and Enshu Delica Co., Ltd. were merged and consolidated subsidiaries Sun Family Corporation and M Logistics Corporation were merged.

There are twenty-one unconsolidated subsidiaries, and the principal company is K. LP Corporation. These companies are excluded from the consolidation, because their total assets, net sales, profit (loss), and total amounts of earned surplus (based on the Company's ownership percentage) do not have a significant effect on the consolidated financial statements.

2. Application of the equity method

The equity method is applied to the investments in three affiliated companies. The principal affiliated company accounted for by the equity method is Summit Oil Mill Co., Ltd.

The investments in twenty-one unconsolidated subsidiaries including K. LP Corporation and in three affiliated companies including AK Franchise System Co., Ltd. not to be accounted for by the equity method are excluded from the scope of application of the equity method, because the total amounts of profit (loss) and earned surplus (based on the Company's ownership percentage) do not have a significant effect on the consolidated financial statements.

3. Closing date of consolidated subsidiaries

The closing date of eight foreign consolidated subsidiaries is September 30, and that of four foreign consolidated subsidiaries is December 31.

Four foreign subsidiaries whose closing date is December 31 are consolidated based on their temporary financial statements at September 30. Other eight foreign subsidiaries are consolidated based on the financial statements at their balance sheet date.

The Company, however, makes the adjustments needed for consolidating significant transactions with those subsidiaries which have occurred between their financial closing dates and the consolidated financial closing date.

4. Accounting policies

(1) Valuation basis and valuation methods for significant assets

(a) Securities

1. Held-to-maturity bonds are stated at amortized cost. Discounts and premiums are amortized by the straight-line method.
2. Shares in subsidiaries and affiliates which are not accounted for under the equity method are stated at moving average cost.

3. Other securities with readily determinable fair value are stated at fair value based on market price at the closing date. Valuation differences comprise net assets as unrealized holding gains on securities. When sold, cost of sales is determined by the moving average method. Other securities without readily determinable fair value are stated at moving average cost.

(b) Financial derivative instruments

Financial derivative instruments are stated at fair value.

Hedge accounting is adopted for financial derivative instruments which conform to requirements of hedge accounting.

(c) Inventories

Purchased goods and products, work in process, raw materials and supplies are principally stated at monthly moving average cost (a method whereby book values are written down based on a decline in the revenue expected to be generated from these inventories). Some joint products are stated at cost using the retail method (a method whereby book values are written down based on a decline in the revenue expected to be generated from these inventories).

(2) Depreciation methods for significant depreciable assets

(a) Tangible fixed assets (excluding lease assets)

Tangible fixed assets are depreciated by the straight-line method.

The main useful lives are as follows.

| | | |
|---|---|---|
| Buildings and structures: | 2–50 | years |
| Machinery, equipment and vehicles: | 2–10 | years |

(b) Intangible fixed assets (excluding lease assets)

Intangible fixed assets are amortized by the straight-line method.

The main useful lives are as follows.

| | | |
|---|---|---|
| Software: | 5 | years |

(c) Lease assets

The straight-line method, which considers the lease period to be the useful life and the residual value to be zero, is applied to lease assets related to finance lease transactions that do not transfer ownership.

(3) Accounting for significant deferred assets

All business commencement expenses are expensed when a payment is made.

(4) Accounting standards for significant reserves

(a) Allowances for doubtful accounts

To provide for a possible bad-debt loss, the Group provides the expected uncollectible amount as allowances for doubtful accounts. The said amount is calculated by using credit-loss prediction ratios based on historical data for general accounts receivable, and by reference to the individual collectability for special receivables, such as those in danger of being uncollectible.

(b) Reserves for sales rebates

To provide for the payment of rebates for the current fiscal year, reserves for sales rebates is provided on an accrual basis, multiplying the net sales and each company's policy (the percentage of the expected amount of rebates in net sales).

(c) Reserves for bonuses

To provide for the payment of bonuses to employees, reserves for bonuses is provided according to the expected amount of the payment which attributes to the current fiscal year.

(d) Reserves for directors' bonuses

To provide for the payment of bonuses to directors, reserves for directors' bonuses is provided according to the expected amount payable at the end of the current fiscal year.

(5) Accounting for retirement benefits

(a) Method of attributing expected retirement benefits to periods
In calculating retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year on the benefit formula basis.

(b) Accounting for amortization of actuarial gains or losses and prior service costs
Prior service costs are amortized by the straight-line method principally over twelve years based on the average remaining employees' service years.

Actuarial gains or losses are amortized by the straight-line method principally over twelve years based on the average remaining employees' service years at each fiscal year, and their amortizations start from the following fiscal year of the respective accrual years.

In addition, if the amount of pension plan assets exceeds that of retirement benefit obligations for corporate pension plan, it is recognized as assets for retirement benefits on consolidated balance sheet.

(6) Treatment for significant hedge accounting

(a) Hedge accounting
Deferral hedge is applied as the method of hedge accounting.

Allocation method is applied for transactions that meet the requirements for that method.

Special treatment is applied for the interest rate swap transactions that meet the requirements for the special treatment.

(b) Hedging instruments
Hedging instruments are forward exchange contracts and interest rate swap transactions.

(c) Hedged items
Hedged items are purchase transactions in foreign currencies, equity investments in overseas subsidiaries and interest of loans.

(d) Hedging policy
The Group executes forward exchange contracts to hedge risks from fluctuation in foreign exchange rate and interest rate swap transactions to hedge risks from projected fluctuation in interest rate.

In addition, the Group never makes use of them for the purpose of speculative transactions.

(e) Assessment of the effectiveness of hedge accounting
Control procedures of hedge transactions are executed according to each company's bylaw.

The effectiveness of the hedge except for the following contracts is analyzed by comparing movements in the fair values of the hedged items with those of the hedging instruments, assessed and strictly controlled.

However, the assessment of the effectiveness is omitted for interest rate swap transactions that meet the requirements for the special treatment.

(7) Method and period for amortization of goodwill
As a general rule, goodwill is amortized on a straight-line basis over the period deemed to be valuable. However, goodwill is expensed as incurred if immaterial.

(8) Scope of cash in the consolidated statements of cash flows
Cash in the consolidated statements of cash flows (cash and cash equivalents) consists of cash in hand, bank deposits which can be withdrawn freely, and short-term investments which can be easily converted into cash and matures within three months from the acquisition date on which they are at little risk of changes in value.

(9) Other significant matter for the preparation of consolidated financial statements
Consumption taxes are recorded in separate accounts.

Changes in presentation method

(Consolidated statements of income)
"Reversal of allowances for doubtful accounts" of "Non-operating income" was presented as a separate account for the previous fiscal year, but because its amount was 10% or less of total Non-operating income for the current fiscal year, it was changed to be included in "Other." In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, in the consolidated statements of income for the previous fiscal year, ¥274 million that was presented in "Reversal of allowances for doubtful accounts" account of "Non-operating income" has been reclassified as ¥1,222 million in "Other."

"Business commencement expenses" included in "Other" account of "Non-operating expenses" for the previous fiscal year, but because its amount exceeded 10% of total Non-operating expenses for the current fiscal year, it was changed to be presented as a separate account. In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, in the consolidated statements of income for the previous fiscal year, ¥68 million that was presented in "Other" account of "Non-operating expenses" has been reclassified in "Business commencement expenses."

"Compensation income" of "Extraordinary gains" was presented as a separate account for the previous fiscal year, but because its amount was 10% or less of total Extraordinary gains for the current fiscal year, it was changed to be included in "Other." In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, in the consolidated statements of income for the previous fiscal year, ¥158 million that was presented in "Compensation income" account of "Extraordinary gains" has been reclassified as ¥173 million in "Other."

"Losses on valuation of investment securities" of "Extraordinary losses" was presented as a separate account for the previous fiscal year, but because its amount was 10% or less of total Extraordinary losses for the current fiscal year, it was changed to be included in "Other." In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, in the consolidated statements of income for the previous fiscal year, ¥320 million that was presented in "Losses on valuation of investment securities" account of "Extraordinary losses" has been reclassified as ¥536 million in "Other."

Additional Information
(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)
From the current fiscal year, the Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

## Consolidated Balance Sheets

*1 Investments in unconsolidated subsidiaries and affiliated companies are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Investment securities (stocks) | ¥ 2,600 million | ¥ 3,456 million |
| Other (Investments in capital) | ¥ 786 million | ¥ 786 million |

*2 Pledged assets and secured debts

Pledged assets are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Buildings and structures | ¥ 124 million | ¥ 82 million |
| Land | ¥ 1,064 million | ¥ 1,064 million |
| Total | ¥ 1,188 million | ¥ 1,146 million |

Secured debts are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Short-term loans payable | ¥ 814 million | ¥ 789 million |
| Long-term loans payable | ¥ 804 million | ¥ 583 million |
| Total | ¥ 1,618 million | ¥ 1,372 million |

*3 Contingent liabilities

Liabilities, such as loans from financial institutions, that the Group guarantees under joint signature for companies and employees are as follows:

Liabilities for guarantee

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Employees (loan) | ¥ 326 million | ¥ 306 million |
| AK Franchise System Co., Ltd. (loan) | ¥ 55 million | ¥ 40 million |
| Shanghai KRS Logistics Corporation (Guarantee for debtor's contract fulfillment) | ¥ 65 million | ¥ 35 million |
| Asato Logistics Corporation (loan) | ¥ 33 million | — |
| Total | ¥ 480 million | ¥ 382 million |

(Note) As the liabilities for AK Franchise System Co., Ltd. are serving as re-guarantees, the amount presented is the amount re-guaranteed by the Group.

*4 Amount of reduction entry

Accumulated reduction entry of tangible fixed assets deducted from acquisition cost of tangible fixed assets using funds from government subsidy, etc. is as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Buildings and structures | ¥ 572 million | ¥ 572 million |
| Machinery, equipment and vehicles | ¥ 650 million | ¥ 652 million |
| Land | ¥ 117 million | ¥ 117 million |
| Other | ¥ 383 million | ¥ 383 million |
| Total | ¥ 1,723 million | ¥ 1,726 million |

## Consolidated Statements of Income

*1 The inventory balance at the end of the fiscal year is presented after book values were written down when their carrying amounts become unrecoverable and the following losses on valuation of inventories are included in cost of sales.

| Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|
| ¥ 452 million | ¥ 437 million |

*2 Main components of selling, general and administrative expenses are as follows:

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Transportation and warehousing expenses | ¥ 24,986 million | ¥ 25,808 million |
| Sales promotion expenses | ¥ 3,684 million | ¥ 3,948 million |
| Research and development expenses | ¥ 4,028 million | ¥ 4,058 million |
| Advertising expenses | ¥ 8,736 million | ¥ 9,469 million |
| Payroll expenses | ¥ 21,439 million | ¥ 21,980 million |
| Depreciation expenses | ¥ 2,777 million | ¥ 2,766 million |
| Provision of reserves for bonuses | ¥ 512 million | ¥ 467 million |
| Retirement benefit expenses | ¥ 1,294 million | ¥ 1,846 million |
| Provision of allowances for doubtful accounts | ¥ (18) million | ¥ (37) million |

*3 Total amount of research and development expenses included in general and administrative expenses

| Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|
| ¥ 4,028 million | ¥ 4,058 million |

*4 Gains on sales of fixed assets consists of the following:

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Machinery, equipment and vehicles | ¥ 103 million | ¥ 84 million |
| Land | ¥ 45 million | — |
| Other | ¥ 12 million | ¥ 2 million |
| Total | ¥ 160 million | ¥ 87 million |

*5 Losses on termination of retirement benefit plans

Previous fiscal year (From December 1, 2015 to November 30, 2016)

Not applicable.

Current fiscal year (From December 1, 2016 to November 30, 2017)

This is a result of the consolidated subsidiary Henningsen Foods, Inc. having terminated its defined benefit pension plan.

*6 Losses on disposal of fixed assets consists of the following:

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Machinery, equipment and vehicles | ¥ 557 million | ¥ 723 million |
| Buildings and structures | ¥ 567 million | ¥ 254 million |
| Other | ¥ 53 million | ¥ 84 million |
| Total | ¥ 1,178 million | ¥ 1,062 million |

*7 Losses on impairment of fixed assets

The Group recognized losses on impairment of fixed assets for the following group of assets.

Previous fiscal year (From December 1, 2015 to November 30, 2016)

| Location | Use | Item | Losses on impairment of fixed assets (millions of yen) |
|---|---|---|---|
| Tokorozawa-shi, Saitama | Sales office | Refrigerating equipment, etc. | 47 |
| Morimachi, Shuchi-gun, Shizuoka | Factory | Land | 39 |
| Others | | | 2 |
| Total | | | 89 |

In principle, the Group classified the fixed assets into groups depending on the type of respective operation and business place based on the management accounting units on which revenue and expenditure are continuously monitored.

During the current fiscal year, the Company changed its intended use of the sales office located in Tokorozawa-shi, Saitama, in accordance with respective changes in business partners. Also, the Company decided to sell land of the factory located in Morimachi, Shuchi-gun, Shizuoka.

As a result, the Company has written down book values to recoverable amounts with respect to refrigerating equipment, etc. of the sales office located in Tokorozawa-shi, Saitama, and land of the factory located in Morimachi, Shuchi-gun, Shizuoka. The relevant write-down amount of ¥89 million is recorded as losses on impairment of fixed assets.

The recoverable amounts are measured by their net sales value based on the estimated sales value.

Current fiscal year (From December 1, 2016 to November 30, 2017)

| Location | Use | Item | Losses on impairment of fixed assets (millions of yen) |
|---|---|---|---|
| Morimachi, Shuchi-gun, Shizuoka | Factory | Buildings, etc. | 358 |
| Itami-shi, Hyogo | Factory | Buildings, etc. | 222 |
| Total | | | 581 |

In principle, the Group classified the fixed assets into groups depending on the type of respective operation and business place based on the management accounting units on which revenue and expenditure are continuously monitored.

During the current fiscal year, the Company decided to demolish the factory located in Morimachi, Shuchi-gun, Shizuoka. Also, the Company decided to reorganize the production locations of the factory located in Itami-shi, Hyogo.

As a result, the Company has written down book values to recoverable amounts with respect to buildings, etc. of the factory located in Morimachi, Shuchi-gun, Shizuoka, and buildings, etc. of the factory located in Itami-shi, Hyogo. The relevant write-down amount of ¥581 million is recorded as losses on impairment of fixed assets.

The recoverable amounts are measured by their net sales value based on the estimated sales value.

## Consolidated Statements of Comprehensive Income

* Reclassification adjustments and income tax effects related to other comprehensive income

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Unrealized holding gains (losses) on securities: | | |
| Amount arising during the fiscal year | ¥ (495) million | ¥ 6,727 million |
| Reclassification adjustments | ¥ (362) million | ¥ (106) million |
| Before income tax effects | ¥ (857) million | ¥ 6,620 million |
| Amount of income tax effects | ¥ 482 million | ¥ (2,029) million |
| Unrealized holding gains (losses) on securities | ¥ (375) million | ¥ 4,591 million |
| Unrealized gains (losses) on hedges: | | |
| Amount arising during the fiscal year | ¥ 165 million | ¥ (177) million |
| Reclassification adjustments | — | 26 million |
| Before income tax effects | ¥ 165 million | ¥ (150) million |
| Amount of income tax effects | ¥ (51) million | ¥ 47 million |
| Unrealized gains (losses) on hedges | ¥ 113 million | ¥ (102) million |
| Foreign currency translation adjustments: | | |
| Amount arising during the fiscal year | ¥ (4,179) million | ¥ 3,383 million |
| Reclassification adjustments | — | — |
| Foreign currency translation adjustments | ¥ (4,179) million | ¥ 3,383 million |
| Adjustments for retirement benefits: | | |
| Amount arising during the fiscal year | ¥ (7,620) million | ¥ 3,507 million |
| Reclassification adjustments | ¥ 993 million | ¥ 3,049 million |
| Before income tax effects | ¥ (6,626) million | ¥ 6,556 million |
| Amount of income tax effects | ¥ 1,987 million | ¥ (2,091) million |
| Adjustments for retirement benefits | ¥ (4,638) million | ¥ 4,465 million |
| Total other comprehensive income | ¥ (9,079) million | ¥ 12,337 million |

# Consolidated Statements of Changes in Net Assets

## Previous fiscal year (From December 1, 2015 to November 30, 2016)

1. Total numbers and periodic changes of issued shares and treasury stock by class

| | Number of shares at the beginning of the current fiscal year | Increase in number of shares | Decrease in number of shares | Number of shares at the end of the current fiscal year |
|---|---|---|---|---|
| Issued shares | | | | |
| Common stock | 153,000,000 | — | — | 153,000,000 |
| Total | 153,000,000 | — | — | 153,000,000 |
| Treasury stock | | | | |
| Common stock (Note) | 1,232,318 | 2,101,673 | — | 3,333,991 |
| Total | 1,232,318 | 2,101,673 | — | 3,333,991 |

(Note) The increase of 2,101,673 shares in the number of shares of treasury stock includes 2,100,000 shares due to the Company's acquisition of treasury stock pursuant to the resolution adopted at the Board of Directors' meeting, and also includes 1,673 shares due to the acquisition of shares less than one unit.

2. Dividend

(1) Dividends paid in the current fiscal year

| (Resolution) | Type of share | Total amounts of dividends (millions of yen) | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| The Board of Directors' meeting held on January 25, 2016 | Common stock | 2,504 | 16.50 | November 30, 2015 | February 5, 2016 |
| The Board of Directors' meeting held on June 24, 2016 | Common stock | 2,245 | 15.00 | May 31, 2016 | August 8, 2016 |

(2) Dividends with record date during the current fiscal year but to be effective in the following fiscal year

| (Resolution) | Type of share | Total amounts of dividends (millions of yen) | Dividend resource | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| The Board of Directors' meeting held on January 25, 2017 | Common stock | 2,918 | Earned surplus | 19.50 | November 30, 2016 | February 3, 2017 |

Current fiscal year (From December 1, 2016 to November 30, 2017)

1. Total numbers and periodic changes of issued shares and treasury stock by class

| | Number of shares at the beginning of the current fiscal year | Increase in number of shares | Decrease in number of shares | Number of shares at the end of the current fiscal year |
|---|---|---|---|---|
| Issued shares | | | | |
| Common stock (Note 1) | 153,000,000 | — | 3,000,000 | 150,000,000 |
| Total | 153,000,000 | — | 3,000,000 | 150,000,000 |
| Treasury stock | | | | |
| Common stock (Notes 2 & 3) | 3,333,991 | 4,121,530 | 4,500,000 | 2,955,521 |
| Total | 3,333,991 | 4,121,530 | 4,500,000 | 2,955,521 |

(Notes) 1. The decrease of 3,000,000 shares in the number of issued shares is the result of the retirement of treasury stock pursuant to the resolution adopted at the Board of Directors' meeting.

2. The increase of 4,121,530 shares in the number of shares of treasury stock includes an increase of 4,120,000 shares due to the purchase of treasury stock pursuant to the resolution adopted at the Board of Directors' meeting, and an increase of 1,530 shares due to the acquisition of shares less than one unit.

3. The decrease of 4,500,000 shares in the number of shares of treasury stock includes a decrease of 3,000,000 shares due to the retirement of treasury stock pursuant to the resolution adopted at the Board of Directors' meeting, and a decrease of 1,500,000 shares due to their allocation to a third party for the purpose of funding the activities of the Kewpie Mirai Tamago Foundation, a general incorporated foundation.

2. Dividend

(1) Dividends paid in the current fiscal year

| (Resolution) | Type of share | Total amounts of dividends (millions of yen) | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| The Board of Directors' meeting held on January 25, 2017 | Common stock | 2,918 | 19.50 | November 30, 2016 | February 3, 2017 |
| The Board of Directors' meeting held on June 26, 2017 | Common stock | 2,720 | 18.00 | May 31, 2017 | August 7, 2017 |

(2) Dividends with record date during the current fiscal year but to be effective in the following fiscal year

| (Resolution) | Type of share | Total amounts of dividends (millions of yen) | Dividend resource | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| The Board of Directors' meeting held on January 23, 2018 | Common stock | 2,720 | Earned surplus | 18.50 | November 30, 2017 | February 6, 2018 |

## Consolidated Statements of Cash Flows

*1 Reconciliation between "Cash and cash equivalents at the end of the fiscal year" and "Cash and deposits" on the consolidated balance sheets

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Cash and deposits account | ¥ 35,794 million | ¥ 29,618 million |
| Time deposits with maturity over three months | ¥ (3) million | ¥ (207) million |
| Securities account | ¥ 5,000 million | ¥ 12,000 million |
| Cash and cash equivalents at the end of the fiscal year | ¥ 40,790 million | ¥ 41,411 million |

*2 Primary components of assets acquired and liabilities assumed as a result of acquisition of business

The primary components of assets acquired and liabilities assumed as a result of acquisition of business and the relationship with payments to acquire business in the current fiscal year are as follows:

| | | | |
|---|---|---|---|
| Current assets | ¥ | 1,280 | million |
| Fixed assets | ¥ | 2,029 | million |
| Goodwill | ¥ | 2,304 | million |
| Current liabilities | ¥ | (1,003) | million |
| Non-current liabilities | ¥ | (63) | million |
| Subtotal | ¥ | 4,547 | million |
| Cash and cash equivalents | ¥ | (102) | million |
| Effects of exchange rate changes | ¥ | 123 | million |
| Net: Payments for transfer of business | ¥ | 4,568 | million |

Lease Transactions

1. Finance lease transactions (Lessee)

Finance lease transactions that do not transfer ownership

(a) Details of lease assets

Lease assets mainly consist of production lines in the Foods business and information equipment and cars in the Distribution system business.

(b) Depreciation method for lease assets

Depreciation method for lease assets was stated in "4. Accounting policies (2) Depreciation methods for significant depreciable assets" under Significant Matters Forming the Basis for the Preparation of Consolidated Financial Statements.

Finance lease transactions that do not transfer ownership whose start date falls on or before November 30, 2008 are accounted for by the same method as that applied to operating leases. The details of these lease assets are as follows.

(1) Equivalent amounts of acquisition cost, accumulated depreciation and book value of lease properties

(Millions of yen)

| | Previous fiscal year (As of November 30, 2016) | | |
|---|---|---|---|
| | Equivalent amount of acquisition cost | Equivalent amount of accumulated depreciation | Equivalent amount of book value |
| Tangible fixed assets-Other | 442 | 171 | 271 |
| Total | 442 | 171 | 271 |

(Millions of yen)

| | Current fiscal year (As of November 30, 2017) | | |
|---|---|---|---|
| | Equivalent amount of acquisition cost | Equivalent amount of accumulated depreciation | Equivalent amount of book value |
| Tangible fixed assets-Other | — | — | — |
| Total | — | — | — |

(2) Equivalent amount of future lease payments

(Millions of yen)

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Equivalent amount of future lease payments | | |
| Due within one year | 269 | — |
| Due over one year | — | — |
| Total | 269 | — |

(3) Lease payments, equivalent amounts of depreciation and interest expenses

(Millions of yen)

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Lease payments | 29 | 0 |
| Equivalent amount of depreciation expenses | 17 | 0 |
| Equivalent amount of interest expenses | 10 | 0 |

(4) Calculation method of equivalent amount of depreciation expenses

Depreciation expense is calculated by the straight-line method by considering lease period to be useful life and residual value to be zero.

(5) Calculation method of equivalent amount of interest expenses

Interest, which is separated from the aggregate lease amounts, is calculated as the difference between the aggregate lease amounts on contracts and the presumed costs considered to be acquired by lesser. Such calculated interest is allocated to the respective fiscal years by the interest-method.

(Losses on impairment of fixed assets)

No losses on impairment of fixed assets are allocated to lease assets.

2. Operating lease transactions

Future lease payments related to non-cancellable operating lease transactions

(Millions of yen)

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Due within one year | 1,559 | 1,690 |
| Due over one year | 8,650 | 8,576 |
| Total | 10,209 | 10,267 |

## Financial Instruments

1. Status of financial instruments

(1) Policy on handling financial instruments

In accordance with its capital investment plan, the Group procures necessary funds through bank loans and issuance of corporate bonds. Temporary surplus funds are invested in highly secure financial assets, while short-term funds for working capital are raised through bank loans. The Group's policy is to use financial derivative transactions not for speculative purposes, but for hedging risks described hereafter.

(2) Description of financial instruments and related risks

Notes and accounts receivable — trade, which are operating receivables, are exposed to credit risks of customers. Securities and investment securities, which mainly consist of stocks of companies with which the Group has business or other relationships, are exposed to market fluctuation risk.

With respect to notes and accounts payable — trade, which are operating payables, the majority of them are due within a year. Some of them, associated with the import of raw materials etc., are exposed to foreign exchange fluctuation risk because they are denominated in foreign currencies, but the Group hedges this risk by using forward exchange contracts as necessary. Short-term loans payable are obtained mainly to meet operating needs, while long-term loans payable and bonds are used to provide funds necessary mainly for capital expenditures. Although some of them are with floating interest rates and are exposed to interest rate fluctuation risk, the Group hedges this risk by using interest rate swap transactions.

Financial derivative transactions include forward exchange contracts intended to hedge the foreign exchange fluctuation risk associated with foreign currency denominated payables, etc., interest rate swap transactions intended to hedge the interest rate fluctuation risk associated with loans payable, and crude oil price swap transactions intended to hedge the market fluctuation risk of light and heavy oil prices. With respect to hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedge accounting, please refer to "4. Accounting policies (6) Treatment for significant hedge accounting" under Significant Matters Forming the Basis for the Preparation of Consolidated Financial Statements described previously.

(3) Risk management system relating to financial instruments

(i) Management of credit risk

At the Company, in order to properly manage operating receivables, the sales administration unit and the accounting and financial unit periodically review the conditions of main customers, and manage the due dates and outstanding balances for individual customers. In addition, the Company makes efforts for early identification and mitigation of default risk resulting from factors such as deterioration in financial conditions. The same management practices are carried out at the consolidated subsidiaries.

As financial derivative transactions are executed only with highly rated financial institutions, the Company believes that there is very little credit risk.

(ii) Management of market risk

The Group utilizes transactions such as forward exchange contracts intended to hedge the foreign exchange fluctuation risk associated with foreign currency denominated payables, etc., interest rate swap transactions intended to hedge the interest rate fluctuation risk associated with loans payable, and crude oil price swap transactions intended to hedge the market fluctuation risk of light and heavy oil prices. At the Company, the management of risks associated with such financial derivative transactions is carried out by the Production Division and Financial Department in accordance with the internal regulations, and all the results of financial derivative transactions are reported to the senior general manager of the Financial

Department. At the consolidated subsidiaries, general control units mainly control financial derivative transactions of respective subsidiaries and all the results of these transactions are reported to the directors in charge of the responsible department.

For securities and investment securities, the Group periodically monitors the market values and financial conditions of the issuing entities (corporate business partners), and for securities other than held-to-maturity bonds, it continuously reviews the shareholding status, in view of the market conditions and relationships with such corporate business partners.

(iii) Management of liquidity risks associated with financing

The Group manages liquidity risk by preparing and updating financing plans on a timely basis, by arranging overdraft facilities with multiple financial institutions, and by maintaining certain levels of liquidity through utilizing its cash management system.

(4) Supplementary explanation of fair values of financial instruments

The fair values of financial instruments include values based on market prices and reasonably estimated values when market prices are unavailable. As variable factors are incorporated into the measurement of such values, the values may vary depending on the assumptions used. In addition, the contract amount of financial derivative transactions in itself, described in Notes on Financial Derivative Transactions, should not be considered indicative of the market risks associated with the financial derivative transactions.

2. Fair values of financial instruments

The book value on the consolidated balance sheet and the fair values and variances thereof are shown below. However, items for which it is considered extremely difficult to measure the fair values are not included in the following table (See note 2).

Previous fiscal year (As of November 30, 2016)

| | Book value on the consolidated balance sheet (millions of yen) | Fair value (millions of yen) | Variance (millions of yen) |
|---|---|---|---|
| (1) Cash and deposits | 35,794 | 35,794 | — |
| (2) Notes and accounts receivable — trade | 75,134 | | |
| Allowances for doubtful accounts (*1) | (168) | | |
| | 74,966 | 74,966 | — |
| (3) Securities and investment securities | 27,182 | 27,182 | — |
| Total assets | 137,943 | 137,943 | — |
| (4) Notes and accounts payable — trade | 47,050 | 47,050 | — |
| (5) Short-term loans payable | 6,137 | 6,137 | — |
| (6) Accounts payable — other | 22,074 | 22,074 | — |
| (7) Accrued income taxes | 7,016 | 7,016 | — |
| (8) Bonds | 10,000 | 10,135 | 135 |
| (9) Long-term loans payable (*2) | 14,662 | 14,685 | 23 |
| Total liabilities | 106,941 | 107,100 | 158 |
| Financial derivative transactions (*3) | 88 | 88 | — |

(*1) The values of notes and accounts receivable — trade are presented after deducting allowances for doubtful accounts set up for corresponding notes and accounts receivable — trade.

(*2) Long-term loans payable includes the current portion of long-term loans payable that are included in short-term loans payable.

(*3) The values of assets and liabilities arising from financial derivative transactions are shown at net value.

Current fiscal year (As of November 30, 2017)

| | Book value on the consolidated balance sheet (millions of yen) | Fair value (millions of yen) | Variance (millions of yen) |
|---|---|---|---|
| (1) Cash and deposits | 29,618 | 29,618 | — |
| (2) Notes and accounts receivable — trade | 78,212 | | |
| Allowances for doubtful accounts (*1) | (215) | | |
| | 77,997 | 77,997 | — |
| (3) Securities and investment securities | 40,628 | 40,628 | — |
| Total assets | 148,244 | 148,244 | — |
| (4) Notes and accounts payable — trade | 48,008 | 48,008 | — |
| (5) Short-term loans payable | 5,883 | 5,883 | — |
| (6) Accounts payable — other | 17,547 | 17,547 | — |
| (7) Accrued income taxes | 4,005 | 4,005 | — |
| (8) Bonds | 10,000 | 10,085 | 85 |
| (9) Long-term loans payable (*2) | 38,101 | 38,139 | 37 |
| Total liabilities | 123,546 | 123,669 | 123 |
| Financial derivative transactions (*3) | (41) | (41) | — |

(*1) The values of notes and accounts receivable — trade are presented after deducting allowances for doubtful accounts set up for corresponding notes and accounts receivable — trade.
(*2) Long-term loans payable includes the current portion of long-term loans payable that are included in short-term loans payable.
(*3) The values of assets and liabilities arising from financial derivative transactions are shown at net value.

(Notes) 1. Method of measurement of fair values of financial instruments and matters concerning securities and financial derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable — trade

The fair values are based on the relevant book values since these assets are settled in a short period of time and their fair values are substantially equal to their book values.

(3) Securities and investment securities

The fair values of equity are based on their prices on the securities exchanges and the fair values of bonds are based on their prices on the securities exchanges or those indicated by counterparty financial institutions. The fair values of monies held in trust are based on the relevant book values since these assets are settled in a short period of time and their fair values are substantially equal to their book values. Please refer to Notes on Securities for matters concerning securities by purpose of holding.

Liabilities

(4) Notes and accounts payable — trade, (5) Short-term loans payable, (6) Accounts payable — other, (7) Accrued income taxes

The fair values are based on the relevant book values since these liabilities are settled in a short period of time and their fair values are substantially equal to their book values.

(8) Bonds

The fair values of bonds with fixed interest rates are measured based on the present value of the total amount of principal and interest discounted by the interest rate that would be applied for a new similar issuance.

(9) Long-term loans payable

The fair values of long-term loans payable with fixed interest rates are measured based on the present value of the total amount of principal and interest discounted by the interest rate that would be charged for a new similar borrowing. The fair values of those with floating interest rates are based on the relevant book values because interest rates are reviewed in short-term intervals to reflect market interest rates and the fair values are virtually equal to the book values. Out of long-term loans payable with floating interest rates, fair values of those subject to special treatment for interest rate swap transactions are measured based on the present value of the total amount of principal and interest, which was accounted for as an integral part of the relevant interest rate swap transactions and discounted by the reasonably estimated interest rate that would be charged for a new similar borrowing.

Financial derivative transactions

Fair values with respect to derivative transactions are calculated based on prices indicated by counterparty financial institutions and other such entities. Interest rate swap transactions to which special treatment is applied are accounted for as an integral part of long-term loans payable, a hedged item. Thus, their fair values are included in the fair value of long-term loans payable. For details of financial derivative transactions, please refer to Notes on Financial Derivative Transactions.

2. Financial instruments for which it is considered extremely difficult to determine fair values

(Millions of yen)

| Classification | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Unlisted stocks | 5,225 | 5,867 |

Unlisted stocks have no market prices and, at the same time, it is considered estimating their future cash flows will require excessive costs. Therefore, it is considered to be extremely difficult to determine the fair values of these stocks, and they are not included in "(3) Securities and investment securities" above.

3. Expected redemption amount of monetary receivables and securities with maturity dates reaching after the consolidated closing date

Previous fiscal year (As of November 30, 2016)

| | Within one year (millions of yen) | Over one year to five years (millions of yen) | Over five years to ten years (millions of yen) | Over ten years (millions of yen) |
|---|---|---|---|---|
| Cash and deposits | 35,744 | — | — | — |
| Notes and accounts receivable — trade | 75,134 | — | — | — |
| Securities and investment securities | | | | |
| Other securities with maturity | | | | |
| Others | 5,000 | — | — | — |
| Total | 115,879 | — | — | — |

Current fiscal year (As of November 30, 2017)

| | Within one year (millions of yen) | Over one year to five years (millions of yen) | Over five years to ten years (millions of yen) | Over ten years (millions of yen) |
|---|---|---|---|---|
| Cash and deposits | 29,585 | — | — | — |
| Notes and accounts receivable — trade | 78,212 | — | — | — |
| Securities and investment securities | | | | |
| Other securities with maturity | | | | |
| Others | 12,000 | — | — | — |
| Total | 119,797 | — | — | — |

4. Scheduled repayment amounts for bonds and long-term loans payable after the consolidated closing date

Previous fiscal year (As of November 30, 2016)

| | Within one year (millions of yen) | Over one year to two years (millions of yen) | Over two years to three years (millions of yen) | Over three years to four years (millions of yen) | Over four years to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|---|
| Short-term loans payable | 6,137 | — | — | — | — | — |
| Bonds | — | — | 10,000 | — | — | — |
| Long-term loans payable | 2,164 | 1,984 | 1,869 | 1,879 | 2,091 | 4,673 |
| Total | 8,301 | 1,984 | 11,869 | 1,879 | 2,091 | 4,673 |

Current fiscal year (As of November 30, 2017)

| | Within one year (millions of yen) | Over one year to two years (millions of yen) | Over two years to three years (millions of yen) | Over three years to four years (millions of yen) | Over four years to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|---|
| Short-term loans payable | 5,883 | — | — | — | — | — |
| Bonds | — | 10,000 | — | — | — | — |
| Long-term loans payable | 2,153 | 2,037 | 2,021 | 2,195 | 11,066 | 18,626 |
| Total | 8,037 | 12,037 | 2,021 | 2,195 | 11,066 | 18,626 |

## Securities

### 1. Other securities

Previous fiscal year (As of November 30, 2016)

| | Description | Book value on the consolidated balance sheet (millions of yen) | Acquisition cost (millions of yen) | Variance (millions of yen) |
|---|---|---|---|---|
| Securities whose book value on the consolidated balance sheet exceeds their acquisition cost | (1) Stocks | 21,937 | 8,601 | 13,336 |
| | (2) Bonds | | | |
| | (a) Government and local bonds | — | — | — |
| | (b) Corporate bonds | — | — | — |
| | (c) Other | — | — | — |
| | (3) Other | — | — | — |
| | Sub-total | 21,937 | 8,601 | 13,336 |
| Securities whose acquisition cost exceeds their book value on the consolidated balance sheet | (1) Stocks | 244 | 264 | (19) |
| | (2) Bonds | | | |
| | (a) Government and local bonds | — | — | — |
| | (b) Corporate bonds | — | — | — |
| | (c) Other | — | — | — |
| | (3) Other | 5,000 | 5,000 | — |
| | Sub-total | 5,244 | 5,264 | (19) |
| Total | | 27,182 | 13,865 | 13,316 |

(Note) With regard to the Company's shareholdings of unlisted stocks (¥2,475 million reported on the consolidated balance sheet), as these stocks do not have market prices and it is considered extremely difficult to determine their fair values, these stocks are not included in "Other securities" in the above table.

Current fiscal year (As of November 30, 2017)

| | Description | Book value on the consolidated balance sheet (millions of yen) | Acquisition cost (millions of yen) | Variance (millions of yen) |
|---|---|---|---|---|
| Securities whose book value on the consolidated balance sheet exceeds their acquisition cost | (1) Stocks | 28,532 | 8,584 | 19,948 |
| | (2) Bonds | | | |
| | (a) Government and local bonds | — | — | — |
| | (b) Corporate bonds | — | — | — |
| | (c) Other | — | — | — |
| | (3) Other | — | — | — |
| | Sub-total | 28,532 | 8,584 | 19,948 |
| Securities whose acquisition cost exceeds their book value on the consolidated balance sheet | (1) Stocks | 96 | 105 | (8) |
| | (2) Bonds | | | |
| | (a) Government and local bonds | — | — | — |
| | (b) Corporate bonds | — | — | — |
| | (c) Other | — | — | — |
| | (3) Other | 12,000 | 12,000 | — |
| | Sub-total | 12,096 | 12,105 | (8) |
| Total | | 40,628 | 20,689 | 19,939 |

(Note) With regard to the Company's shareholdings of unlisted stocks (¥2,260 million reported on the consolidated balance sheet), as these stocks do not have market prices and it is considered extremely difficult to determine their fair values, these stocks are not included in "Other securities" in the above table.

2. Other securities sold during the fiscal year

Previous fiscal year (From December 1, 2015 to November 30, 2016)

| Description | Aggregate sales amount (millions of yen) | Gains (millions of yen) | Losses (millions of yen) |
|---|---|---|---|
| (1) Stocks | 654 | 396 | — |
| (2) Bonds | | | |
| (a) Government and local bonds | — | — | — |
| (b) Corporate bonds | — | — | — |
| (c) Other | — | — | — |
| (3) Other | — | — | — |
| Total | 654 | 396 | — |

Current fiscal year (From December 1, 2016 to November 30, 2017)

| Description | Aggregate sales amount (millions of yen) | Gains (millions of yen) | Losses (millions of yen) |
|---|---|---|---|
| (1) Stocks | 1,572 | 1,179 | 0 |
| (2) Bonds | | | |
| (a) Government and local bonds | — | — | — |
| (b) Corporate bonds | — | — | — |
| (c) Other | — | — | — |
| (3) Other | — | — | — |
| Total | 1,572 | 1,179 | 0 |

3. Securities for which impairment losses are recognized

Previous fiscal year (From December 1, 2015 to November 30, 2016)

Impairment losses of ¥320 million were recognized for securities (¥320 million on shares without readily determinable fair value).

In the recognition of impairment losses, total impairment is recognized when the fair value at the end of the fiscal year has fallen below 50% of the acquisition cost. When the fair value has fallen between 30% and 50%, an impairment of the amount deemed necessary by taking into account recoverability etc. is recognized.

Current fiscal year (From December 1, 2016 to November 30, 2017)

Impairment losses of ¥14 million were recognized for securities (¥14 million on shares without readily determinable fair value).

In the recognition of impairment losses, total impairment is recognized when the fair value at the end of the fiscal year has fallen below 50% of the acquisition cost. When the fair value has fallen between 30% and 50%, an impairment of the amount deemed necessary by taking into account recoverability etc. is recognized.

# Financial Derivative Transactions

## 1. Financial derivative transactions to which the hedge accounting is not adopted
Commodity derivatives

Previous fiscal year (As of November 30, 2016)

| Classification | Item | Transaction type | Contract amount | | Fair value (millions of yen) | Gains or losses on valuation (millions of yen) |
|---|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | | |
| Transactions other than market transactions | Crude oil | Swap transactions Floating receipt Fixed payment | 232 | 180 | (49) | (49) |

(Note) Calculation of fair values
Fair values are calculated using the prices offered by transacting financial institutions etc.

Current fiscal year (As of November 30, 2017)

| Classification | Item | Transaction type | Contract amount | | Fair value (millions of yen) | Gains or losses on valuation (millions of yen) |
|---|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | | |
| Transactions other than market transactions | Crude oil | Swap transactions Floating receipt Fixed payment | 180 | 129 | (29) | (29) |

(Note) Calculation of fair values
Fair values are calculated using the prices offered by transacting financial institutions etc.

## 2. Financial derivative transactions to which the hedge accounting is adopted
(1) Currency derivatives

Previous fiscal year (As of November 30, 2016)

| Hedge accounting method | Transaction type | Principle hedged item | Contract amount | | Fair value (millions of yen) |
|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | |
| Allocation method for forward exchange contracts, etc. | Purchased forward exchange contracts– U.S. dollar | Accounts payable-trade | 905 | — | 81 |
| | Purchased forward exchange contracts– Polish zloty | Equity investments in overseas subsidiaries | 4,486 | — | 82 |

(Note) Calculation of fair values
Fair values are calculated using the prices offered by transacting financial institutions etc.

Current fiscal year (As of November 30, 2017)

| Hedge accounting method | Transaction type | Principle hedged item | Contract amount | | Fair value (millions of yen) |
|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | |
| Allocation method for forward exchange contracts, etc. | Purchased forward exchange contracts– U.S. dollar | Accounts payable-trade | 738 | — | 7 |

(Note) Calculation of fair values
Fair values are calculated using the prices offered by transacting financial institutions etc.

(2) Interest rate derivatives

Previous fiscal year (As of November 30, 2016)

| Hedge accounting method | Transaction type | Principle hedged item | Contract amount | | Fair value (millions of yen) |
|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | |
| Special treatment for interest rate swap transactions | Interest rate swap transactions Floating receipt Fixed payment | Long-term loans payable | 129 | 100 | — (Note 2) |
| Deferral hedge method | Interest rate swap transactions Floating receipt Fixed payment | Long-term loans payable | 1,125 | 1,025 | (26) |

(Notes) 1. Fair values are calculated using the prices offered by transacting financial institutions, etc.
2. Interest rate swap transactions to which special treatment is applied are accounted for as an integral part of hedged long-term loans payable. Thus, their fair values are included in the fair value of long-term loans payable.

Current fiscal year (As of November 30, 2017)

| Hedge accounting method | Transaction type | Principle hedged item | Contract amount | | Fair value (millions of yen) |
|---|---|---|---|---|---|
| | | | Total (millions of yen) | Over one year (millions of yen) | |
| Special treatment for interest rate swap transactions | Interest rate swap transactions Floating receipt Fixed payment | Long-term loans payable | 100 | 72 | — (Note 2) |
| Deferral hedge method | Interest rate swap transactions Floating receipt Fixed payment | Long-term loans payable | 1,025 | 925 | (18) |

(Notes) 1. Fair values are calculated using the prices offered by transacting financial institutions, etc.
2. Interest rate swap transactions to which special treatment is applied are accounted for as an integral part of hedged long-term loans payable. Thus, their fair values are included in the fair value of long-term loans payable.

## Retirement Benefits

1. Summary of retirement benefit plans

In order to fund the retirement benefits to employees, the Company and some of its consolidated subsidiaries have funded and non-funded defined benefit plans, a retirement benefit advance payment system and a defined contribution plan.

In the defined benefit corporate pension plans (all of which are funded plans), payments are lump sums or pensions based on salaries and service periods, or lump sums or pensions through a point system.

In some of the defined benefit corporate pension plans, trusts to cover retirement benefit obligations have been established.

In the lump-sum retirement payment systems (all of which are non-funded plans), payments as retirement benefits are lump sums based on salaries and service periods, or lump sums through a point system.

In the defined benefit corporate pension plans and the lump-sum retirement payment systems at some consolidated subsidiaries, liabilities for retirement benefits and retirement benefit expenses are calculated by the simplified method.

2. Defined benefit plan

(1) Reconciliation between the balance at the beginning of the fiscal year and the balance at the end of the fiscal year of retirement benefit obligations

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Balance of retirement benefit obligations at the beginning of the fiscal year | ¥ 71,682 million | ¥ 77,111 million |
| Service costs | ¥ 2,995 million | ¥ 3,301 million |
| Interest costs | ¥ 597 million | ¥ 321 million |
| Actuarial gains or losses incurred | ¥ 5,101 million | ¥ (614) million |
| Retirement benefits paid | ¥ (3,421) million | ¥ (4,050) million |
| Other | ¥ 156 million | ¥ 148 million |
| Balance of retirement benefit obligations at the end of the fiscal year | ¥ 77,111 million | ¥ 76,218 million |

(Note) Retirement benefit expenses of the consolidated subsidiaries that apply the simplified method are included in "Service costs."

(2) Reconciliation between the balance at the beginning of the fiscal year and the balance at the end of the fiscal year of pension plan assets

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Balance of pension plan assets at the beginning of the fiscal year | ¥ 81,034 million | ¥ 80,631 million |
| Expected return on pension plan assets | ¥ 2,022 million | ¥ 2,030 million |
| Actuarial gains or losses incurred | ¥ (2,656) million | ¥ 2,865 million |
| Contributions by the employer | ¥ 3,272 million | ¥ 3,295 million |
| Retirement benefits paid | ¥ (3,221) million | ¥ (3,262) million |
| Other | ¥ 178 million | ¥ 140 million |
| Balance of pension plan assets at the end of the fiscal year | ¥ 80,631 million | ¥ 85,700 million |

(3) Reconciliation between the balances of retirement benefit obligations and pension plan assets at the end of the fiscal year, and liabilities for retirement benefits and assets for retirement benefits recognized in the consolidated balance sheet

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Retirement benefit obligations for funded plans | ¥ 74,681 million | ¥ 74,048 million |
| Pension plan assets | ¥ (80,631) million | ¥ (85,700) million |
| | ¥ (5,949) million | ¥ (11,651) million |
| Retirement benefit obligations for non-funded plans | ¥ 2,429 million | ¥ 2,169 million |
| Net amount of liabilities (assets) recognized on the consolidated balance sheet | ¥ (3,519) million | ¥ (9,482) million |
| | | |
| Liabilities for retirement benefits | ¥ 3,893 million | ¥ 3,147 million |
| Assets for retirement benefits | ¥ (7,413) million | ¥ (12,630) million |
| Net amount of liabilities (assets) recognized on the consolidated balance sheet | ¥ (3,519) million | ¥ (9,482) million |

(4) Amounts of retirement benefit expenses and their components

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Service costs | ¥ 2,995 million | ¥ 3,301 million |
| Interest costs | ¥ 597 million | ¥ 321 million |
| Expected return on pension plan assets | ¥ (2,022) million | ¥ (2,030) million |
| Amortization of actuarial gains or losses | ¥ 909 million | ¥ 1,585 million |
| Amortization prior service costs | ¥ 84 million | ¥ 155 million |
| Retirement benefit expenses for defined benefit plans | ¥ 2,563 million | ¥ 3,332 million |

(Note) Retirement benefit expenses of the consolidated subsidiaries that apply the simplified method are included in "Service costs."

(5) Adjustments for retirement benefits

The components of the items recorded in adjustments for retirement benefits (before tax effect) are as follows:

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Prior service costs | ¥ (84) million | ¥ (155) million |
| Actuarial gains or losses | ¥ 6,710 million | ¥ (6,401) million |
| Total | ¥ 6,626 million | ¥ (6,556) million |

(6) Accumulated adjustments for retirement benefits

The components of the items recorded in accumulated adjustments for retirement benefits (before tax effect) are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Unrecognized prior service costs | ¥ 874 million | ¥ 719 million |
| Unrecognized actuarial gains or losses | ¥ 11,083 million | ¥ 4,682 million |
| Total | ¥ 11,957 million | ¥ 5,401 million |

(7) Pension plan assets

a) Main components of pension plan assets

The ratio of main categories to total pension plan assets is as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Bonds | 39% | 37% |
| Stocks | 34% | 36% |
| Insurance assets (general account) | 7% | 6% |
| Cash and deposits | 6% | 6% |
| Other | 14% | 15% |
| Total | 100% | 100% |

(Note) Total pension plan assets include retirement benefit trusts established for corporate pension plans of 13% for the previous fiscal year and 13% for the current fiscal year.

b) Method to determine long-term expected rate of return

The long-term expected rate of return on pension plan assets is determined in consideration of the present and expected pension plan asset allocation and the present and long-term expected rate of return on the various assets that comprise the pension plan assets.

(8) Actuarial assumptions

Major actuarial assumptions

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Discount rate | 0.2% to 0.6% | 0.4% to 0.5% |
| Long-term expected rate of return on pension plan assets | 1.5% to 3.0% | 1.5% to 3.0% |

Expected rates of salary increase are based on an index of salary increase by age, primarily calculated using the base date of May 31, 2014.

3. Defined contribution plans and retirement benefit advance payment systems

At the Company and its consolidated subsidiaries, the required contribution amount to the defined contribution plans is ¥419 million for the previous fiscal year and ¥441 million for the current fiscal year, and the amount paid under the retirement benefit advance payment systems is ¥170 million for the previous fiscal year and ¥304 million for the current fiscal year.

## Tax-effect Accounting

1. The principal components of deferred tax assets and liabilities are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Deferred tax assets | | |
| Unrealized gains | ¥ 1,927 million | ¥ 1,996 million |
| Reserves for sales rebates | ¥ 247 million | ¥ 253 million |
| Accrued expenses (sales promotion expenses) | ¥ 716 million | ¥ 822 million |
| Reserves for bonuses | ¥ 471 million | ¥ 443 million |
| Accrued social security expenses | ¥ 263 million | ¥ 68 million |
| Accrued enterprise taxes | ¥ 464 million | ¥ 317 million |
| Liabilities for retirement benefits | ¥ 710 million | ¥ 924 million |
| Established amount for trust to cover retirement benefit obligations | ¥ 1,084 million | ¥ 1,084 million |
| Losses on valuation of golf course memberships | ¥ 149 million | ¥ 152 million |
| Tax loss carryforwards | ¥ 651 million | ¥ 841 million |
| Depreciation | ¥ 1,164 million | ¥ 1,259 million |
| Losses on impairment of fixed assets | ¥ 287 million | ¥ 276 million |
| Other | ¥ 2,640 million | ¥ 2,778 million |
| Sub-total deferred tax assets | ¥ 10,781 million | ¥ 11,219 million |
| Valuation allowance | ¥ (1,512) million | ¥ (1,589) million |
| Total deferred tax assets | ¥ 9,269 million | ¥ 9,630 million |
| Deferred tax liabilities | | |
| Assets for retirement benefits | ¥ (1,580) million | ¥ (3,905) million |
| Differences on valuation of fixed assets | ¥ (713) million | ¥ (713) million |
| Reserves for reduction entry of property by purchase | ¥ (1,221) million | ¥ (1,200) million |
| Unrealized holding gains on securities | ¥ (3,927) million | ¥ (5,937) million |
| Other | ¥ (1,716) million | ¥ (2,101) million |
| Total deferred tax liabilities | ¥ (9,158) million | ¥ (13,858) million |
| Net deferred tax assets (liabilities) | ¥ 111 million | ¥ (4,228) million |

(Note) Net deferred tax assets included in the consolidated balance sheets during the previous fiscal year and the current fiscal year are as follows:

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Current assets — Deferred tax assets | ¥ 3,264 million | ¥ 2,823 million |
| Fixed assets — Deferred tax assets | ¥ 1,984 million | ¥ 2,027 million |
| Current liabilities — Deferred tax liabilities | ¥ (1) million | ¥ (11) million |
| Non-current liabilities — Deferred tax liabilities | ¥ (5,135) million | ¥ (9,068) million |

2. The reconciliation between the statutory tax rate and effective tax rate

Previous fiscal year (As of November 30, 2016)

The reconciliation is omitted as the differences between the statutory tax rate and effective tax rate are 5% or less of the statutory tax rate.

Current fiscal year (As of November 30, 2017)

The reconciliation is omitted as the differences between the statutory tax rate and effective tax rate are 5% or less of the statutory tax rate.

## Business Combination

Business combination through acquisition

The Company decided to acquire the business of production and sale centered on mayonnaise and other condiments from a condiment production company in Poland, Mosso Kwaśniewscy Sp.J., and a wholly-owned subsidiary of the Company, Mosso Kewpie Poland Sp. z o.o., entered into a business transfer agreement dated September 29, 2016 with Mosso Kwaśniewscy Sp.J. and acquired the above-mentioned business effective as of January 12, 2017.

(1) Outline of the business combination

(a) Names, and descriptions of businesses, of the companies involved in the business combination

a) Company that acquired the business

| | |
|---|---|
| Name: | Mosso Kewpie Poland Sp. z o.o. (consolidated subsidiary of the Company) |
| Description of business: | Production and sale centered on mayonnaise and other condiments |

b) Company that transferred the business

| | |
|---|---|
| Name: | Mosso Kwaśniewscy Sp.J. |
| Description of business: | Production and sale centered on mayonnaise and other condiments |

(b) Primary reason for the business combination

The primary reason for the business combination is to accelerate our expansion in Europe by acquiring brands, production centers and sales channels in Eastern Europe.

(c) Date of the business combination

January 12, 2017

(d) Legal form of the business combination

Acquisition by a business transfer

(e) Name of the company after the business combination

Mosso Kewpie Poland Sp. z o.o.

(f) Primary basis for determining the acquiring company

Mosso Kewpie Poland Sp. z o.o., a consolidated subsidiary of the Company, acquired the business of production and sale centered on mayonnaise and other condiments in consideration for cash.

(2) Period of the operating results of the acquired business included in the consolidated financial statements

From January 12, 2017 to September 30, 2017 (the fiscal-year end of the acquiring company is September 30)

(3) Cost of acquisition of the acquired business and the breakdown thereof by consideration type

| | | |
|---|---|---|
| Consideration of acquisition | Cash and deposits | ¥4,547 million |
| Cost of acquisition | | ¥4,547 million |

(4) Details and amount of the principal acquisition-related costs

| | |
|---|---|
| Remuneration and commissions to advisors | ¥191 million |

(5) Amount of the goodwill recognized, reason for the recognition, and method and period for amortization of the goodwill

(a) Amount of the goodwill recognized
¥2,304 million
In the second quarter of the current fiscal year, provisional accounting treatment was applied to the allocation of acquisition costs based on the reasonable information available at the time of preparing the quarterly consolidated financial statements. The allocation of acquisition costs was finalized in the fourth quarter of the current fiscal year.

(b) Reason for the recognition
The goodwill is recognized from future excess earning power expected to be generated from future business operations.

(c) Method and period for amortization
The goodwill is amortized by the straight-line method over 10 years.

(6) Amounts and primary components of assets acquired and liabilities assumed as of the date of the business combination

| | |
|---|---|
| Current assets | ¥1,280 million |
| Fixed assets | ¥2,029 million |
| Total assets | ¥3,310 million |
| | |
| Current liabilities | ¥1,003 million |
| Non-current liabilities | ¥63 million |
| Total liabilities | ¥1,067 million |

(7) Amounts allocated to intangible fixed assets other than goodwill and the breakdown of the primary components thereof, and weighted average period for amortization overall and for each primary component

| Component | Amount | Period of amortization |
|---|---|---|
| Customer-related assets (Intangible fixed assets – other) | ¥384 million | 10 years |
| Trademark rights (Intangible fixed assets – other) | ¥348 million | 10 years |

(8) Approximate amount of impact of the above mentioned business combination on the consolidated statements of income for the current fiscal year on the assumption that the business combination was completed at the beginning of the fiscal year, and the method of calculation thereof

It is omitted here due to its immateriality. The approximate amount has not been audited.

## Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets

1. Summary of relevant asset retirement obligations

   The obligation to restore, etc. based on real estate lease contracts for factories, warehouses, etc.

2. Method for calculating the amount of relevant asset retirement obligations

   The amount of asset retirement obligations is calculated by estimating the period of use as eight to fifty-one years following acquisition, and then using the yield on government bonds corresponding to that time period as the discount rate.

3. Changes in amounts of relevant asset retirement obligations

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Balance at the beginning of the fiscal year | ¥ 748 million | ¥ 1,163 million |
| Increase due to purchases of tangible fixed assets | ¥ 407 million | — |
| Adjustments to interest | ¥ 7 million | ¥ 7 million |
| Decrease due to payments for asset retirement obligations | — | ¥ (50) million |
| Balance at the end of the fiscal year | ¥ 1,163 million | ¥ 1,120 million |

## Segment Information

### Segment Information

1. Outline of reportable segments

   The reportable segments of the Company are components of the group for which discrete financial information is available and which are regularly reviewed by the Board of Directors to make decisions about the allocation of resources and to assess their performance. These segments are determined by product and service, and consist of "Condiments products," "Egg products," "Delicatessen products," "Processed foods," "Fine chemical products," "Distribution system," and "Common business operations."

   The following is the overview of each segment:

| | |
|---|---|
| Condiments products: | Mayonnaise, dressings and vinegar |
| Egg products: | Liquid egg, frozen egg, dried egg, egg spread, thick omelet and shredded egg |
| Delicatessen products: | Salads, delicatessen foods, boxed lunches, rice balls and packaged salads |
| Processed foods: | Jams, pasta sauces, sweet corn, baby foods and nursing care foods |
| Fine chemical products: | Hyaluronic acid and others |
| Distribution system: | Transportation and warehousing of food products |
| Common business operations: | Sale of food products and food production equipment |

2. Method used to calculate amounts of net sales, profit or loss, assets, liabilities and others by the reportable segment

   Accounting treatment applied to the reportable segment is much the same with what is described in "Significant Matters Forming the Basis for the Preparation of Consolidated Financial Statements."

   Profit of the reportable segment is based on operating income. Intersegment net sales and transfers are based on prevailing market price.

3. Information on amounts of net sales, profit or loss, assets, liabilities and others by the reportable segment

Previous fiscal year (From December 1, 2015 to November 30, 2016) (Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Consoli-dated (Note) |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | | | | |
| Net sales to external customers | 144,099 | 102,204 | 111,799 | 51,252 | 10,863 | 126,926 | 5,160 | 552,306 | — | 552,306 |
| Intersegment net sales or transfers | 7,265 | 5,826 | 284 | 2,167 | 298 | 25,002 | 10,353 | 51,200 | (51,200) | — |
| Total | 151,364 | 108,030 | 112,084 | 53,420 | 11,161 | 151,929 | 15,514 | 603,506 | (51,200) | 552,306 |
| Segment profit | 13,668 | 5,483 | 3,465 | 517 | 1,031 | 4,889 | 763 | 29,818 | — | 29,818 |
| Segment assets | 105,316 | 51,772 | 43,479 | 37,952 | 10,051 | 90,484 | 10,323 | 349,381 | 36,533 | 385,914 |
| Others | | | | | | | | | | |
| Depreciation and amortization | 5,159 | 3,044 | 2,342 | 1,785 | 642 | 4,618 | 661 | 18,254 | — | 18,254 |
| Investment in affiliates accounted for by equity method | 1,264 | — | — | 83 | — | — | 207 | 1,555 | — | 1,555 |
| Increase in tangible and intangible fixed assets | 16,249 | 2,961 | 2,124 | 2,571 | 413 | 7,853 | 794 | 32,968 | — | 32,968 |

(Notes) 1. “Adjustments” of ¥36,533 million in “Segment assets” mainly includes company-wide assets of ¥41,971 million and elimination of intersegment receivables and payables of ¥(4,644) million. Major items in company-wide assets are surplus operating funds of the Company (cash and deposits and securities) and long-term investment funds (investment securities).

2. Adjustments are made between “Segment profit” and “Operating income” reported in the consolidated statements of income.

3. “Depreciation and amortization” and “Increase in tangible and intangible fixed assets” include “Long-term prepaid expenses.”

Current fiscal year (From December 1, 2016 to November 30, 2017) (Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Consoli-dated (Note) |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | | | | |
| Net sales to external customers | 150,435 | 100,463 | 115,507 | 46,604 | 10,593 | 131,237 | 6,847 | 561,688 | — | 561,688 |
| Intersegment net sales or transfers | 7,139 | 5,913 | 204 | 2,006 | 344 | 28,326 | 11,374 | 55,310 | (55,310) | — |
| Total | 157,574 | 106,376 | 115,712 | 48,610 | 10,938 | 159,564 | 18,222 | 616,999 | (55,310) | 561,688 |
| Segment profit | 15,296 | 4,368 | 3,847 | 199 | 864 | 5,892 | 792 | 31,261 | — | 31,261 |
| Segment assets | 122,714 | 58,563 | 44,327 | 39,799 | 9,594 | 92,278 | 9,513 | 376,791 | 42,416 | 419,207 |
| Others | | | | | | | | | | |
| Depreciation and amortization | 5,206 | 2,739 | 2,326 | 1,362 | 532 | 3,966 | 660 | 16,794 | — | 16,794 |
| Investment in affiliates accounted for by equity method | 1,295 | — | — | 92 | — | — | 223 | 1,611 | — | 1,611 |
| Increase in tangible and intangible fixed assets | 12,023 | 3,821 | 1,786 | 1,762 | 305 | 6,893 | 588 | 27,182 | — | 27,182 |

(Notes) 1. "Adjustments" of ¥42,416 million in "Segment assets" mainly includes company-wide assets of ¥49,358 million and elimination of intersegment receivables and payables of ¥(5,462) million. Major items in company-wide assets are surplus operating funds of the Company (cash and deposits and securities) and long-term investment funds (investment securities).
2. Adjustments are made between "Segment profit" and "Operating income" reported in the consolidated statements of income.
3. "Depreciation and amortization" and "Increase in tangible and intangible fixed assets" include "Long-term prepaid expenses."

## Related Information

Previous fiscal year (From December 1, 2015 to November 30, 2016)

1. Information by product and service

   It is omitted here since similar information is disclosed in "Segment Information."

2. Information by region

   (1) Net sales

   It is omitted here since net sales to external customers in Japan is more than 90% of net sales reported in the consolidated statements of income.

   (2) Tangible fixed assets

   It is omitted here since the amount of tangible fixed assets located in Japan is more than 90% of tangible fixed assets reported in the consolidated balance sheets.

3. Information by major customers

   It is omitted here since there is no customer that accounted for 10% or more of net sales reported in the consolidated statements of income.

Current fiscal year (From December 1, 2016 to November 30, 2017)

1. Information by product and service

   It is omitted here since similar information is disclosed in "Segment Information."

2. Information by region

   (1) Net sales

   It is omitted here since net sales to external customers in Japan is more than 90% of net sales reported in the consolidated statements of income.

   (2) Tangible fixed assets

   It is omitted here since the amount of tangible fixed assets located in Japan is more than 90% of tangible fixed assets reported in the consolidated balance sheets.

3. Information by major customers

   It is omitted here since there is no customer that accounted for 10% or more of net sales reported in the consolidated statements of income.

## Information on Losses on Impairment of Fixed Assets by Reportable Segment

### Previous fiscal year (From December 1, 2015 to November 30, 2016)

(Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Losses on impairment of fixed assets | — | — | — | — | — | 47 | 42 | 89 | — | 89 |

### Current fiscal year (From December 1, 2016 to November 30, 2017)

(Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Losses on impairment of fixed assets | — | 222 | 358 | — | — | — | — | 581 | — | 581 |

## Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

### Previous fiscal year (From December 1, 2015 to November 30, 2016)

(Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Amortization in the current fiscal year | — | — | — | 182 | 29 | 10 | — | 221 | — | 221 |
| Unamortized balance at the end of the current fiscal year | — | — | — | 1,458 | 81 | 23 | — | 1,563 | — | 1,563 |

### Current fiscal year (From December 1, 2016 to November 30, 2017)

(Millions of yen)

| | Condiments products | Egg products | Delicatessen products | Processed foods | Fine chemical products | Distribution system | Common business operations | Total | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Amortization in the current fiscal year | 172 | — | — | 192 | 29 | 10 | 2 | 407 | — | 407 |
| Unamortized balance at the end of the current fiscal year | 2,368 | — | — | 1,345 | 51 | 13 | — | 3,778 | — | 3,778 |

Information on Gains on Negative Goodwill by Reportable Segment

Previous fiscal year (From December 1, 2015 to November 30, 2016)
Not applicable.

Current fiscal year (From December 1, 2016 to November 30, 2017)
Not applicable.

Related Party Transactions

Related party transactions

(1) Transactions between the company filing the consolidated financial statements and related parties

Directors and audit & supervisory board members, and principal individual shareholders of the company filing the consolidated financial statements, etc.

Previous fiscal year (From December 1, 2015 to November 30, 2016)

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | NAKASHIMATO CO., LTD. (Note 3) | Shibuya-ku, Tokyo | 50 | Sale of processed foods | 11.6% owning, directly<br>13.0% owned, directly<br>7.9% owned, indirectly | Purchase of products, sale of products and payment of brand usage fees<br>Interlocking directors or audit & supervisory board members | Purchase of products | 383 | Notes and accounts payable–trade | 52 |
| | | | | | | | Sale of products | 57 | Notes and accounts receivable–trade | 11 |
| | | | | | | | Payment of brand usage fee | 720 | | |
| | | | | | | | Rental of real estate | 10 | | |
| | | | | | | | Purchase of treasury stock (Note 8) | 4,701 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TOHKA CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 100 | Business of renting property / Leasing business | 7.9% owned, directly | Rental of offices and purchase of lease assets<br>Interlocking directors or audit & supervisory board members | Rental of real estate | 978 | Investments and other assets (Other) | 946 |
| | | | | | | | Purchase of tangible fixed assets | 809 | Accounts payable-other | 6 |
| | | | | | | | Purchase of lease assets | 18 | Current liabilities (Other) | 20 |
| | | | | | | | | | Lease obligations (fixed) | 35 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TO AD KEWPIE CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 4 | Service business | None | Payment of advertising expenses and sales promotion expenses, and sale of products<br>Interlocking directors or audit & supervisory board members | Payment of advertising expenses | 6,930 | Accounts payable–other | 1,717 |
| | | | | | | | Payment of sales promotion expenses | 83 | | |
| | | | | | | | Purchase of supplies | 14 | | |
| | | | | | | | Purchase of tangible fixed assets | 24 | | |
| | | | | | | | Sale of products | 69 | Notes and accounts receivable–trade | 9 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | Minato Shokai Co., Ltd. (Note 4) | Minato-ku, Tokyo | 10 | Wholesale of liquor and food | None | Sale of products | Sale of products | 108 | Notes and accounts receivable–trade | 27 |

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | To Solutions Co., Ltd. (Note 5) | Chofu-shi, Tokyo | 90 | Planning, development, sale, maintenance and operational support of computer systems | 20.0% owning, directly | Consignment of calculation work<br>Interlocking directors or audit & supervisory board members | Payment of IT-related expenses | 1,982 | Accounts payable–other | 278 |
| | | | | | | | Purchase of software | 445 | | |
| | | | | | | | Purchase of tangible fixed assets | 268 | | |
| | | | | | | | Rental of real estate | 39 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | Yu Shokai Co., Ltd. (Note 6) | Shibuya-ku, Tokyo | 10 | Business of renting property | None | Rental of offices | Rental of real estate | 96 | Investments and other assets (Other) | 117 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | T&A Co., Ltd. (Note 7) | Shibuya-ku, Tokyo | 100 | Business of renting property | 1.4% owned, directly | Rental of the company dormitories<br>Interlocking directors or audit & supervisory board members | Rental of real estate | 61 | | |

(Notes)
1. In principle, transaction's term is determined in the same way as a general transaction following individual discussions taking market price etc. into consideration.
2. Amounts in the ending balance include consumption taxes and those of the transaction amount exclude them.
3. Amane Nakashima, chairman of the Company, his close relatives and the company of which they own the majority of the voting rights own 82.9% of the voting rights directly.
4. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 100.0% of the voting rights directly.
5. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 80.0% of the voting rights directly.
6. Amane Nakashima, chairman of the Company, and his close relatives own 100.0% of the voting rights directly.
7. Amane Nakashima, chairman of the Company, and his close relatives own 89.5% of the voting rights directly.
8. The purchase of treasury stock involves the Company's acquisition of 2,100,000 shares of its common stock by means of tender offer for ¥2,239 per share, pursuant to the resolution adopted at the Board of Directors' meeting held on March 15, 2016.

## Current fiscal year (From December 1, 2016 to November 30, 2017)

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | NAKASHIMATO CO., LTD. (Note 3) | Shibuya-ku, Tokyo | 50 | Sale of processed foods | 10.3% owning, directly<br>12.6% owned, directly<br>5.9% owned, indirectly | Purchase of products, sale of products and payment of brand usage fees<br>Interlocking directors or audit & supervisory board members | Purchase of products | 419 | Notes and accounts payable–trade | 78 |
| | | | | | | | Sale of products | 94 | Notes and accounts receivable–trade | 10 |
| | | | | | | | Payment of brand usage fee | 660 | | |
| | | | | | | | Rental of real estate | 15 | | |
| | | | | | | | Purchase of shares of subsidiaries and affiliates (Note 8) | 82 | | |
| | | | | | | | Sales of shares of subsidiaries and affiliates (Note 9) | 1,242 | | |
| | | | | | | | Purchase of treasury stock (Note 10) | 2,110 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TOHKA CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 100 | Business of renting property / Leasing business | 5.9% owned, directly | Rental of offices and purchase of lease assets<br>Interlocking directors or audit & supervisory board members | Rental of real estate | 1,058 | Investments and other assets (Other) | 946 |
| | | | | | | | | | Accounts payable-other | 6 |
| | | | | | | | Purchase of lease assets | 240 | Current liabilities (Other) | 57 |
| | | | | | | | | | Lease obligations (fixed) | 196 |
| | | | | | | | Purchase of treasury stock (Note 11) | 7,884 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | nakato co., ltd (Note 4) | Minato-ku, Tokyo | 10 | Wholesale of liquor and food | None | Sale of products | Sale of products | 117 | Notes and accounts receivable–trade | 48 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | To Solutions Co., Ltd. (Note 5) | Chofu-shi, Tokyo | 90 | Planning, development, sale, maintenance and operational support of computer systems | 20.0% owning, directly | Consignment of calculation work<br>Interlocking directors or audit & supervisory board members | Payment of IT-related expenses | 1,955 | Accounts payable–other | 316 |
| | | | | | | | Purchase of software | 380 | | |
| | | | | | | | Purchase of tangible fixed assets | 41 | | |
| | | | | | | | Rental of real estate | 58 | | |

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | Yu Shokai Co., Ltd. (Note 6) | Shibuya-ku, Tokyo | 10 | Business of renting property | None | Rental of offices | Rental of real estate | 96 | Investments and other assets (Other) | 117 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | T&A Co., Ltd. (Note 7) | Shibuya-ku, Tokyo | 100 | Business of renting property | 1.4% owned, directly | Rental of the company dormitories<br><br>Interlocking directors or audit & supervisory board members | Rental of real estate | 61 | | |

(Notes)
1. In principle, transaction's term is determined in the same way as a general transaction following individual discussions taking market price etc. into consideration.
2. Amounts in the ending balance include consumption taxes and those of the transaction amount exclude them.
3. Amane Nakashima, chairman of the Company, his close relatives and the company of which they own the majority of the voting rights own 82.9% of the voting rights directly.
4. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 100.0% of the voting rights directly.
   Minato Shokai Co., Ltd. succeeded the wine business of NAKASHIMATO CO., LTD. and changed its name to nakato co., ltd.
5. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 80.0% of the voting rights directly.
6. Amane Nakashima, chairman of the Company, and his close relatives own 100.0% of the voting rights directly.
7. Amane Nakashima, chairman of the Company, and his close relatives own 89.5% of the voting rights directly.
8. The Company acquired 400 shares of common stock of TO AD KEWPIE CO., LTD. of whose voting rights had directly been wholly owned by a company whose majority of voting rights are held by Amane Nakashima, chairman of the Company, and his close relatives. As a result of this acquisition, TO AD KEWPIE CO., LTD. has become a consolidated subsidiary of the Company.
   The transaction price was decided through joint discussion of the relevant parties, giving reference to the results of the calculation of the stock price conducted by third-party evaluators.
9. The Company sold 35,000 shares of common stock of NAKASHIMATO CO., LTD. of which Amane Nakashima, chairman of the Company, and his close relatives, and a company in which they own a majority of voting rights directly own 82.9% of the voting rights to NAKASHIMATO CO., LTD.
   The transaction price was decided through joint discussion of the relevant parties, giving reference to the results of the calculation of the stock price conducted by third-party evaluators.
10. The purchase of treasury stock involves the Company's acquisition of 870,000 shares of its common stock by means of tender offer for ¥2,426 per share, pursuant to the resolution adopted at the Board of Directors' meeting held on July 26, 2017.
11. The purchase of treasury stock involves the Company's acquisition of 3,250,000 shares of its common stock by means of tender offer for ¥2,426 per share, pursuant to the resolution adopted at the Board of Directors' meeting held on July 26, 2017.

(2) Transactions between consolidated subsidiaries of the company filing the consolidated financial statements and related parties

Directors and audit & supervisory board members, and principal individual shareholders of the company filing the consolidated financial statements, etc.

Previous fiscal year (From December 1, 2015 to November 30, 2016)

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | NAKASHIMATO CO., LTD. (Note 3) | Shibuya-ku, Tokyo | 50 | Sale of processed foods | 11.6% owning, directly<br>13.0% owned, directly<br>7.9% owned, indirectly | Purchase of products and sale of products<br>Interlocking directors or audit & supervisory board members | Purchase of products<br>Sale of products | 578<br>84 | Notes and accounts payable-trade<br>Notes and accounts receivable-trade | 75<br>14 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TOHKA CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 100 | Business of renting property / Leasing business | 7.9% owned, directly | Rental of offices and purchase of lease assets<br>Interlocking directors or audit & supervisory board members | Rental of real estate<br>Purchase of lease assets<br>Payment of lease cancellation penalties | 1,275<br>214<br>25 | Current assets (Other)<br>Investments and other assets (Other)<br>Current liabilities (Other)<br>Lease obligations (fixed) | 4<br>233<br>37<br>176 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TO AD KEWPIE CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 4 | Service business | None | Payment of advertising expenses<br>Interlocking directors or audit & supervisory board members | Payment of advertising expenses<br>Sale of products | 324<br>18 | Accounts payable-other<br>Notes and accounts receivable-trade | 97<br>1 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | Minato Shokai Co., Ltd. (Note 4) | Minato-ku, Tokyo | 10 | Wholesale of liquor and food | None | Sale of products and purchase of products | Sale of products<br>Purchase of products | 264<br>47 | Notes and accounts receivable-trade | 15 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | To Solutions Co., Ltd. (Note 5) | Chofu-shi, Tokyo | 90 | Planning, development, sale, maintenance and operational support of computer systems | 20.0% owning, directly | Consignment of calculation work<br>Interlocking directors or audit & supervisory board members | Payment of IT-related expenses<br>Purchase of software<br>Purchase of tangible fixed assets<br>Provision of services | 1,035<br>179<br>38<br>11 | Accounts payable-other | 103 |

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | MINATO SINGAPORE PTE. LTD. (Note 6) | Singapore | 1,000,000 Singa-pore dollars | Sale of imported liquor and foods in Singapore | None | Sale of products<br><br>Interlocking directors or audit & supervisory board members | Sale of products | 54 | Notes and accounts receivable-trade | 10 |

(Notes) 1. In principle, transaction's term is determined in the same way as a general transaction following individual discussions taking market price etc. into consideration.
2. Amounts in the ending balance include consumption taxes and those of the transaction amount exclude them.
3. Amane Nakashima, chairman of the Company, his close relatives and the company of which they own the majority of the voting rights own 82.9% of the voting rights directly.
4. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 100.0% of the voting rights directly.
5. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 80.0% of the voting rights directly.
6. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 95.0% of the voting rights directly.

Current fiscal year (From December 1, 2016 to November 30, 2017)

| Description | Corporate / individual name | Address | Paid-in capital (millions of yen) | Principal business | Percentage of voting rights | Business relationship | Transaction | Transaction amount (millions of yen) | Account | Ending balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | NAKASHIMATO CO., LTD. (Note 3) | Shibuya-ku, Tokyo | 50 | Sale of processed foods | 10.3% owning, directly<br>12.6% owned, directly<br>5.9% owned, indirectly | Purchase of products and sale of products<br>Interlocking directors or audit & supervisory board members | Purchase of products | 530 | Notes and accounts payable-trade | 64 |
| | | | | | | | Sale of products | 110 | Notes and accounts receivable-trade | 19 |
| | | | | | | | Rental of real estate | 18 | Accounts payable-other | 6 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | TOHKA CO., LTD. (Note 4) | Shibuya-ku, Tokyo | 100 | Business of renting property / Leasing business | 5.9% owned, directly | Rental of offices and purchase of lease assets<br>Interlocking directors or audit & supervisory board members | Rental of real estate | 1,037 | Current assets (Other) | 4 |
| | | | | | | | | | Investments and other assets (Other) | 242 |
| | | | | | | | | | Current liabilities (Other) | 19 |
| | | | | | | | Purchase of lease assets | 108 | Lease obligations (fixed) | 88 |
| | | | | | | | Payment of lease cancellation penalties | 29 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | nakato co., ltd (Note 4) | Minato-ku, Tokyo | 10 | Wholesale of liquor and food | None | Sale of products and purchase of products | Sale of products | 321 | Notes and accounts receivable-trade | 30 |
| | | | | | | | Purchase of products | 71 | Notes and accounts payable-trade | 23 |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | To Solutions Co., Ltd. (Note 5) | Chofu-shi, Tokyo | 90 | Planning, development, sale, maintenance and operational support of computer systems | 20.0% owning, directly | Consignment of calculation work<br>Interlocking directors or audit & supervisory board members | Payment of IT-related expenses | 1,058 | Accounts payable-other | 207 |
| | | | | | | | Purchase of software | 238 | | |
| The companies of which the directors or audit & supervisory board members and their close relatives own the majority of voting rights (including subsidiaries of the companies) | MINATO SINGAPORE PTE. LTD. (Note 6) | Singapore | 1,000,000 Singapore dollars | Sale of imported liquor and foods in Singapore | None | Sale of products<br>Interlocking directors or audit & supervisory board members | Sale of products | 75 | Notes and accounts receivable-trade | 12 |

(Notes)
1. In principle, transaction's term is determined in the same way as a general transaction following individual discussions taking market price etc. into consideration.
2. Amounts in the ending balance include consumption taxes and those of the transaction amount exclude them.
3. Amane Nakashima, chairman of the Company, his close relatives and the company of which they own the majority of the voting rights own 82.9% of the voting rights directly.
4. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 100.0% of the voting rights directly.
   Minato Shokai Co., Ltd. succeeded the wine business of NAKASHIMATO CO., LTD. and changed its name to nakato co., ltd.
5. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 80.0% of the voting rights directly.
6. The company of which Amane Nakashima, chairman of the Company, and his close relatives own the majority of the voting rights owns 95.0% of the voting rights directly.

## Per Share Information

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Net assets per share (yen) | 1,420.63 | 1,539.94 |
| Earnings per share (yen) | 113.47 | 121.05 |

(Notes) 1. "Earnings per share – diluted" is not presented because of no issue of potential shares.

2. Calculation basis of net assets per share is as follows.

| | Previous fiscal year (As of November 30, 2016) | Current fiscal year (As of November 30, 2017) |
|---|---|---|
| Total net assets (millions of yen) | 245,861 | 263,432 |
| Amount subtracted from total net assets (millions of yen) | 33,240 | 36,992 |
| (Non-controlling interests) (millions of yen) | (33,240) | (36,992) |
| Net assets attributable to common stock at the end of the fiscal year (millions of yen) | 212,620 | 226,439 |
| Number of shares of common stock at the end of the fiscal year (thousand shares) | 149,666 | 147,044 |

3. Calculation basis of earnings per share is as follows.

| | Previous fiscal year (From December 1, 2015 to November 30, 2016) | Current fiscal year (From December 1, 2016 to November 30, 2017) |
|---|---|---|
| Profit attributable to owners of parent (millions of yen) | 17,093 | 18,099 |
| Amounts not attributable to common shareholders (millions of yen) | — | — |
| Profit attributable to owners of parent attributable to common stock (millions of yen) | 17,093 | 18,099 |
| Weighted average number of shares of common stock (thousand shares) | 150,636 | 149,522 |

Significant Subsequent Events

Establishment of significant subsidiaries

1. Establishment of controlling company in China

   At the meeting of its Board of Directors held on October 24, 2017, the Company adopted a resolution to establish a China business controlling company in Beijing, China, and said company was established on December 8, 2017.

   (1) Purpose of the establishment

   With its China business expanding, the Company established the above-mentioned company to strengthen the functions of management of its entire business in China.

   (2) Outline of the established company

| | | |
|---|---|---|
| (i) | Company name: | Kewpie China Corporation |
| (ii) | Location: | Beijing, the People's Republic of China |
| (iii) | Representative: | Tadaaki Katsuyama, President |
| (iv) | Description of business: | General control over, and support for, financial management, business management, formulation of business strategies, etc. of the Company's local subsidiaries in China |
| (v) | Capital stock: | US$30 million (approx. ¥3,400 million on the basis of US$1 = ¥113) |
| (vi) | Date of establishment: | December 8, 2017 |
| (vii) | Fiscal year end: | December 31 of each year |
| (viii) | Shareholding ratio: | 100% by the Company |

2. Establishment of subsidiary by the China business controlling company

   At the meeting of its Board of Directors held on December 26, 2017, the Company determined the establishment and outline of a subsidiary in Guangzhou City, Guangdong Province, China.

   (1) Purpose of the establishment

   With its China business expanding, the Company intends to establish the above-mentioned company to set up a production base in the South China area, one of China's important economic zones, and promote greater permeation into the market.

   (2) Outline of the company to be established

| | | |
|---|---|---|
| (i) | Company name: | Guangzhou Kewpie Corporation |
| (ii) | Location: | Guangzhou City, Guangdong Province, the People's Republic of China |
| (iii) | Representative: | Toshiyuki Yasutomi, President and Senior General Manager |
| (iv) | Description of business: | Manufacture and sale of mayonnaise, dressings, etc. |
| (v) | Capital stock: | CNY270 million (approx. ¥4,600 million on the basis of CNY1 = ¥17) |
| (vi) | Date of establishment: | March 2018 (expected) |
| (vii) | Fiscal year end: | December 31 of each year |
| (viii) | Shareholding ratio: | 100% by Kewpie China Corporation |

## (e) Consolidated Supplementary Statements

### 1. Description of bonds

| Corporate name | Issue | Issue date | Beginning balance (millions of yen) | Ending balance (millions of yen) | Interest rate per annum (%) | Pledged | Maturity date |
|---|---|---|---|---|---|---|---|
| The Company | The 2nd Unsecured Bonds | February 15, 2012 | 10,000 | 10,000 | 0.777 | None | February 15, 2019 |

(Note) The aggregate amount that will be redeemed in annual maturities after the consolidated balance sheet date is as follows:

| Within one year (millions of yen) | Over one year to two years (millions of yen) | Over two years to three years (millions of yen) | Over three years to four years (millions of yen) | Over four years to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|
| — | 10,000 | — | — | — | — |

### 2. Description of bank loans etc.

| Item | Beginning balance (millions of yen) | Ending balance (millions of yen) | Average interest rate per annum (%) | Repayment date |
|---|---|---|---|---|
| Short-term loans payable | 6,137 | 5,883 | 0.493 | — |
| Current portion of long-term loans payable | 2,164 | 2,153 | 0.454 | — |
| Current portion of lease obligations | 1,480 | 1,619 | 1.806 | — |
| Long-term loans payable | 12,498 | 35,947 | 0.310 | From December 2018 to January 2028 |
| Long-term lease obligations | 3,774 | 4,506 | 1.736 | From December 2018 to March 2041 |
| Other interest-bearing debt<br>Long-term accounts payable (including current portion) | 10 | 9 | 3.790 | From December 2017 to November 2023 |
| Total | 26,066 | 50,120 | — | — |

(Notes) 1. Average interest rates are calculated by using interest rates and balance of loans payable at the consolidated balance sheet date.
2. The annual aggregate amount of long-term loans payable, lease obligations and other interest-bearing debt (excluding current portion) repaid after the consolidated closing date is as follows:

| | Over one year to two years (millions of yen) | Over two years to three years (millions of yen) | Over three years to four years (millions of yen) | Over four years to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|
| Long-term loans payable | 2,037 | 2,021 | 2,195 | 11,066 | 18,626 |
| Lease obligations | 1,374 | 1,081 | 617 | 340 | 1,091 |
| Long-term accounts payable | 1 | 1 | 1 | 1 | 1 |

### 3. Description of asset retirement obligations

The amounts of asset retirement obligations at the beginning and the end of the current fiscal year are omitted pursuant to the provisions of Article 92-2 of the Ordinance on Consolidated Financial Statements, since they are at or below one percent of the total amounts of liabilities and net assets at the beginning and the end of the current fiscal year, respectively.

## (2) Other

### Quarterly information for the current fiscal year

| (Cumulative period) | Three months | Six months | Nine months | Fiscal year |
|---|---|---|---|---|
| Net sales (millions of yen) | 132,079 | 277,186 | 421,013 | 561,688 |
| Profit before income taxes (millions of yen) | 5,030 | 14,401 | 24,740 | 30,783 |
| Profit attributable to owners of parent (millions of yen) | 2,694 | 8,047 | 14,343 | 18,099 |
| Earnings per share (yen) | 18.00 | 53.69 | 95.46 | 121.05 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| Earnings per share (yen) | 18.00 | 35.67 | 41.65 | 25.36 |

(Note) In the second quarter of the current fiscal year, provisional accounting treatment for the business combination was applied, and while the figures were finalized at the end of the current fiscal year, there is no effect on the figures related to either the second quarter or the third quarter.

# Independent Auditors' Audit Report and Internal Control Audit Report

February 27, 2018

The Board of Directors
KEWPIE KABUSHIKI-KAISHA
(Kewpie Corporation)

**Ernst & Young ShinNihon LLC**

| | |
|---|---|
| Designated and Engagement Partner | Masayuki Miyairi<br>Certified Public Accountant<br>(signed and sealed) |
| Designated and Engagement Partner | Yoshiyuki Sakuma<br>Certified Public Accountant<br>(signed and sealed) |
| Designated and Engagement Partner | Miyuki Nakamura<br>Certified Public Accountant<br>(signed and sealed) |

*<Audit of financial statements>*

Pursuant to Paragraph 1 of Article 193-2 of the Financial Instruments and Exchange Law of Japan, we have audited the consolidated financial statements of KEWPIE KABUSHIKI-KAISHA presented in "Financial Information" from December 1, 2016 to November 30, 2017, namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets, the consolidated statement of cash flows, the significant matters forming the basis for the preparation of consolidated financial statements, other notes and the consolidated supplementary statements, all expressed in 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 KEWPIE KABUSHIKI-KAISHA and its consolidated subsidiaries as at November 30, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

<*Audit of internal control*>

Pursuant to Paragraph 2 of Article 193-2 of the Financial Instruments and Exchange Law of Japan, we also have audited the accompanying Management's Report on Internal Control over Financial Reporting for the consolidated financial statements as at November 30, 2017 of KEWPIE KABUSHIKI-KAISHA and its consolidated subsidiaries (the "Company") (the "Management's Report").

*Management's Responsibility for the Management's Report*

Management is responsible for designing and operating internal control over financial reporting, and the preparation and fair presentation of the Management's Report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.
Internal control over financial reporting may not completely prevent or detect misstatements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the Management's Report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the internal control audit to obtain reasonable assurance about whether the Management's Report is free from material misstatement.
An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in the Management's Report. The procedures selected depend on the auditor's judgment, including the significance of effects on the reliability of financial reporting. An internal control audit also includes evaluating disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting, as well as evaluating the overall presentation of the Management's Report.
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 Management's Report referred to above, which represents that internal control over financial reporting of the consolidated financial statements as at November 30, 2017 is effective, presents fairly, in all material respects, the result of the management's assessment on internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

* The above Independent Auditors' Audit Report and Internal Control Audit Report are translations of the original reports, which are based on Paragraph 1 and Paragraph 2, respectively, of Article 193-2 of the Financial Instruments and Exchange Law of Japan.

# VI. Stock Information of Reporting Company

<table>
<tr><td>Fiscal year</td><td>From December 1 to November 30</td></tr>
<tr><td>The Ordinary General Meeting of Shareholders</td><td>Held in February</td></tr>
<tr><td>Record date</td><td>November 30</td></tr>
<tr><td>Dividend record dates</td><td>May 31, November 30</td></tr>
<tr><td>Shares per trading unit</td><td>100</td></tr>
<tr><td colspan="2">Purchase of shares less than one unit:</td></tr>
<tr><td>Handling office</td><td>(Special account)<br>Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department<br>4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo</td></tr>
<tr><td>Agent</td><td>(Special account)<br>Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Department<br>4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo</td></tr>
<tr><td>Shareholders' contacts</td><td>—</td></tr>
<tr><td>Stock transfer fee</td><td>(Note 1)</td></tr>
<tr><td>Newspaper for announcements</td><td>The Company shall publish its public notices by electronic means. However, if it is impossible to post electronic public notices because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nikkei.<br>URL for public notice: http://www.kewpie.co.jp/company/</td></tr>
<tr><td>Shareholder privileges</td><td>The Company provides a gift of the Group's product(s) around early March to those shareholders who are recorded in the shareholder registry as of November 30, and who have held at least one trading unit (100 shares) of the Company's shares for three or more consecutive years,* in accordance with the gift criteria presented below.<br>Gift criteria
<table>
<tr><th>Number of shares held</th><th>Contents of gift</th></tr>
<tr><td>100 shares to 499 shares</td><td>Group product(s) valued at ¥1,000</td></tr>
<tr><td>500 shares to 999 shares</td><td>Group product(s) valued at ¥2,000</td></tr>
<tr><td>1,000 shares or more</td><td>Group product(s) valued at ¥3,000</td></tr>
</table>
* A shareholder who has held the Company's shares for three years or more is defined as a shareholder who has been registered in the shareholder registry as of May 31 and November 30 under the same shareholder number on seven or more consecutive occasions.</td></tr>
</table>

(Notes) 1. The calculating method below shall be used to determine fees for purchase of shares less than one unit on the basis of the method below, in which total purchase fees per trading unit are divided by the total number of shares purchased and multiplied by the number of shares held by the shareholder.

(Calculation Method) Purchase prices per share, determined by the final TSE market price, are multiplied by the number of shares per trading unit, and the sum total amount derived therefrom is applied, as in the following table, to find the percentage fee charged.

| Total amount | Percentage fee |
|---|---|
| ¥1 million or less | 1.150% |
| Over ¥1 million – ¥5 million | 0.900% |
| Over ¥5 million – ¥10 million | 0.700% |
| Over ¥10 million – ¥30 million | 0.575% |
| Over ¥30 million – ¥50 million | 0.375% |

(Amounts of less than ¥1 are rounded down.)

However, if the purchase fee per trading unit calculated above is less than ¥2,500, the fee shall be ¥2,500.

2. In accordance with the Articles of Incorporation, the Company's shareholders cannot exercise rights other than those listed below for shares less than one unit.
   (1) Rights listed in items of Article 189, Paragraph 2 of the Companies Act
   (2) Right to receive allocation of shares for subscription or stock acquisition rights for subscription in accordance with the number of shares owned
   (3) Right stipulated by Article 166, Paragraph 1 of the Companies Act to request acquisition of shares with rights to acquire new shares

The information contained in this report is derived from Kewpie Corporation's (the "Company") Management's Report on Internal Control over Financial Reporting in Japanese filed with the Commissioner of the Financial Services Agency on February 28, 2018 in accordance with the Financial Instruments and Exchange Law, and has been translated into English for the convenience of readers outside Japan.

| | |
|---|---|
| Document Title: | Management's Report on Internal Control over Financial Reporting |
| Corporate Name: | KEWPIE KABUSHIKI-KAISHA |
| English Corporate Name: | Kewpie Corporation |
| Name and Title of Representative: | Osamu Chonan<br>Representative Director<br>President and Chief Executive Corporate Officer |
| Location of Head Office: | 4-13, Shibuya 1-chome, Shibuya-ku,<br>Tokyo 150-0002, Japan |

## 1. Basic Framework of Internal Control over Financial Reporting

The Representative Director and President Corporate Officer Osamu Chonan is responsible for designing and operating the Company's internal control over financial reporting. He designs and operates internal control over financial reporting in accordance with the basic framework of internal control presented in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" issued by the Business Accounting Council.

Internal control achieves its objectives to a reasonable extent given that all individual components of internal control are integrated and function as a whole. Internal control over financial reporting for consolidated financial statements may not completely prevent or detect misstatements in financial reporting.

## 2. Scope of Assessment, Assessment Date and Assessment Procedure

Assessment of internal control over financial reporting was carried out as of November 30, 2017, which is the final day of the Company' business year, in accordance with generally accepted assessment standards for internal control over financial reporting.

In this assessment, the business processes to be assessed are selected after an assessment of internal control that has a significant impact on overall financial reporting on a consolidated basis ("company-level internal control") is carried out, and in consideration of the results of the said assessment. In assessing the said business processes, an assessment of the effectiveness of internal control is conducted by identifying the key controls that would have a material impact on the reliability of financial reporting after analyzing the selected business processes and by assessing the status of design and operation of the said key controls.

The scope of assessment of internal control over financial reporting is determined to be the scope that is necessary from the viewpoint of materiality of the impact on the reliability of financial reporting regarding the Company, its consolidated subsidiaries and its equity-method affiliates. The materiality of the impact on the reliability of financial reporting is determined in consideration of the materiality of quantitative and qualitative impacts. The scope of assessment of business process-level internal control is determined reasonably in light of the results of an assessment of company-level internal control carried out with respect to the Company and its 20 consolidated subsidiaries. Other consolidated subsidiaries and equity-method affiliates are not included in the scope of assessment of company-level internal control as they are deemed to be immaterial in terms of quantitative and qualitative materiality.

To determine the scope of assessment of business process-level internal control, "significant business locations" are selected. They are composed of business locations determined in descending order based on their net sales levels in the previous fiscal year (after elimination of intra-group transactions) until their combined amount reaches approximately two thirds of consolidated net sales in the previous fiscal year (as a result, three companies were selected), as well as other significant outsourced business locations. At the selected significant business locations, business processes leading to net sales, accounts receivable—trade, inventories and accounts payable—trade which are deemed as accounting items that are closely associated with a company's business purpose, are included in the scope of the assessment. In addition, the scope of assessment includes other business locations as well as selected significant business locations with respect to certain business processes. Specifically, business processes that have a high risk of misstatement and relate to significant accounting items involving estimates and forecasts, and business processes relating to a business or operation dealing with high-risk transactions, are added to the scope of assessment as business processes with substantial significance in terms of effects on financial reporting, regardless of whether they occur at selected significant business locations.

## 3. Assessment Result

As a result of the above assessment, we judge that the Company's internal control over its financial reporting is effective as of November 30, 2017.

American Depositary Receipts:
- Ratio (ADR : ORD): 1 : 2
- Exchange: OTC (Over-the-Counter)
- Symbol: KWPCY
- CUSIP: 493054100
- Depositary:
  - The Bank of New York Mellon
  - 101 Barclay Street FL22W, New York, NY 10286, U.S.A.
  - Tel: (212) 815-2042
  - U.S. toll free: 888-269-2377 (888-BNY-ADRS)
  - URL: www.adrbnymellon.com