

Annual Report 1998

Kikkoman Corporation



Profile

Kikkoman Corporation takes pride in enriching the lives of consumers throughout the world with the distinctive qualities of its food seasonings. The number one producer of soy sauce in the world, Kikkoman has grown from humble beginnings in the 17th century to become a company that provides a comprehensive range of good foodstuffs, fine wines, superb dining, and effective biotechnology. We are constantly searching for new recipes to enhance the flavors of Western and Oriental cuisines, drawing on more than 300 years of natural brewing experience and an intimate knowledge of the technical processes involved in the creation of our products. Superseding these activities is a higher goal of contributing to the health and happiness of the communities in the almost 100 countries in which we operate. Our commitment is to ensuring the quality of your lifestyle.

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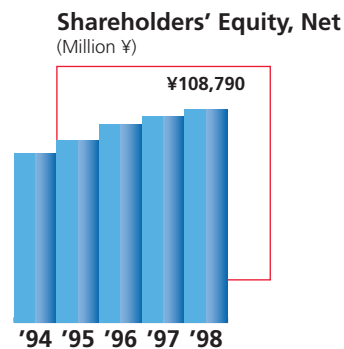
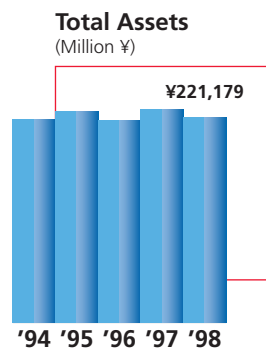
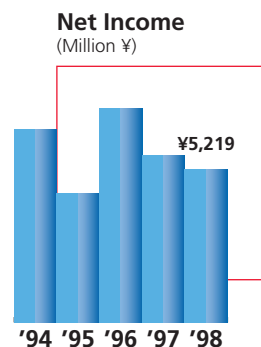
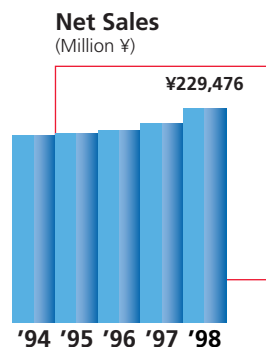
Financial Highlights



Kikkoman Corporation and Consolidated Subsidiaries
Years ended December 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note)
	1998	1997	1998
For the year:			
Net sales	¥229,476	¥214,338	\$1,978,238
Operating income	10,626	9,366	91,601
Net income	5,219	5,711	44,989
At year-end:			
Total assets	¥221,179	¥230,295	\$1,906,717
Interest-bearing debt	38,786	50,707	334,364
Shareholders' equity, net	108,790	105,005	937,848
Per share data:			
Net income	¥26.46	¥28.95	\$0.23
Cash dividends applicable to the year	7.00	7.00	0.06

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥116=US\$1.



The Year in Review

Despite a challenging year for the Japanese economy as a whole, I am pleased to report that Kikkoman Corporation achieved a strong performance in fiscal 1998, ended December 31, 1998. Our commitment to raising consumer satisfaction—the cornerstone of our corporate strategy—was rewarded as consolidated net sales increased 7.1%, to ¥229.5 billion, and operating income rose 13.5%, to ¥10.6 billion. We sustained an especially strong performance outside Japan, with overseas sales (excluding exports from Japan) expanding 15.8%, to ¥64.5 billion. As a consequence, overseas sales climbed to 28% of consolidated net sales, and operating income generated overseas accounted for 51% of Kikkoman's consolidated operating income.

In Japan, demand for household soy sauce products continued to decline during the year amid a bleak personal consumption environment. Although our overall soy sauce sales fell below those of the previous year, a growing number of consumers selected the value-added products from our *Marudaizu Shoyu* (deluxe soy sauce) lineup, including our latest premium offering, *Yuki Shoyu* (certified organic soy sauce), which we launched in August. A certified organic product, *Yuki Shoyu* is Kikkoman's latest new product under its long-term strategy of transforming its soy sauce lineup to accommodate the trend toward high-quality, healthy seasonings with distinct flavors. Moreover, we made further progress in diversifying our revenue base by expanding our share of the soy sauce market in the industrial and food-service sectors.

Soy sauce based seasonings continued robust sales growth during the fiscal year. Kikkoman is well positioned in this product area thanks to an early start in developing a wide range of seasonings that meet consumer preferences for convenience and variety. In fiscal 1998, we again posted solid sales gains for *tare* (dipping and marinade sauces) and *tsuyu* (soy sauce soup base), both of which are key strategic product categories.

Among other activities, we recorded exceptional growth in our Sake and Wine Division thanks to the prolonged wine boom in Japan and the new sales opportunities for our *mirin* (sweet sake) emerging from deregulatory measures that now allow distribution through supermarkets and retail outlets other than liquor stores. Our Del Monte Division also posted healthy sales gains, as newly introduced seasonings with a tomato sauce base made strong contributions.

As a result of these developments, domestic sales grew 4.0%, to ¥165.0 billion.

Dining Pleasure and Convenience

In recent years, Kikkoman has modified its domestic product development strategies to meet the trend toward home meal replacements. Consumers are increasingly buying prepared ingredients and meals to save cooking time at home. Although this trend is affecting domestic demand for soy sauce, derivative



markets for *tare*, *tsuyu*, and other ready-to-use seasonings that use soy sauce as a core ingredient are expanding. Strengthening our presence in these markets was the main management theme in fiscal 1998. Accordingly, we released *Aka-to-Kurodare* (*miso* and soy sauce based steak dipping sauce), a blend of our popular *Akadare* (*miso* based) and *Kurodare* (soy sauce based) dipping sauces.

The challenge we are confronting is to continue delivering products that can be used to create fast and tasty home meals. Our success in speeding up the product development process has supported our increased penetration of the domestic seasonings market in recent years, and we will continue to emphasize this strategy in fiscal 1999.

This expansion strategy is complemented by plans to stimulate demand for soy sauce by introducing value-added products that cater to taste- and health-conscious consumers. As cooking at home as a recreational activity grows in popularity in Japan, consumers are looking for products with high-quality ingredients and distinct flavors. Our reputation for offering products of consistently high quality using natural brewing techniques positions us well to meet the expected increase in demand for premium soy sauces.

Serving a Global Market

In June 1998, Kikkoman Foods, Inc., our first overseas plant, celebrated 25 years of operations, thus marking a major milestone for our international activities. Over the past quarter century, the production capacity of the Kikkoman Foods plant—located in Wisconsin—has expanded more than tenfold. To further augment capacity, in October we commenced operations at our second plant in the United States, in Folsom, California, which is conveniently located near large markets on the West Coast. Similarly, in Europe, we raised the annual production capacity of our plant in the Netherlands to 5,000 kiloliters. Following these additions, total production of soy sauce and its derivative products at our overseas plants surpassed 100,000 kiloliters in 1998. This is approximately the same as the production capacity of the second largest soy sauce manufacturer in Japan. Relying also on our plants in Singapore and Taiwan, we are well prepared to meet the needs of the global market well into the future.

We anticipate further growth in overseas revenues in the years ahead, and our growth strategy will be two-pronged.

We will expand our customer base and work to promote increased per-customer use of soy sauce and other seasonings. Our success to date has been supported by continuing activities to educate consumers about Japanese food culture as well as a commitment to cater to local tastes. Examples of this include our *teriyaki* steak sauces, which have become part of the



Yuzaburo Mogi
President and
Chief Executive Officer



local food culture in the United States. Matching product development efforts to local tastes and needs is part of Kikkoman's philosophy of focusing on the consumer. In keeping with this philosophy and to further enhance our ability to respond to trends in our largest overseas market, we relocated Kikkoman Marketing & Planning, Inc. (KMP), a market research and product development subsidiary, from San Francisco to Chicago during the year. This move was made to help us increase our market share for soy sauce in the United States—which is approximately 50%—within the next few years.

A Source of Variety

As a comprehensive provider of foodstuffs, Kikkoman constantly seeks new ways to improve the culinary lifestyles of consumers. We have marketed ketchup and other Western products under the Del Monte brand in Japan since 1963 and elsewhere in Asia since 1990. During the year under review, we maintained sales growth for our Del Monte Division by implementing innovative promotional programs and introducing products refined to suit local tastes. We will continue to pursue product development and brand-building strategies to strengthen the image of Del Monte as a premium brand in Japan and the rest of Asia.

In the beverage market, we have responded to Japanese consumers' growing fondness for wine through our domestic production activities under the *Manns* label and through imports. The expansion of our wine imports and aggressive marketing campaigns enabled us to boost wine sales a substantial 77.6% during the fiscal year. We plan to form new tie-ups with overseas vintners and other suppliers to enhance our ability to benefit from Japan's rising demand for wine.

Seeking New Growth Opportunities

Kikkoman's share of the soy sauce market in Japan is almost three times as large as that of its nearest competitor. To stimulate employee motivation and morale, I constantly urge them to adopt an aggressive attitude: to look for new opportunities and to take on new challenges. The steady flow of new products, menu proposals, and marketing ideas generated by Kikkoman is evidence of its desire not to merely protect, but to enhance the Company's market position.

Looking more to long-term opportunities, we are very enthusiastic about the potential of our R&D resources to discover and open new markets. To date, we have used our extensive knowledge of biotechnology and enzymology to develop pharmaceutical substances, food hygiene monitoring systems, and other products that contribute to performance. We are aiming to make our biotechnology operations one of our important revenue generators in the 21st century.

In addition to seeking new growth opportunities, we are implementing strategies to improve our profitability, specifically through increasing employee productivity and operational efficiency. Our logistics capabilities were significantly boosted, beginning in May 1999, by the commencement of operations of our





state-of-the-art Noda Distribution Center. We anticipate the center, which has highly automated distribution facilities, will lower costs between ¥400 million and ¥450 million annually by its third year of operations. During the year, we also completed the development of a software package that facilitates major improvements in supply chain management for food manufacturers.

We are confident that continued improvements in productivity and the greater application of advanced information technology will greatly enhance our operational competitiveness and make it possible to maximize the potential of our unparalleled brand name.

Promoting Food Culture

People around the world identify closely with both their own food culture and those of other countries. Our growth, I believe, ultimately depends on our success in promoting international awareness of soy sauce's deliciousness and diverse uses as a seasoning. We are now using the Internet as a medium to introduce recipes to international audiences and complement our other educational activities. We believe this new technology will be of tremendous benefit to us.

Food is intimately linked to people's health, and in this regard, our high-grade quality control and environmental management standards as well as our expertise in the biotechnology field provide us with a solid foundation to meet the needs of consumers as they show increasing concern about dietary matters.

Despite a harsh outlook for fiscal 1999, we are confident our business strategies will open new markets and maintain our dominance in our core business of soy sauce and its derivative products. We look forward to the continued support of our shareholders and business associates as we work to enhance the lifestyles of people around the world through our contribution to their food culture.

May 1999

Yuzaburo Mogi
President and Chief Executive Officer



The Americas

BUILDING ON A 50% SHARE OF THE MARKET FOR SOY SAUCE IS THE CHALLENGE FOR KIKKOMAN IN ITS BIGGEST OVERSEAS MARKET.

In June 1998, Kikkoman Foods, Inc., Kikkoman's first overseas production plant, in Walworth, Wisconsin, celebrated 25 years of operations. One of the first major production facilities constructed by a Japanese corporation in the United States, the Walworth plant has played a pivotal role in the introduction of soy sauce in that country. Today, more than 100 items are manufactured at the plant, including Kikkoman's popular

Lite Soy Sauce and *Lite Teriyaki Marinade & Sauce*.

The rise in shipments in recent years has resulted in the Walworth Plant approaching its annual soy sauce production capacity of 80,000 kiloliters. To meet long-term market needs, on October 6, 1998, Kikkoman Foods opened its second U.S. manufacturing plant in Folsom, California. The 210,000-square-meter facility was built at a cost of US\$46 million and has an initial annual soy sauce production capacity of 10,000 kiloliters. There is scope to expand this capacity fourfold.

The annual per capita consumption of soy sauce has reached 700 milliliters. The growth rate is forecast to slow to between 5% and 7%;

however, even at a rate of 7%, soy sauce consumption in the United States will double in approximately 10 years. In recent years, sales growth of commercial-use products has outstripped that of household items, and the industrial and food-service sectors are expected to account for an increasing portion of Kikkoman's soy sauce output.

Kikkoman's extensive marketing network in the United States includes Kikkoman International Inc., established in San Francisco in 1957 as the Company's first overseas subsidiary, and JFC International Inc., which is the largest distributor of Japanese and other Asian foodstuffs in North America.



On October 6, 1998, Kikkoman opened its second U.S. manufacturing plant in Folsom, California. The plant commenced operations in April and started shipments of soy sauce six months later.



On April 17, 1998, the Kikkoman Corporation web site received the Silver Award from the Forum for Corporate Communications.



The Wisconsin-U.S.-Japan Economic Development Conference was held in June 1998 at Lake Geneva, Wisconsin, to commemorate the 25th anniversary of the establishment of Kikkoman Foods.

Europe

KIKKOMAN AIMS TO CONTRIBUTE TO EUROPEAN CUISINES BY INTRODUCING THE UNIQUE FLAVORS OF JAPANESE SEASONINGS.

The European market is one which holds great potential for Kikkoman. Through well-planned, consistent educational and marketing activities, the Company is steadily building a solid customer base for soy sauce in the household, industrial, and food-service sectors. The diversity of cuisine

throughout the region provides Kikkoman with enormous opportunities to expand on this foundation with high-quality soy sauce based seasonings that cater to local taste preferences.

Japanese food culture education, in particular, is crucial to realizing sales growth in Europe. Kikkoman is pursuing a variety of strategies designed to demonstrate the versatility of soy sauce as a flavor enhancer. Recipe competitions have proved particularly successful in this regard. In addition, advertising and promotion materials have reinforced Kikkoman's

commitment to developing healthy seasonings with consistent product quality. Such a reputation will support Kikkoman's long-term expansion in the European foodstuffs market.

Marketing operations were reinforced by the opening of Kikkoman Foods Europe B.V.'s European Plant in October 1997. The plant, located in the Netherlands, began full-scale production in 1998, thereby enhancing the ability of Kikkoman to ensure reliable and timely deliveries to countries in Europe.



In 1998, senior-level students from cooking schools throughout France again demonstrated their skills and creativity in Concours Kikkoman, a contest featuring the use of soy sauce in French cuisine. This event, which has been held for the past five years, is officially recognized by France's L'Education Nationale. Having attracted more than 100 entrants each year since its inception, the winner's trophy has become one of the most coveted prizes among cooking students—the chefs of the future.



Centering on recipe proposal activities, Kikkoman has worked persistently to introduce Japanese food culture into Europe. Today, as a result, Kikkoman soy sauce has become a familiar part of many European cuisines.



The European Plant in the Netherlands received certification for its Hazard Analysis Critical Control Point (HACCP) system—the most highly acclaimed sanitation control system for food-processing plants—on April 21, 1998.

Asia & Oceania

PRODUCTS OF CONSISTENT AND HIGH QUALITY ARE BUILDING LOYALTY FOR THE KIKKOMAN BRAND IN ASIA.

Kikkoman made steady progress raising brand awareness in its backyard market of Asia and Oceania during fiscal 1998. While demand for soy sauce has been affected by the recent stagnation of economic growth in the region, more importantly for Kikkoman, the interest in quality seasonings has risen. The marketing groundwork being performed now is expected to yield significant long-term benefits as consumers in Asia grow in affluence and become more

knowledgeable of the superior flavors offered by Kikkoman's products.

In line with its overseas expansion policy, Kikkoman is gradually localizing its operations in Asia and Oceania. The Company's Singapore Plant serves Southeast Asian countries, China, Australia, New Zealand, and the countries of the Pacific. President Kikkoman Inc., a production and marketing joint venture in Taiwan, has steadily increased its share of the market for seasonings in that country. Marketing activities in Asia are performed by Kikkoman Trading (S) Pte. Ltd., in Singapore, while in Australia and New Zealand, where soy sauce has reached high market penetration levels, Kikkoman Australia Pty.

Limited has established Kikkoman as the leading name in soy sauce.

Kikkoman Trading (S) is launching *Special Fragrance (SF) Soy Sauce*, the first Kikkoman soy sauce developed specifically for the Southeast Asian market. *SF Soy Sauce* has Kikkoman's traditional full-bodied soy sauce flavor as well as a sweet aroma that appeals to regional consumers. This product is being sold in newly created 600ml polyethylene terephthalate (PET) bottles designed for the household market. Through the launch of new products, Kikkoman aims to contribute to local business growth and improve the culinary lifestyles of its consumers.



President Kikkoman Inc., the Company's joint venture in Taiwan, is a fine example of the success of Kikkoman's strategy of localizing its overseas operations. *Sweet Fragrance Soy Sauce* has become a mainstream item in Taiwan.



Kikkoman has added four new products to the lineup of seasonings manufactured in Singapore by Kikkoman (S) Pte. Ltd. *Special Fragrance (SF) Soy Sauce*, the latest addition, has a unique fragrance developed specifically for consumers in Southeast Asia. Kikkoman hopes that *SF Soy Sauce* will become a new mainstream item in the local soy sauce scene.



Japan

ENHANCING FLAVOR AND ADDING LIFE IS KIKKOMAN'S STRATEGY TO SUSTAIN GROWTH IN ITS HOME MARKET.

Adding value is the term that best defines Kikkoman's strategic response to the evolving market for seasonings in Japan. More than ever, Japan's busy consumer lifestyles demand that seasonings offer convenience and have distinct flavor. These qualities are being emphasized by Kikkoman in its aggressive development of premium soy sauces and soy sauce based products.

In August 1998, Kikkoman took another step toward capturing the market for health-conscious Japanese consumers with the release of its *Yuki Shoyu* (certified organic soy sauce).

The Company has received quality certification for the ingredients and manufacturing processes used to make *Yuki Shoyu* from the Organic Growers and Buyers Association (OGBA), a third-party, worldwide membership organization. By strengthening its value-added *Marudaizu Soy Sauce* lineup in this way, Kikkoman is confident of meeting long-term demand in the Japanese market.

Kikkoman has also responded to diversifying market tastes by promoting original Western foodstuffs under the Del Monte brand. Here also, the Company's attention to health, convenience, and flavor has supported a steady rise in sales. Wine is another Western product handled by Kikkoman for which there is an enormous untapped market in Japan. The

exceptional growth in the Company's wine sales, including both imports and wine produced domestically under the *Manns* wine label, is yet another example of Kikkoman's astute marketing capabilities.

Careful attention to the environmental impact in all stages of operations is a hallmark of Kikkoman's management policy. The Company began addressing environment issues as early as 1970, when it established a committee to reduce pollution at its plants. Most recently, in April 1998 Kikkoman's Takasago Plant obtained ISO 14001 certification for its environmental management systems. One feature of Kikkoman's environmental activities is comprehensive in-house audits, which are supervised by employees familiar with international environmental standards.



In August, Kikkoman bolstered the organic product lineup under the Del Monte brand with the release of canned diced tomatoes and pizza sauce products. These products have received organic quality certification from a number of internationally recognized certification organizations, including Quality Assurance International.



Kikkoman imports a number of high-quality wines from well-known wine-producing countries, including France, Italy, and Chile. As the popularity of wine rises in Japan, the Company plans to step up its activities in the wine importing field to meet a greater variety of taste preferences.



In April 1998, the Takasago Plant received ISO 14001 certification for its environmental management systems, becoming the second Kikkoman plant to do so. Kikkoman will continue to pursue various measures to minimize the impact its operations have on the environment.

SOY SAUCE

Total domestic demand for soy sauce contracted approximately 3% during fiscal 1998, as weak economic conditions affected consumption in both household and commercial sectors. Kikkoman worked hard to maintain sales, developing new recipe proposals and conducting well-orchestrated advertising campaigns, including TV commercials featuring popular personalities, to raise the profiles of its strategic products. Sales of Kikkoman's mainstay soy sauce, *Koikuchi Shoyu* (regular soy sauce), fell due to the unfavorable market condi-

tions; however, the Company's value-added *Marudaizu Soy Sauce* products, including *Tokusen Marudaizu Shoyu* (deluxe soy sauce), *Tokusen Marudaizu Gen-en Shoyu* (deluxe low-sodium soy sauce), and *Chotokusen Marudaizu Fukamurasaki Shoyu* (super-premium soy sauce), attracted a larger following. In August 1998, Kikkoman strengthened this lineup with the release of *Yuki Shoyu*. This certified organic product is Kikkoman's latest effort in a long-term strategy to transform its soy sauce line to accommodate the

trend toward high-quality, healthy seasonings with distinct flavors.

Measures designed to capture large customers in the industrial and food-service sectors yielded encouraging results. Nevertheless, sales of commercial-use products remained stagnant amid the depressed business environment.

As a result of these performances, soy sauce sales declined to ¥66.9 billion, compared with sales of ¥70.4 billion in the previous fiscal year.



Original Kikkoman Shoyu: Healthy all-purpose seasoning sold and used in more than 100 countries worldwide



Marudaizu Shoyu: Flavorful *marudaizu* soy sauce at a lower price



Tokusen Marudaizu Shoyu: Premium *marudaizu* soy sauce is widely accepted in Japan.



Tokusen Marudaizu Gen-en Shoyu: "Light" soy sauce with 50% less sodium than regular *Tokusen Marudaizu Shoyu*



Gen-en Shoyu: "Light" soy sauce with 50% less sodium than regular Kikkoman soy sauce



Sashimi Shoyu: Special soy sauce designed to enrich the taste of *sashimi* or *sushi*



Yuki Shoyu: Organic soy sauce certified by the Organic Growers and Buyers Association (OGBA)



Chotokusen Marudaizu Fukamurasaki Shoyu: Super-premium soy sauce with a rich flavor and pleasant aroma



Tokuyo Shoyu: Low-priced soy sauce with Kikkoman quality



SOY SAUCE DERIVATIVE PRODUCTS

Carefully planned marketing activities and promotions combined with new product launches in strategically important product categories underpinned a solid performance by the Soy Sauce Derivative Products Division. Kikkoman's *Akadare* (red label) and *Kurodare* (black label) steak dipping sauces continued to sell well in the second year since their release. *Aka-to-Kurodare* (steak dipping sauce) was launched in February 1998 to capitalize on these products' rising popularity. In addition, Kikkoman increased its market share for *tare* sauces (dipping sauces) used in

sukiyaki and *shabu shabu* dishes, with its products meeting consumers' needs for ready-to-use seasonings.

Creative marketing campaigns and new recipe proposals designed to appeal to regional taste preferences helped Kikkoman boost sales of *Hon Tsuyu* (soy sauce soup base) approximately 10%. A comprehensive renewal campaign for soy sauce bases in the *Straight Tsuyu* series, begun in February, proved successful, with this product category registering a sales increase of approximately 5%. Sales of Kikkoman's *Chuka Sauces* (Chinese Sauce) grew significantly

during the fourth quarter of the year, as the market for Chinese sauces expanded in Japan.

The depressed economy restricted opportunities in the competitive industrial and food-service sectors for *mirin* seasoning, *tsuyu*, and dipping sauces. Nevertheless, Kikkoman worked vigorously to strengthen its market presence, drawing on its expertise in creating menu proposals to promote seasonings tailored to specific user needs.

As a result of these activities, sales in the Soy Sauce Derivative Products Division grew 1.6%, to ¥19.0 billion.



Akadare (red label): A *miso* based steak dipping sauce seasoned with *kochujan* (spicy Korean *miso*)



Kurodare (black label): Spring onions, garlic, and other seasonings are added to a soy sauce base to create this sweet steak dipping sauce.



Aka-to-Kuro: A *miso* and soy sauce based steak dipping sauce with a mellow, mildly spicy flavor



Kakete-Yakiniku: A soy sauce based steak sauce seasoned with the flavors of Japanese vegetables



Steak Shoyu: Having a deep soy sauce aroma and mellow flavor, this steak sauce highlights the true taste of meats.



Hon Tsuyu: Natural bonito and seaweed *dashi* (broth), *marudaizu* soy sauce, and *hon mirin* are blended to create this *mentsuyu* (noodle soup).



Zarusoba Tsuyu: A straight *soba tsuyu* that blends natural bonito *dashi*, *marudaizu* soy sauce, and *hon mirin*



Ume-katsuo Tsuyu: Bonito *dashi* and *marudaizu* soy sauce base are seasoned with pickled plum in this fresh-tasting straight *somentsuyu*.



Kokyu-ponzu: Made from top-quality fruit juices and soy sauce, this seasoning is used with *nabe*, vinegared foods, and grilled fish.

DEL MONTE

Although the market for tomato ketchup, the core product in the Del Monte Division, has matured, sales of tomato-based seasonings were buoyed by the ongoing rise in the popularity of Italian cuisine in Japan. Kikkoman focused its attention on developing and promoting value-added products incorporating its whole tomato and diced tomato bases to meet the needs arising from the home meal replacement trend. A number of specialty sauces developed for chicken and beef dishes were well received upon their release during the year. The Company also progressed

with plans to increase sales to restaurants and other commercial users of tomato-based products.

The *Yuki Saibai* series of sauces, which are made using organically cultivated tomatoes, performed solidly during the fiscal year. Kikkoman plans to launch new products in autumn 1999 to stimulate consumer interest in its organic foodstuffs, which are slowly but steadily establishing a market presence. Del Monte has received quality certification from leading organic certification organizations in the United States (e.g., Quality Assurance International (QAI)), providing

Kikkoman with a strong value-added point for its marketing activities.

Responding to intense competition in the market for vegetable juices, Kikkoman released tomato juice and other vegetable juices in 500g PET bottles in December 1998, continued with a direct-from-the-factory delivery campaign, and stepped up its promotional activities. These efforts enabled further growth in the Company's niche segments.

Overall Del Monte Division sales advanced 10.0%, to ¥21.6 billion.



Tomato Ketchup: The mainstay item in the Del Monte product lineup (contains pineapple vinegar)



Yuki Tomato Puree: Organic tomato puree sealed in convenient packages (certified by QAI)



Yuki Tomato Ketchup: A richly flavored organic tomato ketchup (certified by QAI)



Whole Peeled Tomatoes: Delicious, high-quality tomatoes of consistent size suitable for use with any ingredient



Nikomi Yo Tomato Sauce: Tomato sauce seasoned with authentic Italian spices. A tasty base that makes cooking easy.



Kihon no Tomato Sauce: A delicious plain tomato sauce that is ideal for seasoning a wide variety of dishes.



Club Pomodoro Seafood Marinade Carpaccio: Boiled tomato marinade dressing seasoned with onions and other vegetables



Club Pomodoro Chicken Cacciatore: The flavor of boiled tomatoes blended with a variety of herbs to create a superb sauce for chicken



Tomato Juice and Vegetable Juice: 100% tomato juice and vegetable juices



SAKE AND WINE

Regarding *mirin*, a sweet sake used in cooking, deregulation allowing distribution through nonliquor outlets helped lift sales 2% above the previous fiscal year's level. Kikkoman focused on increasing sales of 1 liter bottles of *Hon Mirin* through large-scale retail outlets and succeeded in expanding the customer base for its *Houjun Hon Mirin*.

Demand for *shochu*, a clear Japanese spirit, was affected by changes in liquor tax rates, which shifted demand toward other alcoholic beverages, particularly wine.

Kikkoman implemented various measures to differentiate its mainstay *Triangle* brand from those of its competitors, but depressed consumption restricted sales.

The wine market proved to be a boon for Kikkoman in fiscal 1998, with wine sales up 77.6% compared with those of the previous fiscal year. The Company bolstered its import activities, introducing 30 new wines from various countries, including France, Italy, and Spain. The volume of imported wine handled by Kikkoman rose approximately 170%

compared with the level in fiscal 1997. The majority of wines were in the lower price range, in line with Kikkoman's strategy of promoting wine as a daily drink. Domestic production of wine under the *Manns* label also increased. In total, the volume of wine handled by the Company nearly doubled during the year, to two million cases.

Due to these performances, sales in the Sake and Wine Division leapt 17.8%, to ¥33.3 billion.



Houjun Hon Mirin: A variety of rice ingredients, including glutinous rice, plain rice, and malted rice are used to create this unique *mirin* sake.



Hon Mirin: A high-quality traditional *mirin* sake noted for its refined sweet taste



Triangle Shochu: Has an incisive taste that is appreciated by *shochu* connoisseurs. Sold in a distinctive black bottle.



Triangle Indigo Shochu: The stylish indigo blue bottle reflects the refreshing yet mellow taste of this clear Japanese spirit.



Goyo Shochu: A clear Japanese spirit with a versatile flavor that is equally refreshing straight, on the rocks, or as a cocktail base



Manns Mon Frère: Inexpensive fine wines under the Manns Mon Frère label offer excellent consumer value.



Manns Mon Frère: Large magnum and carton containers have proved very popular with consumers.



Manns Votre Santé: Aptly named "drink to your health," the concentration of polyphenols in *Votre Santé* wines is twice that of other Manns red wines.



Manns Votre Santé: A light, sweet white wine which has a polyphenol concentration equivalent to that of light red wines

Beginning with work to understand the scientific processes that take place during the production of soy sauce, Kikkoman has steadily expanded its R&D activities in the areas of biotechnology and food engineering. This work has enabled Kikkoman to meet its principal goals of providing seasonings of the highest quality and contributing to the health of consumers. Today, the Company is recording great commercial success in the food processing, medical, and other fields with such products as pharmaceuticals intermediates, diagnostic enzymes and substrates, industrial enzymes and functional substances, and research reagents.

In recent years, proanthocyanidin, a type of polyphenol, has attracted attention because of its effectiveness

as an antioxidant. In August 1994, Kikkoman developed and began selling a grape seed extract under the name Gravinol (KPA), which contains proanthocyanidins that act as powerful free-radical scavengers. Since then, Kikkoman has developed and marketed seven kinds of Gravinol (KPA) products which are used as ingredients in nutritional supplements, health foods, food additives, and cosmetics products in several countries, including Japan and the United States.

In March 1998, Kikkoman began selling LuciPac, a simple, self-contained hygiene monitoring device developed by the Company to measure total adenosine triphosphate (ATP) levels. The LuciPac, which consists of a wet swab, an ATP-releasing agent, and a

luminescent agent, can be used together with the Lumitester™ C-100—a portable luminometer released by Kikkoman in July 1997—to provide fast, accurate ATP level measures. The Lumitester™ C-100 has preset modes that conform to the standards under HACCP (Hazard Analysis Critical Control Point), an internationally recognized food safety methodology that provides a framework for hazard identification and control.

Maintaining superior R&D capabilities is central to Kikkoman's long-term growth strategies. The Company will continue to shift the emphasis of its R&D activities away from fundamental research and toward the development of products and technologies with viable commercial applications.



Gravinol (right) and Vino Protein (left), which contains Gravinol



LuciPac



Lumitester™ C-100

NET SALES

In fiscal 1998, ended December 31, 1998, Japanese food and beverage manufacturers faced a difficult challenge increasing their sales as household and business consumption stalled in the listless domestic economic environment.

Although overall soy sauce consumption declined during the fiscal year, the market for value-added goods showed steady progress. The advance of the home meal replacement trend in Japan was accompanied by greater demand for Kikkoman's *tare* (dipping sauces), *tsuyu* (soy sauce soup base), and other high-quality soy sauce based seasonings that have superior flavors and offer cooking convenience. The Soy Sauce Derivative Products Division capitalized on this trend, augmenting Kikkoman's popular steak dipping sauce lineup with the introduction of *Aka-to-Kurodare* (steak dipping sauce), conducting a renewal campaign for

Straight Tsuyu, and pursuing other marketing activities. Heightened interest in Italian cuisine and dietary health combined with a successful sales campaign resulted in increases in sales of ketchup and tomato juice in the Del Monte Division, while the expansion of the distribution network for *mirin* (sweet sake for cooking) and continued strong demand for wine underpinned an exceptional performance by the Sake and Wine Division.

Overseas, Kikkoman recorded sales gains in its principal non-Japanese market of North America as well as in Europe. Operations commenced at Kikkoman Foods, Inc.'s second manufacturing plant, in Folsom, California, bringing the number of plants in the Company's overseas production network to five. The commencement of full-scale operations at the Hoogezand-Sappemeer Plant, in the Netherlands, improved Kikkoman's ability to supply customers in Europe, while in Asia and Oceania, several

new product introductions helped boost Kikkoman's profile as a comprehensive provider of foodstuffs. These activities resulted in overseas sales, excluding exports from Japan, increasing 15.8%, to ¥64.5 billion.

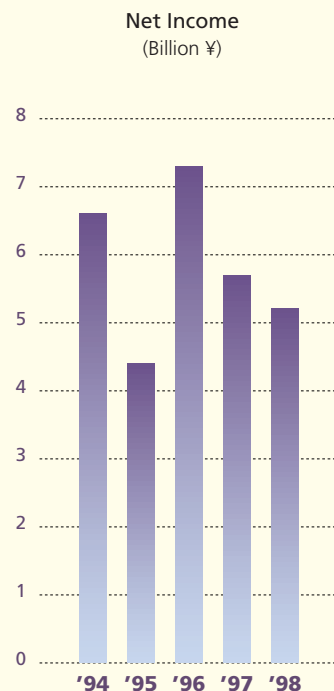
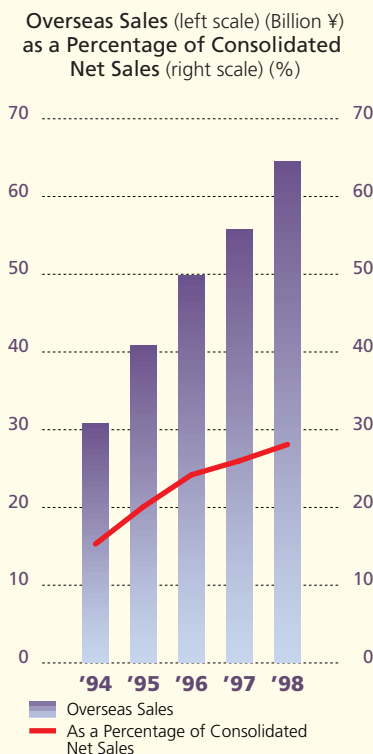
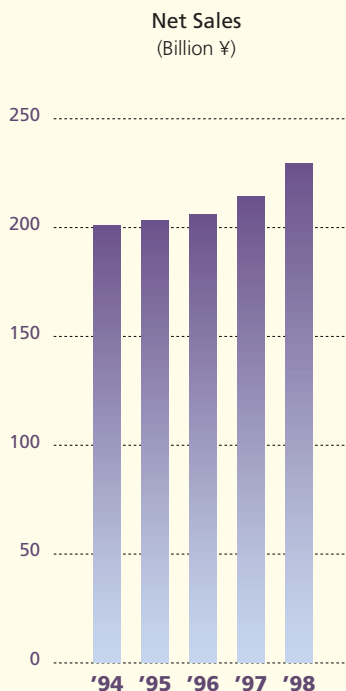
As a result of these performances, Kikkoman's consolidated net sales increased 7.1%, to ¥229.5 billion.

INCOME, COSTS, AND EXPENSES

The cost of sales advanced ¥9.8 billion, or 7.8%, to ¥135.6 billion.

The cost of sales ratio edged up only slightly to 59.1%, from 58.7%, despite the increase in depreciation expenses associated with the commencement of operations at plants in the Netherlands and the United States.

Consequently, gross profit increased ¥5.4 billion, or 6.0%, to ¥93.9 billion. Selling, general and administrative expenses increased ¥4.1 billion, or 5.2%, to ¥83.2 billion, but declined as a percentage of net sales to 36.3%,





from 36.9%, due to cost savings achieved through distribution system rationalization and other measures. These savings helped push operating income up ¥1.3 billion, to ¥10.6 billion.

Other expenses totaled ¥1.6 billion, compared with other income of ¥0.6 billion in the previous fiscal year. This result primarily reflects gains on sales of marketable securities and other nonoperating income in the previous fiscal year.

As a result of these activities, net income declined ¥0.5 billion, or 8.6%, to ¥5.2 billion, and net income per share fell to ¥26.46, from ¥28.95. Kikkoman paid cash dividends of ¥7.0 per share for the year, thereby maintaining its policy of providing shareholders with stable returns.

FINANCIAL POSITION

At December 31, 1998, Kikkoman's total assets amounted to ¥221.2 billion, down ¥9.1 billion, or 4.0%, from the previous fiscal year-end. The

decrease reflects concerted efforts by the Company to dispose of underperforming assets and improve the efficiency of total asset utilization.

Current assets declined ¥10.7 billion, or 10.1%, to ¥94.9 billion. The major change within this asset category was that of cash, which fell ¥11.9 billion, to ¥19.5 billion, as a result of cash being used to redeem unsecured convertible bonds and other short-term debt.

Property, plant and equipment, net, declined ¥1.1 billion, or 1.3%, to ¥84.2 billion. However, this decline was due to the effects of the increase in the value of the yen during the fiscal year. Adjusted for the change in the exchange rate, property, plant and equipment rose ¥1.1 billion.

Kikkoman has entered a consolidation phase in its capital investment activities after having completed several major projects in the last two years, including the Noda Distribution Center, in Chiba, Japan, and a second

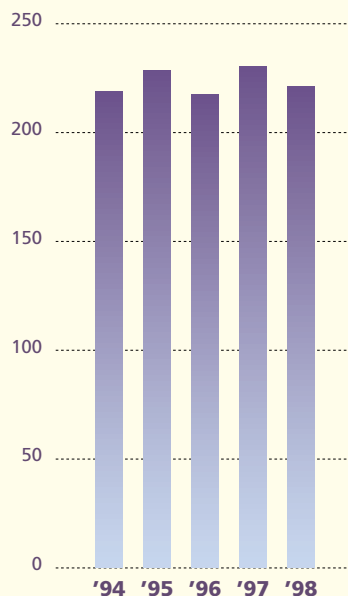
U.S. manufacturing plant. In fiscal 1998, investments in machinery and equipment and other capital items were more than offset by accumulated depreciation.

Total current liabilities amounted to ¥50.2 billion, down ¥10.5 billion, or 17.3%, compared with total current liabilities at the previous fiscal year-end, primarily due to the redemption of unsecured convertible bonds. Total long-term liabilities fell 2.6%, to ¥61.9 billion.

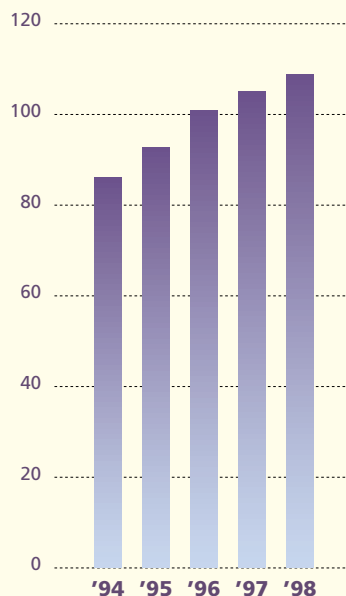
Shareholders' equity, net, increased ¥3.8 billion, to ¥108.8 billion, in line with the advance in retained earnings. The shareholders' equity ratio rose 3.6 percentage points, to 49.2%.

Working capital fell to ¥44.7 billion, from ¥44.9 billion, and the current ratio increased to 189.0%, from 174.0%.

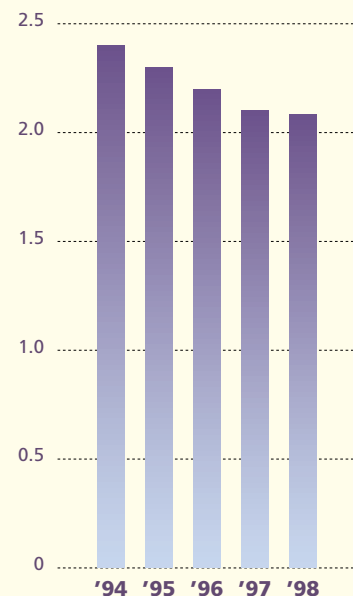
Total Assets
(Billion ¥)



Shareholders' Equity, Net
(Billion ¥)



R&D Expenditures
(Billion ¥)



Consolidated Balance Sheets



Kikkoman Corporation and Consolidated Subsidiaries
December 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Current assets:			
Cash	¥ 19,539	¥ 31,450	\$ 168,437
Marketable securities (Note 4)	1,941	3,923	16,730
Receivables:			
Trade notes and accounts receivable	45,671	44,078	393,715
Allowance for doubtful receivables	(702)	(755)	(6,056)
	44,969	43,323	387,659
Inventories (Note 5)	24,341	23,054	209,837
Other current assets	4,069	3,823	35,087
Total current assets	94,859	105,573	817,750
Property, plant and equipment, at cost:			
Land	16,338	16,538	140,842
Buildings and structures	60,372	56,161	520,444
Machinery and equipment	119,608	114,177	1,031,107
Vehicles	1,143	1,328	9,855
Other	11,369	10,780	98,011
Construction in progress	1,321	6,022	11,386
	210,151	205,006	1,811,645
Less: Accumulated depreciation	(125,996)	(119,775)	(1,086,173)
Property, plant and equipment, net	84,155	85,231	725,472
Investments and other assets:			
Investments in securities (Note 4)	4,567	4,667	39,369
Investments in and advances to unconsolidated subsidiaries and affiliates	22,079	20,217	190,337
Intangible assets	9,251	10,141	79,746
Other assets	4,156	4,466	35,832
Total investments and other assets	40,053	39,491	345,284
Translation adjustments	2,112	—	18,211
Total assets	¥221,179	¥230,295	\$1,906,717

See accompanying notes to consolidated financial statements.



LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Current liabilities:			
Short-term bank loans	¥ 14,206	¥ 15,852	\$ 122,466
Current portion of long-term debt (Note 6)	1,100	10,625	9,487
Trade notes and accounts payable	13,063	12,321	112,616
Other accounts payable	14,656	14,161	126,349
Accrued expenses	609	659	5,249
Accrued income taxes (Note 8)	2,713	2,573	23,392
Other current liabilities	3,845	4,489	33,132
Total current liabilities	50,192	60,680	432,691
Long-term liabilities:			
Long-term debt (Note 6)	23,480	24,230	202,411
Retirement allowances	23,215	23,631	200,133
Deposits received	13,446	13,877	115,917
Other long-term liabilities	1,711	1,759	14,744
Total long-term liabilities	61,852	63,497	533,205
Translation adjustments	—	713	—
Minority interests	345	400	2,973
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized: 300,000,000 shares			
Issued: 1998—197,202,300 shares	11,599	—	99,995
Issued: 1997—197,202,300 shares	—	11,599	—
Additional paid-in capital (Note 7)	5,768	5,768	49,725
Legal reserve (Note 7)	2,900	2,900	24,999
Retained earnings (Note 14)	88,524	84,741	763,137
Total shareholders' equity	108,791	105,008	937,856
Treasury stock, at cost:			
1998—1,229 shares	(1)	—	(8)
1997—4,303 shares	—	(3)	—
Shareholders' equity, net	108,790	105,005	937,848
Contingent liabilities (Note 11)			
Total liabilities and shareholders' equity	¥221,179	¥230,295	\$1,906,717

Consolidated Statements of Income



Kikkoman Corporation and Consolidated Subsidiaries
Years ended December 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Net sales	¥229,476	¥214,338	\$1,978,238
Cost of sales	135,621	125,834	1,169,144
Gross profit	93,855	88,504	809,094
Selling, general and administrative expenses (Note 9)	83,229	79,138	717,493
Operating income	10,626	9,366	91,601
Other income (expenses):			
Interest and dividend income	830	845	7,158
Interest expense	(1,496)	(1,435)	(12,900)
Loss on liquidation of unconsolidated subsidiaries	—	(574)	—
Other, net	(946)	1,757	(8,158)
	(1,612)	593	(13,900)
Income before income taxes, minority interests, amortization and equity in earnings	9,014	9,959	77,701
Income taxes (Note 8):			
Current	4,597	4,656	39,628
Deferred	15	(20)	130
	4,612	4,636	39,758
Income before minority interests, amortization and equity in earnings	4,402	5,323	37,943
Minority interests in earnings of consolidated subsidiaries	(3)	(16)	(26)
Amortization of excess of net assets acquired over cost	(25)	—	(214)
Equity in earnings of unconsolidated subsidiaries and affiliates	845	404	7,286
Net income (Note 12)	¥ 5,219	¥ 5,711	\$ 44,989

See accompanying notes to consolidated financial statements.



	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Common stock:			
Balance at beginning and end of year (1998—197,202,300 shares; 1997—197,202,300 shares)	¥11,599	¥11,599	\$ 99,995
Additional paid-in capital (Note 7):			
Balance at beginning and end of year	¥ 5,768	¥ 5,768	\$ 49,725
Legal reserve (Note 7):			
Balance at beginning and end of year	¥ 2,900	¥ 2,900	\$ 24,999
Retained earnings (Note 14):			
Balance at beginning of year	¥84,741	¥80,492	\$730,524
Add:			
Adjustment to retained earnings at beginning of year for inclusion in consolidation or the equity method of subsidiaries and affiliates	—	(25)	—
Net income	5,219	5,711	44,989
Deduct:			
Cash dividends paid	(1,381)	(1,381)	(11,900)
Bonuses to directors and statutory auditors	(55)	(56)	(476)
Balance at end of year	¥88,524	¥84,741	\$763,137

See accompanying notes to consolidated financial statements.

1 Basis of Preparation

KIKKOMAN CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of the countries of their domicile. The accompanying consolidated financial statements, which have been prepared in accordance with accounting principles and practices generally accepted in Japan and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, include certain additional financial information for the convenience of readers outside Japan.

2 Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in certain unconsolidated subsidiaries and significant affiliates (companies owned 20% to 50%) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits.

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

Differences, not significant in amount, between the cost and the underlying net equity of investments in consolidated subsidiaries, and in unconsolidated subsidiaries and affiliates which are accounted for by the equity method, are charged or credited to income in the year of acquisition.

(b) Foreign currency translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated at the average exchange rates in effect during the year. Except for shareholders' equity, the balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at the historical exchange rates.

Differences arising from translation are presented as "Translation adjustments" in the accompanying consolidated financial statements.

(c) Inventories

Inventories are mainly stated at the lower of cost or market, cost being determined by the average method, except for finished products, work in process and soybean-related ingredients of the Company, and inventories of a consolidated

subsidiary which are stated at the lower of cost or market, cost being determined by the last-in, first-out method.

(d) Depreciation and amortization

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is determined primarily by the declining-balance method, except for two of the Company's factories on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets. Depreciation of property, plant and equipment of the foreign consolidated subsidiaries is computed principally by the straight-line method.

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(e) Leases

Noncancelable lease transactions of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating leases or finance leases), except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, lease transactions of foreign consolidated subsidiaries are generally accounted for as either finance leases or operating leases according to their classification.

(f) Marketable and investment securities

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Securities other than listed securities are stated at cost determined by the moving average method.

(g) Research and development expenses

Research and development expenses are charged to income as incurred.

(h) Income taxes

Income taxes are principally calculated on taxable income and charged to income on an accrual basis. Deferred income taxes are not provided by the Company and its domestic consolidated subsidiaries for timing differences between financial and tax reporting, except for those with respect to the elimination of unrealized intercompany profits and other adjustments for consolidation purposes. Foreign consolidated subsidiaries generally recognize deferred income taxes for such timing differences.

(i) Retirement allowances and pension plans

The Company's employees are covered by an employee retirement allowances plan and an employee pension plan. The employee retirement allowances plan provides for a lump-sum payment, payable upon mandatory retirement or earlier termination of employment, based on the approximate rate of pay at the time of termination, years of service and certain other factors. The employee pension plan, which is noncontributory and funded, was introduced to cover one-half of the benefits under the retirement allowances plan for employees who retire at the



mandatory retirement age with 20 or more years of service. The assets of the pension plan of the Company at July 31, 1998, the most recent valuation date, were ¥14,902 million (\$128,466 thousand). The past service cost of the Company's pension plan is being funded at an annual rate of 50%.

All employees of consolidated subsidiaries are covered by pension plans.

The liability for retirement allowances is stated at the present value of the amount which would be required to be paid if all eligible employees involuntarily terminated their employment at the balance sheet date, less the amounts expected to be covered by the pension plan, plus the unamortized balance of the prior service cost in the pension plan.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement allowances plans. Provision for retirement allowances for these officers has been made at estimated amounts.

(j) Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. See Note 14.

3 U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥116=US\$1, the approximate rate of exchange on December 31, 1998. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4 Marketable and Investment Securities

The book and related aggregate market values of the current and noncurrent marketable securities held by the Company at December 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Current:			
Carrying value	¥ 918	¥ 902	\$ 7,915
Aggregate market value	5,959	5,591	51,372
Net unrealized gains	¥ 5,041	¥ 4,689	\$ 43,457
Noncurrent:			
Carrying value	¥ 3,724	¥ 3,801	\$ 32,099
Aggregate market value	19,380	25,665	167,067
Net unrealized gains	¥15,656	¥21,864	\$134,968

5 Inventories

Inventories at December 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Merchandise	¥ 9,515	¥ 7,772	\$ 82,027
Finished products	4,164	5,125	35,896
Work in process	6,726	6,493	57,979
Ingredients and supplies	3,936	3,664	33,935
	¥24,341	¥23,054	\$209,837

6 Long-Term Debt

Long-term debt at December 31, 1998 and 1997 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
1.9% unsecured convertible bonds, payable in yen, due 1998	¥ —	¥ 9,921	\$ —
1.6% unsecured convertible bonds, payable in yen, due 2000	10,000	10,000	86,207
1.7% unsecured convertible bonds, payable in yen, due 2002	10,000	10,000	86,207
Loans from banks	4,580	4,934	39,484
	24,580	34,855	211,898
Less: Current portion	1,100	10,625	9,487
	¥23,480	¥24,230	\$202,411



The conversion prices and periods of the convertible bonds are as follows:

	Conversion price per share at December 31, 1998	Period (up to and including)
1.6% convertible bonds due 2000	¥969.50	December 28, 2000
1.7% convertible bonds due 2002	969.50	December 26, 2002

The indentures of the 1.6% and 1.7% unsecured convertible bonds provide that the cumulative amount of cash dividends which can be paid subsequent to December 1993, may not exceed the aggregate amount of net income, as defined, of the Company reported during that period plus ¥6,500 million (\$56,034 thousand), so long as any of the convertible bonds remain outstanding.

The conversion price of each convertible bond is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all the outstanding convertible bonds.

7 Legal Reserve and Additional Paid-in Capital

In accordance with the Code, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

8 Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 51% for 1998 and 1997. Income taxes of foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of income differ from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

9 Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended December 31, 1998 and 1997 were ¥2,082 million (\$17,949 thousand) and ¥2,098 million, respectively.

10 Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥518 million (\$4,472 thousand) and ¥540 million for the years ended December 31, 1998 and 1997, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 1998 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 467	\$ 4,034
2000 and thereafter	750	6,461
Total	¥1,217	\$10,495

11 Contingent Liabilities

The Company had the following contingent liabilities at December 31, 1998:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted with banks	¥7	\$66

12 Amounts per Share

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the common stock to be issued upon the conversion of convertible bonds.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

	Yen		U.S. dollars
	1998	1997	1998
Net income:			
Basic	¥ 26.46	¥ 28.95	\$0.23
Diluted	24.63	26.47	0.21
Net assets	551.67	532.48	4.76
Cash dividends applicable to the year	7.00	7.00	0.06

13 Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the foods segment, which includes soy sauce and other processed seasonings, sauces, Del Monte processed fruit and vegetables and beverage products, in Japan and abroad. As net sales, operating income and total assets from the foods segment constituted



more than 90% of the consolidated totals for both the years ended December 31, 1998 and 1997, the disclosure of business segment information has been omitted.

Geographical segment information for the Company and its consolidated subsidiaries for the years ended December 31, 1998 and 1997 is as follows:

Year ended December 31, 1998	Millions of yen					Consolidated
	Japan	North America	Other	Total	Eliminations and other	
Sales to third parties	¥164,999	¥54,427	¥10,050	¥229,476	¥ —	¥229,476
Interarea sales and transfers	5,676	1,101	1,396	8,173	(8,173)	—
Total sales	170,675	55,528	11,446	237,649	(8,173)	229,476
Operating expenses	165,522	50,274	11,239	227,035	(8,185)	218,850
Operating income	¥ 5,153	¥ 5,254	¥ 207	¥ 10,614	¥ 12	¥ 10,626
Total assets	¥183,297	¥33,971	¥10,187	¥227,455	¥(6,276)	¥221,179

Year ended December 31, 1997	Thousands of U.S. dollars					Consolidated
	Japan	North America	Other	Total	Eliminations and other	
Sales to third parties	\$1,422,408	\$469,201	\$86,629	\$1,978,238	\$ —	\$1,978,238
Interarea sales and transfers	48,930	9,491	12,039	70,460	(70,460)	—
Total sales	1,471,338	478,692	98,668	2,048,698	(70,460)	1,978,238
Operating expenses	1,426,914	433,397	96,887	1,957,198	(70,561)	1,886,637
Operating income	\$ 44,424	\$ 45,295	\$ 1,781	\$ 91,500	\$ 101	\$ 91,601
Total assets	\$1,580,147	\$292,849	\$87,823	\$1,960,819	\$(54,102)	\$1,906,717

Year ended December 31, 1997	Millions of yen					Consolidated
	Japan	Foreign	Total	Eliminations and other		
Sales to third parties	¥158,642	¥55,696	¥214,338	¥ —	¥214,338	
Interarea sales and transfers	5,838	2,762	8,600	(8,600)	—	
Total sales	164,480	58,458	222,938	(8,600)	214,338	
Operating expenses	159,725	53,862	213,587	(8,615)	204,972	
Operating income	¥ 4,755	¥ 4,596	¥ 9,351	¥ 15	¥ 9,366	
Total assets	¥192,809	¥45,155	¥237,964	¥(7,669)	¥230,295	

Corporate assets included under the column heading "Eliminations and other" amounted to ¥2,112 million (\$18,211 thousand) at December 31, 1998 and represented translation adjustments.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the year ended December 31, 1998 are summarized as follows:

	Millions of Yen		
	North America	Other	Total
Overseas sales	¥54,845	¥13,837	¥ 68,682
Consolidated net sales			229,476

	Thousands of U.S. dollars		
	North America	Other	Total
Overseas sales	\$472,806	\$119,284	\$ 592,090
Consolidated net sales			1,978,238
Ratio of overseas sales to consolidated net sales	23.9%	6.0%	29.9%

Overseas sales for the year ended December 31, 1997 totaled ¥60,114 million, or 28.0%, of consolidated net sales.

14 Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended December 31, 1998, were approved at a shareholders' meeting held on March 30, 1999:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.00=\$0.06 per share)	¥1,380	\$11,900
Bonuses to directors and statutory auditors	46	397
	¥1,426	\$12,297

The Board of Directors

KIKKOMAN CORPORATION

We have examined the consolidated balance sheets of KIKKOMAN CORPORATION and its consolidated subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of KIKKOMAN CORPORATION and its consolidated subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 1998 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

March 30, 1999

Showa Cta & Co.

Ideally situated close to soybean-growing regions as well as the Edo River, which provided a convenient transportation route for consumers in or near Edo, or present-day Tokyo, Noda has been well-known for its soy sauce production since the Edo period. In December 1917, eight family companies merged to form Noda Shoyu Co., Ltd., a company with capital of ¥7 million and the predecessor of Kikkoman Corporation.

1925 April

Noda Shoyu Co., Ltd., absorbs Noda Shoyu Jozo Co., Ltd., Manjo Mirin Co., Ltd., and Nippon Shoyu Co., Ltd., through a merger.

1930 August

The Takasago soy sauce production plant (formerly the Kansai Plant) is constructed near Osaka.

1957 June

Kikkoman International Inc. is established in San Francisco, California, in the United States.

1961 July

Kikko Food Industries Co., Ltd., is established. In July 1991, the company becomes Nippon Del Monte Corporation.

1962 February

Tone Beverage Co., Ltd., is established. In February 1963, the company becomes Tone Coca-Cola Bottling Co., Ltd.

1962 October

Katsunuma Yoshu Co., Ltd., is established. In March 1964, the company becomes Mann's Wine Co., Ltd.

1964 October

Noda Shoyu Co., Ltd., is renamed Kikkoman Shoyu Co., Ltd.

1969 June

Kikkoman invests in Japan Food Corporation, of the United States. In June 1978, the company becomes JFC International Inc.

1970 March

Kikkoman invests in Pacific Trading Co., Ltd.

1972 March

Kikkoman Foods, Inc., is established in Walworth, Wisconsin, in the United States.

1974 February

Kikkoman Restaurant, Inc., is established.

1979 March

Kikkoman Trading Europe GmbH is established in Neuss, in Germany.

1980 October

The Company takes on its present name, Kikkoman Corporation.

1983 January

Kikkoman Ajinomongi Co., Ltd., is established.

1983 June

Kikkoman (S) Pte. Ltd., a production facility, is established in Singapore.

1983 October

Kikkoman Business Development Inc. is established.

1986 August

New *shoyu* production facilities come on stream at Kikkoman's Chitose Plant, in Hokkaido.

1990 January

Kikkoman buys perpetual marketing rights for the Del Monte brand in the Asian-Pacific region, excluding the Philippines.

1990 February

A joint venture company, President Kikkoman Inc., is established to produce soy sauce in Tainan, in Taiwan.

1996 April

Kikkoman establishes Kikkoman Foods Europe B.V., Europe's first soy sauce manufacturer, located in Hoogezand-Sappemeer, in the Netherlands.

1996 May

Production of *shochu*, a clear Japanese spirit, commences at a new facility of the Ojima Plant.

1997 March

Kikkoman holds a ground-breaking ceremony for its second U.S. soy sauce production plant, in Folsom, California, in the United States.

1997 October

Kikkoman Foods Europe B.V. begins operations at its plant.

1998 October

The second manufacturing plant of Kikkoman Foods, Inc., in Folsom, California, begins shipments.

(As of April 1999)

KIKKOMAN CORPORATION

Head Office

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Tel: +81 (0471) 23-5111
Fax: +81 (0471) 23-5200

Tokyo Head Office

International Operations Division
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Tel: +81 (03) 5521-5360
Fax: +81 (03) 5521-5359

Plants: Noda, Takasago, Chitose,
Nagareyama, and Ojima
Research & Development Division: Noda

DOMESTIC

Nippon Del Monte Corporation*

4-13 Koami-cho, Nihonbashi,
Chuo-ku, Tokyo 103-0016, Japan
Tel: +81 (03) 3669-2877

Mann's Wine Co., Ltd.*

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Tel: +81 (03) 3507-7432

Pacific Trading Co., Ltd.*

Shibaura Maekawa Bldg.,
16-20, Shibaura 3-chome,
Minato-ku, Tokyo 108-0023, Japan
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Seishin Corporation*

Nihonbashi FK Bldg., 3F,
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Tel: +81 (03) 3669-2876

Sobu Butsuryu Co., Ltd.

236 Noda, Noda-shi, Chiba 278-8691, Japan
Tel: +81 (0471) 25-5151

Sobu Service Center Inc.

236 Noda, Noda-shi, Chiba 278-0037, Japan
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Kikkoman Marketing Center Co., Ltd.

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Chiyoda-ku, Tokyo 101-0054, Japan
Tel: +81 (03) 3233-5661

Kikkoman Restaurant, Inc.

4-13 Koami-cho, Nihonbashi,
Chuo-ku, Tokyo 103-0016, Japan
Tel: +81 (03) 3639-1887

Manns Wine Pub Co., Ltd.

4-13 Koami-cho, Nihonbashi,
Chuo-ku, Tokyo 103-0016, Japan
Tel: +81 (03) 3639-1887

Kikkoman Ajinomingei Co., Ltd.

339 Noda, Noda-shi, Chiba 278-8601, Japan
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Kikkoman Business Development Inc.

339 Noda, Noda-shi, Chiba 278-8601, Japan
Tel: +81 (0471) 23-5041

Tone Coca-Cola Bottling Co., Ltd.*

310 Nakane, Noda-shi, Chiba 278-8686,
Japan
Tel: +81 (0471) 23-1111

OVERSEAS

The Americas

Kikkoman Foods, Inc.*

Headquarters and Wisconsin Plant

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Kikkoman International Inc.*

50 California St., Suite 3600,
San Francisco, California 94111, U.S.A.
Tel: +1 (415) 956-7750
Fax: +1 (415) 956-7760

JFC International Inc.*

540 Forbes Blvd., South San Francisco,
California 94080-2018, U.S.A.
Tel: +1 (650) 871-1660
Fax: +1 (650) 952-3272

Kikkoman Marketing & Planning, Inc.

675 Tollgate Road, Suite G,
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Tel: +1 (847) 622-9540
Fax: +1 (847) 622-9545

KMS Service Inc.

651 Gateway Boulevard, Suite 420,
South San Francisco, California 94080, U.S.A.
Tel: +1 (650) 246-8600
Fax: +1 (650) 952-0455

Japan Food (Hawaii), Inc.*

651 Ilalo St., Honolulu,
Hawaii 96813, U.S.A.
Tel: +1 (808) 537-9528
Fax: +1 (808) 526-0389

Japan Food Canada Inc.*

1880 Bonhill Road, Mississauga,
Ontario L5T 1C4, Canada
Tel: +1 (905) 564-5511
Fax: +1 (905) 564-6644

Europe

Kikkoman Foods Europe B.V.*

De Vosholen 100, 9611 TG
Sappemeer, The Netherlands
Tel: +31 (0598) 399898
Fax: +31 (0598) 399988

Kikkoman Trading Europe GmbH*

Heerdter Lohweg 61,
D-40549 Düsseldorf, Germany
Tel: +49 (0211) 5375940
Fax: +49 (0211) 5379555

JFC International (Europe) GmbH*

Heerdter Lohweg 57-59,
D-40549 Düsseldorf, Germany
Tel: +49 (0211) 596087
Fax: +49 (0211) 592827

Asia

Kikkoman (S) Pte. Ltd.*

7 Senoko Crescent, Singapore 758263
Tel: +65-758-8822
Fax: +65-758-3016

Kikkoman Trading (S) Pte. Ltd.*

583 Orchard Rd., Forum #13-02/03,
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JFC Hong Kong Limited*

Block B. 1/F., Eastern Sea Industrial Bldg.,
48-56, Tai Lin Pai Road, Kwai Chung, N.T.,
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President Kikkoman Inc.

7, Ta Ying Village, Hsin Shih Hsiang,
Tainan, Taiwan
Tel: +886 (06) 5997995
Fax: +886 (06) 5997983

Oceania

Kikkoman Australia Pty. Limited

80 Arthur St., North Sydney,
N.S.W. 2060, Australia
Tel: +61 (02) 9923-2533
Fax: +61 (02) 9923-2050

Japan Food Corp. (Aust.) Pty. Limited*

Unit 10, 175 Gibbes St.,
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Tel: +61 (02) 9417-7566
Fax: +61 (02) 9417-5972

*Consolidated subsidiary

Note: Numbers preceded by "+" are country codes.

Home page address: <http://www.kikkoman.co.jp>

(As of April 1999)

Yuzaburo Mogi
President and
Chief Executive Officer

Hyozaemon Takanashi
Executive Vice President

Kenzaburo Mogi
Executive Managing Director

Minato Ishii
Executive Managing Director

Nobuyuki Enokido
Executive Managing Director

Tatsuo Komuro
Managing Director

Michio Miyaji
Managing Director

Kaichiro Someya
Managing Director

Kiyoshi Omori
Managing Director

Tomoyuki Oguri
Director

Noboru Miki
Director

Takashi Ushiku
Director

Shigetaka Ishii
Director

Yoshinobu Ito
Director

Mitsuo Someya
Director

Toru Kumagai
Director

Hideaki Imanari
Director

Kenzaburo Mogi
Director

Teruo Taniguchi
Director

Hiroshi Yanagimoto
Director

Hiroshi Takamatsu
Director

Tadao Kondo
Director

Kakuji Nishiyama
Director

Asao Kawamura
Statutory Auditor

Tsuneo Iida
Statutory Auditor

Reiichi Hisamoto
Statutory Auditor

Tomitoshi Ueno
Statutory Auditor

Name
Kikkoman Corporation

Head Office
339 Noda, Noda-shi,
Chiba 278-8601, Japan

Date of Establishment
December 7, 1917

Paid-in Capital
¥11,599,398,094

Number of Shares
Authorized: 300,000,000
Issued and outstanding:
197,202,300

Number of Employees
2,868

Stock Exchange Listings
Tokyo, Osaka, Niigata

Transfer Agent
Mitsubishi Trust & Banking Corp.
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-0005

**Stock Price Range
on the Tokyo Stock Exchange**
Fiscal 1998:
High: ¥855 Low: ¥620
Fiscal 1997:
High: ¥821 Low: ¥580
Fiscal 1996:
High: ¥898 Low: ¥670

Business Activities

- Production and marketing of soy sauces, sauces, tomato ketchup, and related food seasonings and flavorings
- Production and marketing of *mirin* (sweet sake for cooking), fruit liquor, *shochu* (a clear Japanese spirit), and other sake and wine
- Production and marketing of carbonated drinks, juices, and other beverages
- Production and marketing of processed agricultural and marine food products and livestock feed
- Production and marketing of medicines, medical reagents, industrial-use enzymes, and other chemicals
- Development and marketing of production machinery and automated systems for food, medicines, and livestock feed
- Management of restaurants and coffee shops
- Administration of athletic clubs, swimming schools, and other sports facilities
- Leasing and management of real estate and car parking centers
- Operation of delivery trucks and warehouse facilities
- Production and marketing of plant seedlings, compost, and garden fertilizers and provision of gardening advisory services
- Environmental health monitoring and testing activities and certification

(As of April 1999)



Kikkoman Corporation

Head Office

339 Noda, Noda-shi, Chiba 278-8601, Japan

Tokyo Head Office

1-1, Nishi-Shinbashi 2-chome,
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