

Consolidated Financial Report 2007

Fiscal year ended March 31, 2007

Kagome Co., Ltd

Management's Discussion and Analysis

Forward-looking statements in this document represent the best judgment of the Kagome Group as of June 21, 2007.

(1) Significant Accounting Policies and Estimates

The consolidated financial statements of the Kagome Group have been prepared in accordance with corporate accounting standards generally recognized as fair and appropriate in Japan. Estimates used in the preparation of the consolidated financial statements that may affect the reported amounts of assets and liabilities on the closing date and the reported revenues and expenses for the reporting period are made on the basis of factors that are deemed reasonable in light of past performance and conditions. However, as estimates invariably involve uncertainties, actual results may differ from the estimates.

(2) Analysis of Consolidated Operating Results for the Year Ended March 31, 2007

1) Net Sales

Consolidated net sales in the fiscal year ended March 31, 2007, were ¥187,004 million, an increase of ¥20,548 million (12.3%) from the previous fiscal year. The principal factors contributing to the increase were the favorable development of sales of vegetable beverages, notably *Yasai Ichinichi Kore Ippon* and *Yasai Seikatsu 100 Murasaki no Yasai*, which increased 25.1% or ¥16,140 million from the previous year to ¥80,519 million, and strong sales of lactic acid beverages, primarily *Shokubutsusei Nyusankin Labre*, which rose 60.9% or ¥5,144 million to ¥13,597 million.

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥96,342 million, an increase of 14.4% or ¥12,103 million year on year. The cost of sales ratio increased 0.9 percentage points from 50.6% for the previous year to 51.5%. The principal factor contributing to the increase was the higher cost of raw materials procured overseas owing to yen depreciation.

As a result, gross profit increased 10.3% or ¥8,445 million year on year to ¥90,662 million. The gross profit ratio decreased 0.9 percentage points from 49.4% for the previous year to 48.5%.

3) Selling, General, and Administrative Expenses and Operating Income

Selling, general, and administrative expenses in the fiscal year under review increased 8.2% or ¥6,114 million from the previous year to ¥81,076 million. The ratio of SG&A expenses to net sales fell 1.6 percentage points to 43.4%; the improvement was attributable to the increase in net sales and higher marginal income owing to a decrease in the ratio of variable expenses (notably sales promotion expenses) to sales, despite increases of ¥820 million and ¥1,281 million, respectively, in advertising expenses and personnel expenses, which are fixed expenses.

The ratio of sales promotion expenses to sales improved 1.1 percentage points from 18.0% for the previous year to 16.9% as a result of the continued impact of an ongoing effort to curb sales promotion expenses. The principal reason for the increase

in advertising expenses was the further establishment of *Shokubutsusei Nyusankin Labre* in the market.

As a result of these developments, operating income increased 32.1% or ¥2,330 million from the previous year to ¥9,586 million. The ratio of operating income to net sales improved 0.7 percentage points from 4.4% to 5.1%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review increased ¥110 million from the previous year to ¥754 million, while other expenses increased ¥979 million to ¥2,044 million. The principal reasons for the increase in other expenses were increases in the loss on disposal of inventories and investment loss on equity method concerning vegetable farms and overseas affiliates.

As a result, ordinary income increased 21.4% or ¥1,461 million from the previous year to ¥8,296 million. The ratio of ordinary income to net sales increased 0.3 percentage points from 4.1% to 4.4%.

5) Extraordinary Gain and Loss

Extraordinary gain decreased ¥123 million from the previous year to ¥104 million, principally due to a decrease in the gain on sales of land and other fixed assets. Extraordinary loss decreased ¥74 million to ¥726 million.

The Company applied the Accounting Standards for Impairment of Fixed Assets and recorded an impairment loss of ¥152 million with respect to beverage production facilities of subsidiary Kagome, Inc., whose market value has fallen substantially lower than book value.

6) Income Taxes and Net Income

Income taxes increased ¥1,162 million from the previous year to ¥3,835 million. The effective tax rate after applying deferred tax accounting was 50.0%. This was mainly attributable to consolidated subsidiaries to which deferred tax accounting is not applicable and to losses in the equity value of affiliates.

As a result, net income in the fiscal year ended March 31, 2007, increased ¥469 million from the previous year to ¥4,086 million.

(3) Analysis of Assets and Liabilities

1) Assets

Total assets were ¥150,561 million at the end of the fiscal year under review, an increase of 17.0% or ¥21,847 million from the previous fiscal year-end.

Current Assets

Current assets were ¥87,632 million at the fiscal year-end, having increased 31.1% or ¥20,813 million from the previous fiscal year-end. Cash and cash equivalents were ¥29,981 million, an increase of ¥15,071 million.

The principal factors contributing to the increase in current assets were an increase of 61.0% or ¥3,036 million in cash and deposits to ¥8,015 million due to the issuing of new share as a result of a capital increase subscribed by Asahi Breweries, Ltd. and an increase of 122.7% or ¥12,182 million in investment securities to ¥22,113 million. These funds will be applied

principally for the start-up of production at a Kanto production base for chilled beverages and investment in new businesses.

Notes and accounts receivable increased ¥3,755 million from the end of the previous fiscal year to ¥28,834 million.

Inventories increased ¥1,191 million to ¥15,831 million. Inventory turnover (based on the average of beginning and ending inventories) decreased to 1.90 months from 1.97 months at the previous fiscal year-end.

With regard to derivative receivables, although the Company uses financial instruments to hedge against future cash flow uncertainty in connection with the settlement of imported purchases, it applies hedge accounting and defers recognition of unrealized gains or losses on financial instruments. As unrealized gains or losses on applicable financial instruments at the previous fiscal year-end amounted to a gain of ¥4,804 million, the Company recorded derivative receivables and deferred hedge gains in this amount. As unrealized gains or losses on applicable financial instruments at the end of the fiscal year under review amounted to a gain of ¥5,234 million, the Company recorded derivative receivables in this amount. However, owing to the application of Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Number 5) and Guidelines for Application of Presentation of Net Assets in the Balance Sheet (Guidelines for Corporate Accounting Standards Article 8) beginning in the fiscal year under review, the Company recorded deferred hedge gains after deduction of the tax effect of ¥3,125 million in Total Shareholders' Equity.

Property, Plant, and Equipment (After Accumulated Depreciation)

Property, plant, and equipment at the fiscal year-end were ¥45,256 million, having increased ¥3,138 million from the previous fiscal year-end. Principal capital investment during the fiscal year included ¥1,653 million for new construction of beverage and food production facilities at the Kagome Nasu Plant (Tochigi Prefecture) and ¥3,943 million for expansion of beverage production facilities at Kagome Labio (Aichi Prefecture).

Intangible Assets

Intangible assets at the fiscal year-end were ¥2,086 million, having decreased ¥190 million from the previous fiscal year-end.

Investments and Other Assets

Investments and other assets at the fiscal year-end were ¥15,586 million, having decreased ¥1,914 million from the previous fiscal year-end. The principal factors contributing to the decrease were the inclusion of Kagome (Hangzhou) Foods Co., Ltd. in the scope of consolidation during the fiscal year and a decrease of ¥974 million in unrealized gains on investment securities.

2) Liabilities and Shareholders' Equity

Liabilities

The total of current liabilities and long-term liabilities at the end of the fiscal year under review were ¥58,162 million, having decreased ¥32 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥41,665 million, having increased ¥2,558 million from the previous fiscal year-end. Notes and accounts payable increased ¥4,048 million from the previous year to ¥17,724 million. Short-term borrowings and

current maturities of long-term debt increased ¥614 million and ¥1,000 million, respectively, to ¥2,385 million and ¥2,000 million. Accrued income taxes decreased ¥2,275 million to ¥2,001 million due to the payment during the year under review of an interim tax payment of ¥2,461 million, whereas the Company did not make an interim tax payment in the previous fiscal year. Due to the application of new accounting standards mentioned above, in the fiscal year under review the Company began recording deferred hedge gains after deferred tax in Total Shareholders' Equity.

Long-Term Liabilities

Long-term liabilities at the fiscal year-end decreased ¥2,590 million from the previous year to ¥16,496 million. Long-term borrowings decreased ¥1,878 million to ¥7,357 million owing to the transfer to current liabilities of ¥2,000 million of ¥10,000 million procured during the second half of fiscal 2004 by means of a syndicate loan scheduled for repayment in fiscal 2007 (balance of ¥9,000 million as of March 31, 2007).

Total Shareholders' Equity

Owing to the application of the Accounting Standard for Presentation of Net Assets in the Balance Sheet during the fiscal year under review, total shareholders' equity increased ¥19,011 million from the previous fiscal year-end to ¥92,399 million when calculated according to the above-mentioned standards.

Common stock increased ¥8,300 million from the previous fiscal year-end to ¥19,985 million, and the capital surplus increased ¥8,300 million to ¥23,733 million. The reason for the increases was new share issuance of 10 million shares due to a capital increase through third-party allocation in line with an operating and capital alliance with Asahi Breweries, Ltd. announced on February 6, 2007. Retained earnings increased ¥2,494 million from the previous fiscal year-end to ¥41,316 million.

(4) Medium-Term Business Strategy

In accordance with the Kagome Renaissance Plan, which has been implemented since 1998, the Kagome Group has engaged in management in accordance with a policy of pursuing growth through a corporate renaissance. The plan has progressed favorably, and sales have expanded from ¥113.4 billion in fiscal 1998 to ¥187 billion in fiscal 2006, an average growth rate of 6.4%. In recent developments, since fiscal 2004 the Group has implemented a policy of bringing the Kagome Renaissance Plan to a successful conclusion by means of Kagome brand value management and has worked to realize three management innovations to realize a powerful corporate group: 1) the creation of new demand, 2) sustainable profitability, and 3) a corporate culture energized by individual initiative.

CONSOLIDATED BALANCE SHEETS

Japanese Yen (Millions) US\$ (Thousands)

Assets	FY2005 March 31, 2006		FY2006 March 31, 2007		increase or decrease vs FY2005	FY2006 March 31, 2007
	Amount	% vs total	Amount	% vs total		Amount
Current assets:						
Cash and deposits	4,979		8,015		3,036	67,901
Notes and accounts receivable	25,078		28,834		3,755	244,258
Investment securities	9,931		22,113		12,182	187,326
Inventories	14,640		15,831		1,191	134,111
Deferred income taxes	3,222		1,678		(1,544)	14,220
Derivative receivables	4,804		5,234		430	44,345
Other current assets	4,227		5,963		1,735	50,513
Allowance for doubtful accounts	(65)		(40)		24	(343)
Total current assets	66,818	51.9	87,632	58.2	20,813	742,332
Property, plant and equipment:						
Buildings and structures	32,275		32,714			277,122
Accumulated depreciation	18,529		19,380			164,174
Net booking value	13,746		13,333		(412)	112,948
Machinery and vehicles	54,919		58,385			494,581
Accumulated depreciation	40,502		40,997			347,289
Net booking value	14,417		17,387		2,970	147,292
Tools and equipments	4,811		4,972			42,118
Accumulated depreciation	3,936		4,038			34,206
Net booking value	874		934		59	7,912
Land	12,372		12,366		(5)	104,760
Construction in progress	708		1,234		526	10,456
Total property, plant and equipment	42,118	32.7	45,256	30.0	3,138	383,369
Property in trademarks	199		170		(29)	1,445
Software	1,919		1,720		(199)	14,571
Other intangible assets	156		195		38	1,657
Total intangible assets	2,276	1.8	2,086	1.4	(190)	17,674
Investment securities	13,720		12,613		(1,107)	106,847
Long-term loans receivable	1,149		957		(192)	8,108
Deferred income taxes	135		145		9	1,233
Other assets	2,724		2,074		(650)	17,576
Allowance for doubtful accounts	(230)		(204)		26	(1,732)
Total investments and other assets	17,500	13.6	15,586	10.4	(1,914)	132,031
Total fixed assets	61,895	48.1	62,929	41.8	1,033	533,073
Total assets	128,714	100.0	150,561	100.0	21,847	1,275,405

Japanese Yen (Millions) US\$ (Thousands)

Liabilities, Minority Interests and Shareholders' Equity	FY2005 March 31, 2006		FY2006 March 31, 2007		increase or decrease vs FY2005	FY2006 March 31, 2007
	Amount	% vs total	Amount	% vs total		Amount
Current liabilities:						
Notes and accounts payable	13,676		17,724		4,048	150,146
Short-term borrowings	1,771		2,385		614	20,210
Short-term borrowings (less than 1 year)	1,000		2,000		1,000	16,942
Accrued liabilities	10,370		12,356		1,986	104,674
Accrued income taxes	4,276		2,001		(2,275)	16,952
Accrued bonuses	1,685		2,554		868	21,639
Director's accrued bonuses	—		72		72	612
Profit on deferred hedge	4,804		—		(4,804)	—
Other current liabilities	1,523		2,570		1,046	21,772
Total current liabilities	39,107	30.4	41,665	27.7	2,558	352,947
Long-term liabilities:						
Long-term borrowings	9,236		7,357		(1,878)	62,324
Deferred income taxes	2,392		1,970		(421)	16,695
Employees' retirement benefits	2,681		2,632		(48)	22,302
Goodwill	202		99		(103)	839
Other liabilities	4,575		4,436		(138)	37,585
Total long-term liabilities	19,087	14.8	16,496	10.9	(2,590)	139,745
Total liabilities	58,194	45.2	58,162	38.6	(32)	492,692
Minority interests:	1,799					
Minority interests	1,799	1.4	—	—	—	—
Common stock	11,685	9.1	—	—	—	—
Capital surplus	15,433	12.0	—	—	—	—
Retained earnings	38,821	30.1	—	—	—	—
Net unrealized holding gains of securities	3,043	2.4	—	—	—	—
Foreign currency translation adjustments	(237)	(0.2)	—	—	—	—
Treasury stock	(25)	(0.0)	—	—	—	—
Total shareholders' equity	68,720	53.4	—	—	—	—
Total liabilities, minority interests and shareholders' equity	128,714	100.0	—	—	—	—
Common stock	—	—	19,985	13.3	—	169,296
Capital surplus	—	—	23,733	15.8	—	201,045
Retained earnings	—	—	41,316	27.4	—	349,991
Treasury stock	—	—	(33)	(0.0)	—	(284)
Shareholder capital total	—	—	85,001	56.5	—	720,047
Net unrealized holding gains of securities	—	—	2,462	1.6	—	20,862
Gain on deferred hedge	—	—	3,125	2.1	—	26,474
Foreign currency translation adjustments	—	—	(157)	(0.1)	—	(1,333)
Valuation and translation adjustments	—	—	5,430	3.6	—	46,004
Minority interests	—	—	1,966	1.3	—	16,662
Total shareholders' equity	—	—	92,399	61.4	—	782,713
Total liabilities and shareholders' equity	—	—	150,561	100.0	—	1,275,405

U.S.dollar amounts have been translated from Japanese yen at the rate ¥118.05 to U.S.\$1, the exchange rate prevailing on March 31, 2007.

CONSOLIDATED STATEMENTS OF INCOME

Japanese Yen (Millions) US\$ (Thousands)

	FY2005 Apr 1, 2005 to Mar 31, 2006		FY2006 Apr 1, 2006 to Mar 31, 2007		increase or decrease vs FY2005		FY2006 Apr 1, 2006 to Mar 31, 2007
	Amount	% vs net sales	Amount	% vs net sales	Amount	%	Amount
Net sales	166,456	100.0	187,004	100.0	20,548	12.3	1,584,113
Cost of sales	84,239	50.6	96,342	51.5	12,103		816,113
Gross profit	82,217	49.4	90,662	48.5	8,445	10.3	768,000
Selling, general and administrative expenses	74,961	45.0	81,076	43.4	6,114		686,797
Operating income	7,255	4.4	9,586	5.1	2,330	32.1	81,203
Other income							
Interest income	83		134				1,139
Dividend income	152		165				1,403
Amortization of consolidation difference	103		103				874
Foreign exchange gains	91		3				34
Subsidy income	—		171				1,453
Other	212		176				1,492
Total other income	644	0.3	754	0.4	110		6,395
Other expenses							
Interest expense	126		180				1,533
Loss on disposal of inventories	581		1,055				8,944
Investment loss on equity method	120		643				5,454
Other	236		164				1,390
Total other expenses	1,064	0.6	2,044	1.1	979		17,321
Ordinary income	6,834	4.1	8,296	4.4	1,461	21.4	70,277
Extraordinary gain							
Reversal of allowance for doubtful accounts	21		16				143
Gain on sale of fixed assets	206		34				291
Gain on sale of investments in securities	0		52				448
Total extraordinary gain	227	0.1	104	0.1	(123)		881
Extraordinary loss							
Loss on disposal of fixed assets	420		547				4,640
Impairment loss	285		152				1,295
Loss on revaluation of golf club memberships	33		6				57
Loss on revaluation of investments in securities	58		19				165
Loss on sale of investments in securities	3		0				0
Total extraordinary loss	801	0.4	726	0.4	(74)		6,157
Income before income taxes	6,260	3.8	7,673	4.1	1,412	22.6	65,002
Income taxes - current	5,023		4,433				37,554
Income taxes - deferred	(2,350)		(597)				(5,064)
Total income taxes	2,672	1.6	3,835	2.0	1,162	43.5	32,490
Minority interests in subsidiaries	(30)	(0.0)	(248)	(0.1)	(218)	729.3	(2,108)
Net income	3,617	2.2	4,086	2.2	469	13.0	34,621

U.S.dollar amounts have been translated from Japanese yen at the rate ¥118.05 to U.S.\$1, the exchange rate prevailing on March 31, 2007.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japanese Yen (Millions) US\$ (Thousands)

	FY2005 Apr 1, 2005 to Mar 31, 2006	FY2006 Apr 1, 2006 to Mar 31, 2007	increase or decrease vs FY2005	FY2006 Apr 1, 2006 to Mar 31, 2007
	Amount	Amount	Amount	Amount
Cash flows from operating activities				
Income before income taxes	6,260	7,673	1,412	65,002
Depreciation and amortization	5,061	5,525	463	46,805
Impairment loss	285	152	(132)	1,295
Increase (decrease) in accrued bonuses	(162)	867	1,030	7,351
Increase (decrease) in employees' retirement benefits	(329)	(50)	279	(427)
Interest and dividend income	(236)	(300)	(63)	(2,542)
Interest expense	126	180	54	1,533
Foreign exchange losses (gains), net	(91)	(3)	87	(34)
Equity in net loss (income) of affiliates	120	643	523	5,454
Gain on sales of investment securities	(0)	(52)	(52)	(448)
Unrealized losses on investment securities	58	19	(38)	165
Unrealized losses on golf membership	33	6	(27)	57
Gain on sales of property, plant and equipment	(206)	(34)	171	(291)
Loss on disposal of property, plant and equipment	420	547	126	4,640
Decrease (increase) in notes and accounts receivable-trade	(11,521)	(3,744)	7,777	(31,720)
Decrease (increase) in inventories	(1,340)	(1,157)	183	(9,804)
Decrease (increase) in accounts receivable-other	(921)	(1,315)	(394)	(11,142)
Increase (decrease) in notes and accounts payable-trade	2,096	4,039	1,943	34,222
Increase (decrease) in accounts payable-other	2,606	1,884	(721)	15,966
Increase (decrease) in accounts payable-other resulting from transfer to defined contribution pension plans	(315)	—	315	0
Increase (decrease) in accrued expenses	(5)	236	242	2,000
Director bonuses paid	(78)	(84)	(5)	(713)
Other, net	847	10	(836)	91
Subtotal	2,707	15,046	12,339	127,460
Cash received for interest and dividends	239	216	(23)	1,830
Cash paid for interest expense	(118)	(186)	(68)	(1,583)
Cash refunded (paid) for income taxes during the year	(1,515)	(6,995)	(5,479)	(59,256)
Net cash provided by (used in) operating activities	1,312	8,080	6,768	68,452

Japanese Yen (Millions) US\$ (Thousands)

	FY2005 Apr 1, 2005 to Mar 31, 2006	FY2006 Apr 1, 2006 to Mar 31, 2007	increase or decrease vs FY2005	FY2006 Apr 1, 2006 to Mar 31, 2007
	Amount	Amount	Amount	Amount
Cash flows from investing activities				
Purchases of marketable securities and investments	(442)	(252)	190	(2,136)
Proceeds from sales of marketable securities and investments	101	88	(13)	748
Acquisition of property, plant, equipment and other	(7,770)	(7,729)	41	(65,477)
Proceeds from sales of property, plant, equipment and other	272	68	(203)	584
Loans receivable made	(1,457)	(2,300)	(843)	(19,492)
Collection of loans receivable	943	1,600	657	13,562
Other, net	(839)	11	850	94
Net cash provided by (used in) investing activities	(9,192)	(8,513)	678	(72,117)
Cash flows from financing activities				
Proceeds from long-term debt	16,778	5,468	(11,310)	46,322
Repayments of long-term debt	(16,400)	(5,760)	10,639	(48,798)
Redemption of bonds	(715)	—	715	0
Allocation of new shares to a third party	—	16,600	16,600	140,618
Dividends paid	(1,183)	(1,340)	(157)	(11,353)
Dividends paid to minority shareholders	(56)	(55)	0	(471)
Purchase of common stock, net	(7)	(7)	0	(64)
Other, net	5	—	(5)	0
Net cash provided by (used in) financing activities	(1,578)	14,904	16,483	126,255
Effect of exchange rate changes on cash and cash equivalents	91	16	(75)	137
Net increase (decrease) in cash and cash equivalents	(9,366)	14,487	23,854	122,726
Cash and cash equivalents at beginning of year	24,131	14,910	(9,221)	126,307
Net increase in cash and cash equivalents resulting from increase in consolidated subsidiaries	145	583	438	4,944
Cash and cash equivalents at end of year	14,910	29,981	15,071	253,976

U.S.dollar amounts have been translated from Japanese yen at the rate ¥118.05 to U.S.\$1, the exchange rate prevailing on March 31, 2007.