

The background is a vibrant collage of fresh vegetables including green bell peppers, a sliced orange carrot, purple eggplant, and red tomatoes. Overlaid on this are several thick, semi-transparent bands in shades of green, orange, and purple, along with a large white circle that frames the central text.

True to nature,
the flavor of KAGOME

Consolidated Financial Report 2009

Fiscal year ended March 31, 2009

Management's Discussion and Analysis

Forward-looking statements in this document represent the best judgment of the Kagome Group as of June 18, 2009. Certain 2008 financial statement items were reclassified to conform to the presentation for 2009.

(1) Significant Accounting Policies and Estimates

The consolidated financial statements of the Kagome Group have been prepared in accordance with accounting principles generally accepted 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 those expressed or implied herein.

(2) Analysis of Consolidated Operating Results for the Year Ended March 31, 2009

1) Net Sales

Net sales in the fiscal year ended March 31, 2009 were ¥175,134 million, a decrease of ¥25,349 million (12.6%) from the previous fiscal year. Net sales dropped mainly due to changes in the economic and social environment from the economic downturn caused by worldwide financial crisis (which impacted customer behavior in such ways as spawning a cost-saving trend) and loss of the temporary increase in demand for new products during the fiscal year. In particular, sales of vegetable beverage declined due to price revision, changes of consumer preference and diversification of health beverages during the fiscal year. Furthermore, sales of the lactic acid bacteria (LAB) beverage business fell, as manufacture of products containing animal-derived LAB, which had posted a loss, ceased and sales of "Shokubutusei Nyusankin (vegetable-derived LAB) Rabure" decreased in the fiscal year.

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥96,519 million, a decrease of 11.4% or ¥12,434 million on a year-on-year basis. The cost of sales ratio increased 0.8 percentage points from 54.3% for the previous year to 55.1%. The principal factors contributing to this increase were a dip in sales and higher cost of raw materials.

As a result, gross profit decreased 14.1% or ¥12,914 million to ¥78,614 million on a year-on-year basis. The gross profit ratio decreased 0.8 percentage points from 45.7% for the previous year to 44.9%.

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

Selling, general, and administrative ("SG&A") expenses in the fiscal year under review decreased 10.4% or ¥8,575 million from the previous year to ¥74,167 million. The ratio of SG&A expenses to net sales was up 1.1 percentage points to 42.4%. The decrease of SG&A expenses was mainly due to a decline in sales promotion expenses resulting from weak sales and cost reduction activities.

As a result, operating income decreased 49.4% or ¥4,339 million from the previous year to ¥8,786 million. The ratio of operating income to net sales was down 1.9 percentage points from 4.4% to 2.5%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review decreased ¥4 million from the previous year to ¥897 million, while other expenses decreased ¥226 million to ¥1,091 million. The decrease in other expenses is attributed primarily to a decrease in equity in loss of Vegetalia S.p.A., which had been an affiliate until the previous fiscal year and became a newly consolidated subsidiary from the beginning of this fiscal year.

As a result, ordinary income decreased 49.2% or ¥4,117 million from the previous year to ¥4,249 million. The ratio of ordinary income to net sales was down 1.8 percentage points from 4.2% to 2.4%.

5) Extraordinary Gain and Loss

Extraordinary gain increased ¥20 million from the previous year to ¥179 million, principally due to: (1) decrease in gain on sales of fixed assets by ¥151 million to ¥6 million; (2) gain on changes in retirement pension plan for Kagome Labio, a former consolidated subsidiary; and (3) gain on sales of investment securities of ¥62 million.

Extraordinary loss increased ¥1,605 million to ¥2,167 million. This was mainly attributed to: (1) loss on restructuring resulted from the suspension of the beverage business in North America; (2) increase in loss on disposal of fixed assets by ¥579 million to ¥1,136 million principally owing to disposal of the food production line at the Nasu Plant (Tochigi Prefecture); and (3) write-down of investment securities of ¥574 million due to decline in market value.

6) Income Taxes and Net Income

Income taxes decreased ¥3,580 million from the previous year to ¥366 million. The effective tax rate after applying deferred tax accounting was 16.2%. This was mainly attributable to tax loss carryforwards assumed by the effect of merger with Kagome Labio, a former consolidated subsidiary, during the fiscal year for the purpose of improving management speed and customer satisfaction, while loss recorded in foreign subsidiaries increased.

As a result, net income in the fiscal year ended March 31, 2009 decreased ¥2,166 million from the previous year to ¥4,167 million.

(3) Analysis of Assets and Liabilities

1) Assets

Total assets were ¥140,938 million at the end of the fiscal year under review, an increase of 1.6% or ¥2,255 million from the previous fiscal year-end.

Current Assets

Current assets were ¥75,398 million at the fiscal year-end, having increased 8.7% or ¥6,039 million from the previous fiscal year-end. Cash and cash equivalents were ¥16,013 million, a decrease of ¥2,953 million. Notes and accounts receivable decreased ¥2,390 million from the end of the previous fiscal year to ¥23,932 million. Inventories increased ¥4,945 million to ¥24,564 million. Inventory turnover (based on the average of beginning and ending inventories) was up to 2.75 months from 1.98 months at the previous fiscal year-end.

Property, Plant, and Equipment (After Accumulated Depreciation)

Property, plant, and equipment at the fiscal year-end were ¥45,071 million, having decreased ¥2,903 million from the previous fiscal year-end. Principal capital investments during the fiscal year included ¥457 million of the Kagome Kyushu Office (Fukuoka Prefecture) for the reconstruction of its sales office, and ¥203 million of the Kagome Komaki Plant (formerly Kagome Labio, Aichi Prefecture) for expansion of LAB beverage production facilities.

Intangible Assets

Intangible assets at the fiscal year-end were ¥2,415 million, having increased ¥354 million from the previous fiscal year-end.

Investments and Other Assets

Investments and other assets at the fiscal year-end were ¥18,051 million, having decreased ¥1,234 million from the previous fiscal year-end. The principal factor contributing to the decrease was the decrease of investment securities of ¥2,725 million in spite of the increase of loans to affiliates of ¥1,237 million.

2) Liabilities and Net Assets

Liabilities

The total liabilities at the end of the fiscal year under review were ¥53,230 million, having increased ¥4,926 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥37,583 million, having increased ¥4,958 million from the previous fiscal year-end. Short-term bonds increased ¥8,000 million, having increased ¥8,000 million from the previous fiscal year-end while notes and accounts payable and other payable decreased by ¥1,139 million and ¥2,139 million, respectively, from the previous year-end.

Long-Term Liabilities

Long-term liabilities at the fiscal year-end decreased ¥32 million from the previous year to ¥15,647 million. Long-term borrowings increased ¥1,651 million to ¥6,651 million.

Total Net Assets

Net assets at the end of the fiscal year under review were ¥87,707 million, having decreased ¥2,670 million from the previous fiscal year-end. Unrealized gain (loss) on available-for-sale securities decreased ¥1,247 million from the previous year to ¥ (225) million due to decline in market value of investment securities. Foreign currency translation adjustments decreased ¥1,403 million from the previous year to ¥ (1,727) million due to the appreciation of the yen.

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2008 AND 2009

	Millions of Yen				Increase or decrease	Thousands of U.S. dollars
	2008		2009			2009
	Amount	%	Amount	%		Amount
Assets						
Current assets:						
Cash and deposits	¥ 5,863		¥ 6,804		¥ 940	\$ 74,750
Notes and accounts receivable	26,322		23,932		(2,390)	262,904
Marketable securities	7,338		9,233		1,894	101,436
Inventories	19,618		24,564		4,945	269,847
Deferred tax assets	1,569		1,485		(83)	16,323
Derivative assets	—		149		149	1,648
Other current assets	8,738		9,328		590	102,479
Allowance for doubtful accounts	(92)		(100)		(7)	(1,101)
Total current assets	69,359	50.0	75,398	53.5	6,039	828,286
Fixed assets:						
Property, plant and equipment:						
Land	12,190		11,697		(493)	128,499
Buildings and structures	34,379		35,638		1,258	391,504
Machinery, equipment and vehicles	60,229		58,874		(1,354)	646,757
Tools and furniture	5,053		5,062		8	55,611
Lease assets	4,945		4,990		45	54,825
Construction in progress	152		289		136	3,184
	116,951		116,553		(398)	1,280,380
Accumulated depreciation	(68,976)		(71,481)		(2,504)	(785,250)
Property, plant and equipment, net	47,975	34.6	45,071	32.0	(2,903)	495,130
Intangible assets:						
Goodwill	19		213		194	2,342
Property in trademarks	208		159		(48)	1,753
Software	1,589		1,778		188	19,537
Other intangible assets	243		264		20	2,908
Total intangible assets	2,061	1.5	2,415	1.7	354	26,540
Investments and other assets:						
Investment securities	15,010		12,284		(2,725)	134,953
Long-term loans receivable	1,604		2,841		1,237	31,217
Deferred tax assets	584		1,179		595	12,960
Other assets	2,250		1,882		(367)	20,681
Allowance for doubtful accounts	(163)		(136)		26	(1,505)
Total investments and other assets	19,286	13.9	18,051	12.8	(1,234)	198,306
Total fixed assets	69,322	50.0	65,539	46.5	(3,783)	719,976
Total assets	¥ 138,682	100.0	¥ 140,938	100.0	¥ 2,255	\$ 1,548,262

	Millions of Yen					Thousands of U.S. dollars
	2008		2009		Increase or decrease	2009
	Amount	%	Amount	%		Amount
Liabilities						
Current liabilities:						
Notes and accounts payable	¥ 14,170		¥ 13,031		¥ (1,139)	\$ 143,152
Short-term bonds	—		8,000		8,000	87,883
Short-term borrowings	2,487		3,177		690	34,906
Current portion of long-term borrowings	2,000		2,400		400	26,365
Lease obligations	816		760		(56)	8,352
Other payable	10,026		7,887		(2,139)	86,645
Income taxes payable	162		122		(40)	1,341
Accrued bonuses for employees	1,839		1,073		(766)	11,789
Accrued bonuses for directors	73		—		(73)	—
Derivative liabilities	15		—		(15)	—
Other current liabilities	1,032		1,131		98	12,432
Total current liabilities	32,624	23.5	37,583	26.7	4,958	412,865
Long-term liabilities:						
Long-term borrowings	5,000		6,651		1,651	73,074
Lease obligations	2,517		2,277		(239)	25,021
Deferred tax liabilities	1,431		928		(503)	10,195
Liabilities for employees' retirement benefits	2,520		2,379		(141)	26,140
Other liabilities	4,210		3,410		(799)	37,465
Total long-term liabilities	15,679	11.3	15,647	11.1	(32)	171,895
Total liabilities	48,303	34.8	53,230	37.8	4,926	584,760
Net Assets						
Shareholder's equity:						
Common stock	19,985	14.4	19,985	14.2	—	219,548
Capital surplus	23,733	17.1	23,733	16.8	—	260,720
Retained earnings	43,989	31.7	44,496	31.5	506	488,815
Treasury stock	(42)	(0.0)	(200)	(0.1)	(157)	(2,205)
Total shareholder's equity	87,665	63.2	88,014	62.4	349	966,878
Valuation and translation adjustments:						
Unrealized (loss) gain on available-for-sale securities	1,022	0.7	(225)	(0.2)	(1,247)	(2,475)
Deferred gain (loss) on derivatives under hedge accounting	(9)	(0.0)	89	0.1	98	984
Foreign currency translation adjustments	(323)	(0.2)	(1,727)	(1.2)	(1,403)	(18,972)
Total valuation and translation adjustments	689	0.5	(1,862)	(1.3)	(2,552)	(20,463)
Minority interest	2,022	1.5	1,555	1.1	(467)	17,087
Total net assets	90,378	65.2	87,707	62.2	(2,670)	963,502
Total liabilities and net assets	¥ 138,682	100.0	¥ 140,938	100.0	¥ 2,255	\$ 1,548,262

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥91.03 to U.S. \$1, the exchange rate prevailing on March 31, 2009.

2. Certain 2008 balance sheet items were reclassified to conform to the presentation for 2009.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED MARCH 31, 2008 AND 2009

	Millions of Yen					Thousands of U.S. dollars
	2008		2009		Increase or decrease	2009
	Amount	%	Amount	%		Amount
Net sales	¥ 200,483	100.0	¥ 175,134	100.0	¥ (25,349)	\$ 1,923,922
Cost of sales	108,954	54.3	96,519	55.1	(12,434)	1,060,306
Gross profit	91,529	45.7	78,614	44.9	(12,914)	863,616
Selling, general and administrative expenses	82,742	41.3	74,167	42.4	(8,575)	814,756
Operating income	8,786	4.4	4,447	2.5	(4,339)	48,860
Other income						
Interest income	221		155		(65)	1,707
Dividend income	218		247		29	2,717
Amortization of negative goodwill	99		—		(99)	—
Subsidies received	71		47		(24)	520
Other	287		443		155	4,868
Total other income	897	0.5	893	0.5	(4)	9,812
Other expenses						
Interest expense	375		576		201	6,331
Equity in loss of affiliates by the equity method	773		38		(734)	421
Loss on sales of marketable securities	2		—		(2)	—
Depreciation of fixed assets for disposal	—		161		161	1,779
Foreign exchange losses	19		64		44	708
Other	147		250		102	2,749
Total other expenses	1,318	0.7	1,091	0.6	(226)	11,988
Ordinary income	8,366	4.2	4,249	2.4	(4,117)	46,684
Extraordinary gain						
Reversal of allowance for doubtful accounts	—		10		10	112
Gain on sales of fixed assets	158		6		(151)	70
Gain on sales of investment securities	1		62		61	691
Gain on changes in retirement pension plan	—		100		100	1,102
Total extraordinary gain	159	0.1	179	0.1	20	1,975
Extraordinary loss						
Loss on disposal of fixed assets	557		1,136		579	12,481
Effect on the new accounting standards for lease	—		98		98	1,083
Loss on sales of investment securities	0		0		0	2
Write-down of investment securities	3		574		571	6,308
Write-down of golf club memberships	1		22		20	245
Loss on litigation	—		152		152	1,679
Loss on restructuring	—		182		182	2,009
Total extraordinary loss	561	0.3	2,167	1.2	1,605	23,807
Income before income taxes and minority interests	7,964	4.0	2,262	1.3	(5,701)	24,852
Income taxes						
Income taxes - current	1,721		694		(1,026)	7,634
Income taxes - deferred	2,225		(328)		(2,553)	(3,605)
Total income taxes	3,946	2.0	366	0.3	(3,580)	4,029
Minority interests in net loss	(150)	(0.1)	(105)	(0.1)	45	(1,154)
Net income	¥ 4,167	2.1	¥ 2,000	1.1	¥ (2,166)	\$ 21,977

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥91.03 to U.S. \$1, the exchange rate prevailing on March 31, 2009.

2. Certain 2008 balance sheet items were reclassified to conform to the presentation for 2009.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2008 AND 2009

Millions of Yen

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain (Loss) on Available- for-sale- Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority interests	Total Net Assets
Balance, April 1, 2007	¥ 19,985	¥ 23,733	¥ 41,316	¥ (33)	¥ 85,001	¥ 2,462	¥ 3,125	¥ (157)	¥ 5,430	¥ 1,966	¥ 92,399
Cash dividends			(1,493)		(1,493)						(1,493)
Net income			4,167		4,167						4,167
Repurchase of treasury stock				(9)	(9)						(9)
Net change in the year						(1,440)	(3,134)	(166)	(4,740)	55	(4,685)
Balance, March 31, 2008	19,985	23,733	43,989	(42)	87,665	1,022	(9)	(323)	689	2,022	90,378
Cash dividends			(1,493)		(1,493)						(1,493)
Net income			2,000		2,000						2,000
Repurchase of treasury stock				(157)	(157)						(157)
Net change in the year						(1,247)	98	(1,403)	(2,552)	(467)	(3,019)
Balance, March 31, 2009	¥ 19,985	¥ 23,733	¥ 44,496	¥ (200)	¥ 88,014	¥ (225)	¥ 89	¥ (1,727)	¥ (1,862)	¥ 1,555	¥ 87,707

Thousands of U.S. Dollars

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain (Loss) on Available- for-sale- Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority interests	Total Net Assets
Balance, March 31, 2008	\$ 219,548	\$ 260,720	\$ 483,248	\$ (471)	\$ 963,045	\$ 11,231	\$ (100)	\$ (3,553)	\$ 7,578	\$ 22,221	\$ 992,844
Cash dividends			(16,410)		(16,410)						(16,410)
Net income			21,977		21,977						21,977
Repurchase of treasury stock				(1,734)	(1,734)						(1,734)
Net change in the year						(13,706)	1,084	(15,419)	(28,041)	(5,134)	(33,175)
Balance, March 31, 2009	\$ 219,548	\$ 260,720	\$ 488,815	\$ (2,205)	\$ 966,878	\$ (2,475)	\$ 984	\$ (18,972)	\$ (20,463)	\$ 17,087	\$ 963,502

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥91.03 to U.S. \$1, the exchange rate prevailing on March 31, 2009.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2008 AND 2009

	Millions of Yen			Thousands of U.S. dollars
	2008	2009	Increase (decrease)	2009
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 7,964	¥ 2,262	¥ (5,701)	\$ 24,852
Depreciation and amortization	7,471	7,079	(391)	77,772
Effect on the new accounting standards for lease	—	98	98	1,083
Interest and dividend income	(439)	(402)	36	(4,425)
Interest expense	375	576	201	6,331
Decrease in accrued bonuses	(713)	(883)	(170)	(9,704)
Decrease in other provisions	(50)	(96)	(46)	(1,065)
Equity in loss of affiliates by the equity method	773	38	(734)	421
Loss on disposal of fixed assets	557	1,136	579	12,481
Changes in assets and liabilities:				
Decrease in notes and accounts receivable	2,460	2,403	(57)	26,399
Increase in inventories	(3,950)	(5,371)	(1,421)	(59,005)
Decrease in accounts receivable-other	2,092	873	(1,218)	9,593
Decrease in notes and accounts payable	(7,924)	(577)	7,346	(6,345)
Decrease in accounts payable-other	(2,914)	(2,108)	805	(23,164)
(Increase) decrease in other assets	69	(489)	(558)	(5,373)
Increase in other liabilities	168	290	121	3,193
Other increase	198	789	591	8,677
Other decrease	(268)	(289)	(21)	(3,184)
Subtotal	5,870	5,328	(542)	58,537
Cash received from interest and dividend income	508	368	(140)	4,043
Cash paid for interest expense	(376)	(574)	(197)	(6,314)
Cash paid for income taxes	(3,777)	(1,565)	2,211	(17,197)
Cash received from income tax refund	—	580	580	6,380
Net cash provided by operating activities	2,225	4,137	1,911	45,449

	Millions of Yen			Thousands of U.S. dollars
	2008	2009	Increase (decrease)	2009
Cash flows from investing activities:				
Purchases of marketable and investment securities	(5,297)	(12)	5,285	(135)
Proceeds from sales of marketable and investment securities	38	277	239	3,048
Acquisition of fixed assets	(8,527)	(3,678)	4,848	(40,415)
Disbursement for disposal of fixed assets	—	(26)	(26)	(296)
Proceeds from sales of fixed assets	23	158	135	1,742
Disbursement for loans	(3,106)	(2,556)	550	(28,079)
Collection of loans	2,006	192	(1,814)	2,111
Other increase	23	259	236	2,847
Other decrease	(159)	(45)	114	(495)
Net cash used in investing activities	(14,999)	(5,431)	9,568	(59,672)
Cash flows from financing activities:				
Issuance of short-term bonds	—	8,000	8,000	87,883
Proceeds from long-term borrowings	4,600	9,903	5,302	108,791
Repayments of long-term borrowings	(6,696)	(10,622)	(3,925)	(116,690)
Repayments of lease obligations	(810)	(930)	(119)	(10,217)
Proceeds from issuance of new common stock to minority shareholders	364	—	(364)	—
Purchases of stock from minority shareholders	—	(227)	(227)	(2,494)
Dividends paid	(1,483)	(1,478)	4	(16,247)
Dividends paid to minority shareholders	(57)	(54)	3	(593)
Repurchase of treasury stock	(9)	(157)	(148)	(1,734)
Net cash provided by (used in) financing activities	(4,091)	4,433	8,525	48,699
Foreign translation adjustment on cash and cash equivalents	(55)	(200)	(144)	(2,205)
Net increase (decrease) in cash and cash equivalents	(16,922)	2,937	19,859	32,271
Cash and cash equivalents of a newly consolidated subsidiary	—	15	15	168
Cash and cash equivalents at beginning of year	29,981	13,059	(16,922)	143,468
Cash and cash equivalents at end of year	¥ 13,059	¥ 16,013	¥ 2,953	\$ 175,907

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥91.03 to U.S. \$1, the exchange rate prevailing on March 31, 2009.
2. Certain 2008 cash flow statement items were reclassified to conform to the presentation for 2009.

KAGOME CO., LTD