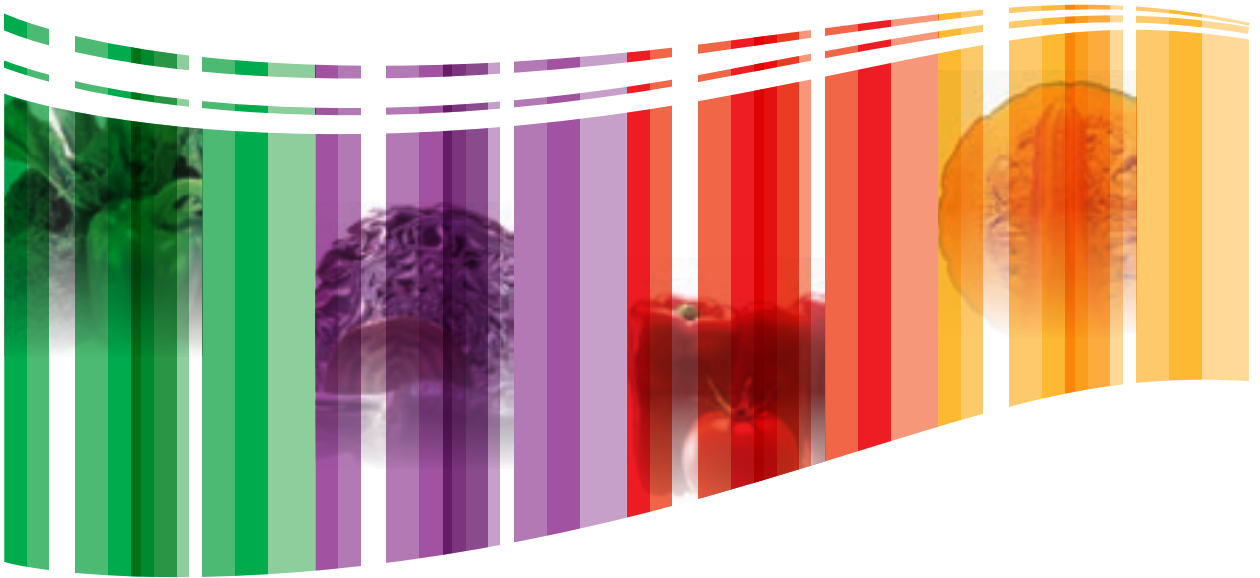




True to nature, the flavor of KAGOME



Consolidated Financial Report

Fiscal year ended March 31, 2010

Management's Discussion and Analysis

Forward-looking statements in this document represent the best judgment of the Kagome Group as of June 18, 2010. Certain 2009 financial statement items were reclassified to conform to the presentation for 2010.

(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 the estimates.

(2) Analysis of Consolidated Operating Results for the Year Ended March 31, 2010

1) Net Sales

Net sales in the fiscal year ended March 31, 2010, totaled ¥171,937 million, a decrease of ¥3,196 million (1.8%) from the previous fiscal year. The continuing economic downturn caused by the worldwide financial crisis has impacted customer behavior such as by encouraging thrift. In addition, sales of vegetable beverages suffered from the effect of a price revision made in July, 2008, during the first quarter of the fiscal year (April 1, 2009 to June 30, 2009).

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥90,932 million, a decrease of 5.8% or ¥5,587 million on a year-on-year basis. The cost of sales ratio decreased 2.2 percentage points from 55.1% in the previous year, to 52.9%. Cost reduction activities contributed to a decrease in the cost of sales ratio despite higher costs of raw materials.

As a result, gross profit increased 3.0% year on year, or ¥2,390 million, to ¥81,005 million. The gross profit ratio increased 2.2 percentage points from 44.9% in the previous year to 47.1%.

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

Selling, general, and administrative ("SG&A") expenses in the fiscal year under review increased 0.6%, or ¥441 million, from the previous year to ¥74,608 million. The ratio of SG&A expenses to net sales was up 1.0 percentage point to 43.4%. The increase in the ratio was mainly due to a decline in net sales and a slight increase in SG&A expenses.

As a result, operating income rose 43.8%, or ¥1,949 million, from the previous year, to ¥6,397 million. The ratio of operating income to net sales was up 1.2 percentage points from 2.5% to 3.7%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review rose ¥585 million from the previous year to ¥1,478 million mainly due to an increase in equity in the earnings of affiliates. Other expenses declined ¥519 million to ¥571 million mainly due to a decrease in interest expenses and depreciation of fixed assets for disposal.

As a result, ordinary income increased 71.9%, or ¥3,054 million, from the previous year to ¥7,304 million. The ratio of ordinary income to net sales was up 1.8 percentage points from 2.4% to 4.2%.

5) Extraordinary Gains and Losses

Extraordinary gains decreased ¥42 million from the previous year to ¥136 million, principally due to (1) a ¥128 million increase in gain on sales of fixed assets, to ¥135 million, (2) a decrease in nonrecurring items recorded in the previous year such as a ¥100 million gain on changes in the retirement pension plan for Kagome Labio, a former consolidated subsidiary, and the gain on sales of investment securities of ¥62 million.

Extraordinary losses decreased ¥675 million to ¥1,491 million. This was mainly attributed to (1) an impairment loss of ¥1,324 million, (2) a ¥990 million decrease in loss on disposal of fixed assets, to ¥146 million, and (3) a ¥7 million decrease in the write-down of investment securities, to ¥567 million.

6) Income Taxes and Net Income

Income taxes increased ¥2,727 million from the previous year to ¥3,094 million. The effective tax rate after application of deferred tax accounting was 52.0%. This was mainly attributable to an impairment loss and losses recorded at foreign subsidiaries.

As a result, net income in the fiscal year ended March 31, 2010, increased ¥980 million from the previous year, to ¥2,981 million.

(3) Analysis of Assets and Liabilities

1) Assets

Total assets came to ¥134,005 million at the end of the fiscal year under review, declining 4.9%, or ¥6,933 million, from the previous fiscal year-end.

Current Assets

Current assets were ¥73,039 million at the fiscal year-end, having decreased 3.1%, or ¥2,359 million, from a year earlier. Cash and cash equivalents totaled ¥12,270 million, a decrease of ¥3,742 million. Notes and accounts receivable increased ¥370 million from the end of the previous fiscal year to ¥24,302 million. Inventories were up ¥359 million, to ¥24,923 million. Inventory turnover (based on the average of beginning and ending

inventories) rose to 3.27 months from 2.75 months at the previous fiscal year-end.

Property, Plant, and Equipment (After Accumulated Depreciation)

Property, plant, and equipment at the fiscal year-end amounted to ¥40,549 million, having decreased ¥4,522 million from the previous fiscal year-end.

Impairment loss at Italian subsidiary, Vegitalia S.p.A, and depreciation and disposal were the main factors behind a decline in “buildings and structures”, “machinery, equipment and vehicles”, accounting for decreases of ¥1,412 million and ¥2,676 million, respectively.

Principal capital investments during the fiscal year included ¥177 million at the Fujimi Plant (Nagano Prefecture) for a boiler and ¥164 million at the Ueno Plant (Aichi Prefecture) for sauce production facilities.

Intangible Assets

Intangible assets at the fiscal year-end came to ¥2,078 million, having decreased ¥337 million from the previous fiscal year-end.

Investments and Other Assets

Investments and other assets at the fiscal year-end totaled ¥18,338 million, an increase of ¥286 million from the previous fiscal year-end. The principal factor contributing to the increase was the ¥1,648 million growth of investment securities, offsetting the ¥1,189 million decline in loans to affiliates.

2) Liabilities and Net Assets

Liabilities

Total liabilities at the end of the fiscal year under review came to ¥44,586 million, having decreased ¥8,644 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥32,134 million, a decrease of ¥5,448 million from the previous fiscal year-end. The main factors behind the decrease were as follows. Notes and accounts payable were down ¥2,416 million, while short-term bonds declined by ¥8,000 million. Income taxes payable increased ¥2,514 million, and accrued bonuses for employees increased by ¥778 million. Finally, derivative liabilities increased by ¥839 million.

Long-Term Liabilities

Long-term liabilities at the fiscal year-end decreased ¥3,195 million from the previous year, to ¥12,452 million. The drop was mainly due to declines in long-term borrowings and lease obligations of ¥1,472 million and ¥1,671 million, respectively.

Total Net Assets

Total net assets at the end of the fiscal year under review came to ¥89,418 million, having increased ¥1,710 million from the previous fiscal year-end.

Retained earnings were up ¥1,489 million, to ¥45,986 million. The increase was due to a ¥1,492 million drop in dividends and a ¥2,981 million rise in net income.

Unrealized gain (loss) on available-for-sale securities increased ¥738 million from the previous year to ¥512 million due to the recovery in the market value of investment securities. Deferred gain (loss) on derivatives under hedge accounting was down ¥590 million from the previous year to ¥(501) million due to foreign exchange fluctuations.

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2009 AND 2010

	Millions of Yen				Increase or decrease	Thousands of U.S. dollars
	2009		2010			2010
	Amount	%	Amount	%		Amount
Assets						
Current assets:						
Cash and deposits	¥ 6,804		¥ 7,738		¥ 933	\$ 83,171
Notes and accounts receivable	23,932		24,302		370	261,207
Marketable securities	9,233		9,561		327	102,764
Inventories	24,564		24,923		359	267,876
Deferred tax assets	1,485		1,570		84	16,878
Derivative assets	149		—		(149)	—
Other current assets	9,328		5,064		(4,264)	54,434
Allowance for doubtful accounts	(100)		(120)		(20)	(1,298)
Total current assets	75,398	53.5	73,039	54.5	(2,359)	785,032
Fixed assets:						
Property, plant and equipment:						
Land	11,697		11,808		111	126,919
Buildings and structures	35,638		35,106		(531)	377,331
Machinery, equipment and vehicles	58,874		57,940		(933)	622,748
Tools and furniture	5,062		5,198		136	55,879
Lease assets	4,990		4,579		(411)	49,218
Construction in progress	289		280		(9)	3,011
	116,553		114,914		(1,638)	1,235,106
Accumulated depreciation	(71,481)		(74,365)		(2,883)	(799,281)
Property, plant and equipment, net	45,071	32.0	40,549	30.3	(4,522)	435,825
Intangible assets:						
Goodwill	213		—		(213)	—
Property in trademarks	159		118		(41)	1,274
Software	1,778		1,710		(67)	18,385
Other intangible assets	264		249		(15)	2,677
Total intangible assets	2,415	1.7	2,078	1.5	(337)	22,336
Investments and other assets:						
Investment securities	12,284		13,933		1,648	149,761
Long-term loans receivable	2,841		1,651		(1,189)	17,754
Deferred tax assets	1,179		638		(541)	6,860
Other assets	1,882		2,261		379	24,310
Allowance for doubtful accounts	(136)		(147)		(10)	(1,583)
Total investments and other assets	18,051	12.8	18,338	13.7	286	197,102
Total fixed assets	65,539	46.5	60,965	45.5	(4,573)	655,263
Total assets	¥ 140,938	100.0	¥ 134,005	100.0	¥ (6,933)	\$ 1,440,295

	Millions of Yen					Thousands of U.S. dollars
	2009		2010		Increase or decrease	2010
	Amount	%	Amount	%		Amount
Liabilities						
Current liabilities:						
Notes and accounts payable	¥ 13,031		¥ 10,614		¥ (2,416)	\$ 114,083
Short-term bonds	8,000		—		(8,000)	—
Short-term borrowings	3,177		3,526		348	37,899
Current portion of long-term borrowings	2,400		2,941		541	31,619
Other payable	7,887		7,787		(99)	83,705
Income taxes payable	122		2,636		2,514	28,340
Accrued bonuses for employees	1,073		1,851		778	19,898
Accrued bonuses for directors	—		45		45	490
Derivative liabilities	—		839		839	9,023
Other current liabilities	1,891		1,891		(0)	20,325
Total current liabilities	37,583	26.7	32,134	24.0	(5,448)	345,382
Long-term liabilities:						
Long-term borrowings	6,651		5,179		(1,472)	55,673
Deferred tax liabilities	928		953		25	10,245
Liabilities for employees' retirement benefits	2,379		2,356		(22)	25,330
Other liabilities	5,688		3,962		(1,725)	42,588
Total long-term liabilities	15,647	11.1	12,452	9.3	(3,195)	133,836
Total liabilities	53,230	37.8	44,586	33.3	(8,644)	479,218
Net Assets						
Shareholder's equity:						
Common stock	19,985	14.2	19,985	14.9	—	214,805
Capital surplus	23,733	16.8	23,733	17.7	—	255,088
Retained earnings	44,496	31.5	45,986	34.3	1,489	494,261
Treasury stock	(200)	(0.1)	(205)	(0.1)	(4)	(2,209)
Total shareholder's equity	88,014	62.4	89,499	66.8	1,484	961,945
Valuation and translation adjustments:						
Unrealized gain (loss) on available-for-sale securities	(225)	(0.2)	512	0.4	738	5,514
Deferred (loss) gain on derivatives under hedge accounting	89	0.1	(501)	(0.4)	(590)	(5,387)
Foreign currency translation adjustments	(1,727)	(1.2)	(1,465)	(1.1)	261	(15,752)
Total valuation and translation adjustments	(1,862)	(1.3)	(1,453)	(1.1)	409	(15,625)
Minority interest	1,555	1.1	1,372	1.0	(182)	14,757
Total net assets	87,707	62.2	89,418	66.7	1,710	961,077
Total liabilities and net assets	¥ 140,938	100.0	¥ 134,005	100.0	¥ (6,933)	\$ 1,440,295

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥93.04 to U.S. \$1, the exchange rate prevailing on March 31, 2010.
2. Certain 2009 balance sheet items were reclassified to conform to the presentation for 2010.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED MARCH 31, 2009 AND 2010

	Millions of Yen					Thousands of U.S. dollars
	2009		2010		Increase or decrease	2010
	Amount	%	Amount	%		Amount
Net sales	¥ 175,134	100.0	¥ 171,937	100.0	¥ (3,196)	\$ 1,847,999
Cost of sales	96,519	55.1	90,932	52.9	(5,587)	977,345
Gross profit	78,614	44.9	81,005	47.1	2,390	870,654
Selling, general and administrative expenses	74,167	42.4	74,608	43.4	441	801,897
Operating income	4,447	2.5	6,397	3.7	1,949	68,757
Other income						
Interest income	155		235		80	2,532
Dividend income	247		277		30	2,982
Equity in earnings of affiliates by the equity method	—		245		245	2,642
Subsidies received	47		30		(17)	323
Other	443		689		246	7,413
Total other income	893	0.5	1,478	0.8	585	15,892
Other expenses						
Interest expense	576		359		(216)	3,864
Equity in loss of affiliates by the equity method	38		—		(38)	—
Depreciation of fixed assets for disposal	161		—		(161)	—
Foreign exchange losses	64		43		(20)	470
Other	250		168		(81)	1,810
Total other expenses	1,091	0.6	571	0.3	(519)	6,144
Ordinary income	4,249	2.4	7,304	4.2	3,054	78,505
Extraordinary gain						
Reversal of allowance for doubtful accounts	10		1		(8)	17
Gain on sales of fixed assets	6		135		128	1,454
Gain on sales of investment securities	62		—		(62)	—
Gain on changes in retirement pension plan	100		—		(100)	—
Total extraordinary gain	179	0.1	136	0.1	(42)	1,471
Extraordinary loss						
Loss on disposal of fixed assets	1,136		146		(990)	1,570
Impairment loss	—		1,324		1,324	14,231
Effect on the new accounting standards for lease	98		—		(98)	—
Loss on sales of investment securities	0		—		(0)	—
Write-down of investment securities	574		7		(567)	76
Write-down of golf club memberships	22		14		(7)	160
Loss on litigation	152		—		(152)	—
Loss on restructuring	182		—		(182)	—
Total extraordinary loss	2,167	1.2	1,491	0.8	(675)	16,037
Income before income taxes and minority interests	2,262	1.3	5,948	3.5	3,686	63,939
Income taxes						
Income taxes - current	694		2,927		2,233	31,463
Income taxes - deferred	(328)		167		495	1,796
Total income taxes	366	0.3	3,094	1.9	2,727	33,259
Minority interests in net loss	(105)	(0.1)	(126)	(0.1)	(21)	(1,363)
Net income	¥ 2,000	1.1	¥ 2,981	1.7	¥ 980	\$ 32,043

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥93.04 to U.S. \$1, the exchange rate prevailing on March 31, 2010.
2. Certain 2009 balance sheet items were reclassified to conform to the presentation for 2010.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2009 AND 2010

Millions of Yen

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized Gain (Loss) on Available- for-sale- Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority interests	Total Net Assets
Balance, April 1, 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
Cash dividends			(1,492)		(1,492)						(1,492)
Net income			2,981		2,981						2,981
Repurchase of treasury stock				(4)	(4)						(4)
Net change in the year						738	(590)	261	409	(182)	226
Balance, March 31, 2010	¥ 19,985	¥ 23,733	¥ 45,986	¥ (205)	¥ 89,499	¥ 512	¥ (501)	¥ (1,465)	¥ (1,453)	¥ 1,372	¥ 89,418

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 (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority interests	Total Net Assets
Balance, March 31, 2009	\$ 214,805	\$ 255,088	\$ 478,256	\$ (2,157)	\$ 945,992	\$ (2,421)	\$ 962	\$ (18,563)	\$ (20,022)	\$ 16,718	\$ 942,688
Cash dividends			(16,038)		(16,038)						(16,038)
Net income			32,043		32,043						32,043
Repurchase of treasury stock				(52)	(52)						(52)
Net change in the year						7,934	(6,349)	2,811	4,396	(1,961)	2,435
Balance, March 31, 2010	\$ 214,805	\$ 255,088	\$ 494,261	\$ (2,209)	\$ 961,945	\$ 5,513	\$ (5,387)	\$ (15,752)	\$ (15,626)	\$ 14,757	\$ 961,076

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥93.04 to U.S. \$1, the exchange rate prevailing on March 31, 2010.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2009 AND 2010

	Millions of Yen			Thousands of U.S. dollars
	2009	2010	Increase (decrease)	2010
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 2,262	¥ 5,948	¥ 3,686	\$ 63,939
Depreciation and amortization	7,079	6,142	(936)	66,022
Impairment loss	—	1,324	1,324	14,231
Effect on the new accounting standards for lease	98	—	(98)	—
Interest and dividend income	(402)	(512)	(110)	(5,514)
Interest expense	576	359	(216)	3,864
Increase (decrease) in accrued bonuses	(883)	821	1,704	8,831
Decrease in other provisions	(96)	(7)	89	(76)
Equity in (earnings) loss of affiliates by the equity method	38	(245)	(284)	(2,642)
Loss on disposal of fixed assets	1,136	146	(990)	1,570
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	2,403	(266)	(2,670)	(2,870)
Increase in inventories	(5,371)	(279)	5,092	(3,000)
Decrease in accounts receivable-other	873	975	102	10,487
Decrease in notes and accounts payable	(577)	(550)	26	(5,919)
Increase (decrease) in accounts payable-other	(2,108)	502	2,610	5,399
Increase in other current assets	(489)	(33)	456	(355)
Increase in other current liabilities	290	349	58	3,756
Other increase	789	347	(442)	3,732
Other decrease	(289)	(135)	154	(1,454)
Subtotal	5,328	14,886	9,557	160,001
Cash received from interest and dividend income	368	481	113	5,176
Cash paid for interest expense	(574)	(364)	210	(3,916)
Cash paid for income taxes	(1,565)	(450)	1,114	(4,844)
Cash received from income tax refund	580	677	96	7,276
Net cash provided by operating activities	4,137	15,230	11,092	163,693

	Millions of Yen			Thousands of U.S. dollars
	2009	2010	Increase (decrease)	2010
Cash flows from investing activities:				
Disbursement for time deposits	—	(12,000)	(12,000)	(128,977)
Proceeds from repayment of time deposits	—	7,000	7,000	75,236
Purchases of marketable and investment securities	(12)	(31,630)	(31,618)	(339,969)
Proceeds from sales of marketable and investment securities	277	31,500	31,222	338,564
Acquisition of fixed assets	(3,678)	(3,096)	582	(33,283)
Disbursement for disposal of fixed assets	(26)	(1)	25	(19)
Proceeds from sales of fixed assets	158	198	39	2,129
Disbursement for loans	(2,556)	(255)	2,301	(2,741)
Collection of loans	192	2,171	1,979	23,345
Other increase	259	187	(71)	2,018
Other decrease	(45)	(531)	(486)	(5,717)
Net cash used in investing activities	(5,431)	(6,458)	(1,026)	(69,414)
Cash flows from financing activities:				
(Decrease) increase in short-term bonds	8,000	(8,000)	(16,000)	(85,985)
Increase (decrease) in short-term borrowings	(1,654)	273	1,927	2,938
Proceeds from long-term borrowings	3,067	1,730	(1,337)	18,594
Repayments of long-term borrowings	(2,131)	(2,722)	(591)	(29,267)
Repayments of lease obligations	(930)	(2,283)	(1,353)	(24,545)
Purchases of stock from minority shareholders	(227)	—	227	—
Dividends paid	(1,478)	(1,485)	(6)	(15,961)
Dividends paid to minority shareholders	(54)	(50)	3	(547)
Repurchase of treasury stock	(157)	(4)	153	(52)
Net cash (used in) provided by financing activities	4,433	(12,544)	(16,977)	(134,825)
Foreign translation adjustment on cash and cash equivalents	(200)	29	230	319
Net (decrease) increase in cash and cash equivalents	2,937	(3,742)	(6,680)	(40,227)
Cash and cash equivalents of a newly consolidated subsidiary	15	—	(15)	—
Cash and cash equivalents at beginning of year	13,059	16,013	2,953	172,111
Cash and cash equivalents at end of year	¥ 16,013	¥ 12,270	¥ (3,742)	\$ 131,884

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥93.04 to U.S. \$1, the exchange rate prevailing on March 31, 2010.
2. Certain 2009 cash flow statement items were reclassified to conform to the presentation for 2010.

KAGOME CO., LTD