



True to nature, the flavor of KAGOME

Consolidated Financial Report

Fiscal year ended March 31, 2011

Management's Discussion and Analysis

Forward-looking statements in this document represent the best judgment of the Kagome Group as of June 17, 2011. Certain 2010 financial statement items were reclassified to conform to the presentation for 2011.

(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 Results for the Year Ended March 31, 2011

The economy was showing clear signs of recovery in the area of consumption prior to March 11, 2011 when the Great Eastern Japan Earthquake and Tsunami (the "Great Earthquake") hit the northeast coast of Japan. The Great Earthquake dramatically changed Japan's economy and the environment for consumers.

Furthermore, the Great Earthquake caused tremendous damage to the Kagome Group. The Kagome Group recorded a loss on disaster of ¥2,795 million for damaged inventories and property. In addition, the Kagome Group recorded special payments for disaster victims of ¥411 million by paying ¥300 million, approximately 10% of net income, for financial aid, sending relief goods such as vegetable mix juice to the people in the disaster area and paying consolation money to tomato growers in Fukushima Prefecture.

However, the Great Earthquake had limited impact on net sales, operating income and ordinary income for the year ended March 31, 2011 because the Kagome Group maintained sufficient stocks and demand for some products was firm amid the short supply conditions following the earthquake.

1) Net Sales

Net sales in the fiscal year ended March 31, 2011, were ¥181,304 million, an increase of ¥9,367 million (5.4%) from the previous fiscal year. The increase in net sales was mainly as follows: (1) investment in advertising focusing on vegetable mix juice, (2) stable growth of tomato seasonings such as tomato ketchup thanks to the strong trend in home cooking, and (3) favorable results for beverage sales caused by hot summer in this fiscal year.

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥93,073

million, an increase of 2.4%, or ¥2,141 million, on a year-on-year basis. The cost of sales ratio decreased 1.6 percentage points from 52.9% in the previous year to 51.3%. Lower material costs contributed to the decrease in the cost of sales ratio. Raw materials with higher unit prices purchased amid inflation of resource prices and the strong yen were replaced by lower-price materials as inventory turned over.

As a result, gross profit increased 8.9% or ¥7,225 million to ¥88,231 million on a year-on-year basis.

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

Selling, general and administrative ("SG&A") expenses in the fiscal year under review increased 7.6%, or ¥5,644 million, from the previous year to ¥80,253 million. The ratio of SG&A expenses to net sales was up 0.9 percentage point to 44.3%. The increase of the ratio of SG&A was mainly due to the following: (1) Higher investments to advertise improved existing products and for trial marketing of new products increased advertising expenses. (2) The ratio of promotional expenses to net sales was up 0.8 percentage points from the previous year on account of customer demands for lower prices amid deflation.

As a result, operating income increased 24.7% or ¥1,581 million from the previous year to ¥7,978 million. The ratio of operating income to net sales was up 0.7 percentage points from 3.7% to 4.4%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review decreased ¥255 million from the previous year to ¥1,223 million mainly due to a ¥375 million decrease in the category, other. This was despite a ¥131 million increase in equity in earnings of affiliates. Other expenses increased ¥241 million to ¥812 million mainly due to a ¥388 million increase in foreign exchange loss, despite a decrease in interest expenses of ¥117 million.

As a result, ordinary income increased 14.9%, or ¥1,084 million, from the previous year to ¥8,389 million. The ratio of ordinary income to net sales was up 0.4 percentage points from 4.2% to 4.6%.

5) Extraordinary Gains and Losses

Extraordinary gains increased ¥744 million from the previous year to ¥881 million, principally due to (1) gains on sales of investment securities of ¥538 million recorded in the current year (2) an increase in gain on sales of fixed assets of ¥180 million.

Extraordinary losses increased ¥2,686 million from the previous year to ¥4,177 million. This was mainly attributed to (1) a loss on disaster of ¥2,795 million and special payment for disaster victims of ¥411 million due to the Great Earthquake in the current year, (2) a decrease in impairment loss of ¥1,324 million.

6) Income Taxes and Net Income

Income taxes decreased ¥341 million from the previous year to ¥2,752 million. The effective tax rate after applying deferred tax accounting was 54.1%. This was mainly attributable to losses recorded at consolidated subsidiaries.

As a result, net income in the fiscal year ended March 31, 2011 decreased ¥508 million from the previous year, to ¥2,473 million.

(3) Analysis of Assets, Liabilities and Net Assets

1) Assets

Total assets were ¥142,661 million at the end of the fiscal year under review, an increase of 6.5%, or ¥8,656 million, from the previous fiscal year-end.

Current Assets

Current assets were ¥79,412 million at the fiscal year-end, having increased 8.7%, or ¥6,372 million, from the previous fiscal year-end.

Cash and deposits were ¥9,417 million, an increase of ¥1,679 million. Marketable securities came to ¥18,216 million, an increase of ¥8,655 million. These increases were mainly due to diversification of financing methods and an increased line of credit for stable financing.

Notes and accounts receivable decreased ¥1,092 million from the end of the previous fiscal year to ¥23,209 million. Inventories decreased ¥3,377 million, to ¥21,546 million. Inventory turnover (based on the average of beginning and ending inventories) was down to 3.00 months from 3.27 months at the previous fiscal year-end.

Property, Plant, and Equipment (After Accumulated Depreciation)

Property, plant, and equipment at the fiscal year-end totaled ¥40,555 million, up ¥6 million from the previous fiscal year-end.

The main factor was that Iwaki-Onahama Saien Kabushikigaisha, a former affiliate, became a consolidated subsidiary at the beginning of the fiscal year. Another factor was that the Kagome Group acquired the tomato farming and processing business in Australia during this year. Both of these increased the Group's assets. In contrast, depreciation decreased the carrying values of the assets.

Intangible Assets

Intangible assets at the fiscal year-end were ¥5,519 million, having increased ¥3,441 million from the previous fiscal year-end. This was mainly due to recognition of goodwill as a result of the acquisition of the tomato farming and processing business in Australia.

Investments and Other Assets

Investments and other assets at the fiscal year-end were ¥17,174

million, having decreased ¥1,164 million from the previous fiscal year-end. The principal factor contributing to the decrease was a decrease in Other.

2) Liabilities and Net Assets

Liabilities

The total liabilities at the end of the fiscal year under review were ¥53,719 million, having increased ¥9,132 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥36,409 million, having increased ¥4,274 million from the previous fiscal year-end. The main factors in the decrease were that notes and accounts payable, other payable, provision for loss on disaster, and derivative liabilities increased by ¥1,353 million, ¥1,092 million, ¥2,443 million and ¥2,033 million, respectively. Short-term borrowings, the current portion of long-term borrowings, and income taxes payable decreased by ¥679 million, ¥839 million and ¥1,443 million, respectively.

Long-Term Liabilities

Long-term liabilities at the end of the fiscal year increased ¥4,858 million from the previous year to ¥17,310 million. The increase was mainly due the increase in long-term borrowings of ¥5,214 million.

Net Assets

The total net assets at the end of the fiscal year under review were ¥88,941 million, having decreased ¥476 million from the previous fiscal year-end.

Retained earnings increased ¥1,198 million, to ¥47,184 million. The increase was mainly due to a decrease of ¥1,492 million in dividends and an increase of ¥2,473 million in net income.

Unrealized gain (loss) on available-for-sale securities decreased ¥621 million from the previous year to ¥(108) million due to a decline in the market value of investment securities. Deferred gain (loss) on derivatives under hedge accounting decreased ¥1,213 million from the previous year to ¥(1,715) million due to foreign exchange fluctuations.

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2010 AND 2011

	Millions of Yen				Increase or decrease	Thousands of U.S. dollars
	2010		2011			2011
	Amount	%	Amount	%		Amount
Assets						
Current assets:						
Cash and deposits	¥ 7,738		¥ 9,417		¥ 1,679	\$ 113,260
Notes and accounts receivable	24,302		23,209		(1,092)	279,132
Marketable securities	9,561		18,216		8,655	219,084
Inventories	24,923		21,546		(3,377)	259,129
Deferred tax assets	1,570		2,593		1,023	31,195
Other current assets	5,064		4,512		(551)	54,275
Allowance for doubtful accounts	(120)		(85)		35	(1,028)
Total current assets	73,039	54.5	79,412	55.7	6,372	955,047
Fixed assets:						
Property, plant and equipment:						
Land	11,808		11,648		(160)	140,090
Buildings and structures	35,106		36,159		1,053	434,869
Machinery, equipment and vehicles	57,940		60,124		2,184	723,079
Tools and furniture	5,198		5,256		58	63,221
Lease assets	4,579		4,442		(137)	53,425
Construction in progress	280		579		299	6,969
	114,914		118,210		3,296	1,421,653
Accumulated depreciation	(74,365)		(77,655)		(3,290)	(933,916)
Property, plant and equipment, net	40,549	30.3	40,555	28.4	6	487,737
Intangible assets:						
Goodwill	—		3,395		3,395	40,833
Property in trademarks	118		78		(40)	938
Software	1,710		1,511		(198)	18,181
Other intangible assets	249		534		285	6,428
Total intangible assets	2,078	1.5	5,519	3.9	3,441	66,380
Investments and other assets:						
Investment securities	13,933		13,518		(415)	162,579
Deferred tax assets	638		996		357	11,979
Other assets	3,913		2,733		(1,179)	32,879
Allowance for doubtful accounts	(147)		(74)		73	(891)
Total investments and other assets	18,338	13.7	17,174	12.0	(1,164)	206,546
Total fixed assets	60,965	45.5	63,249	44.3	2,283	760,663
Total assets	¥ 134,005	100.0	¥ 142,661	100.0	¥ 8,656	\$ 1,715,710

	Millions of Yen					Thousands of U.S. dollars
	2010		2011		Increase or decrease	2011
	Amount	%	Amount	%		Amount
Liabilities						
Current liabilities:						
Notes and accounts payable	¥ 10,614		¥ 11,967		¥ 1,353	\$ 143,930
Short-term borrowings	3,526		2,846		(679)	34,237
Current portion of long-term borrowings	2,941		2,102		(839)	25,281
Other payable	7,787		8,879		1,092	106,795
Income taxes payable	2,636		1,193		(1,443)	14,350
Accrued bonuses for employees	1,851		1,943		92	23,375
Accrued bonuses for directors	45		52		6	629
Provision for loss on disaster	—		2,443		2,443	29,386
Provision for loss on business liquidation	—		139		139	1,679
Derivative liabilities	839		2,872		2,033	34,550
Other current liabilities	1,891		1,967		76	23,662
Total current liabilities	32,134	24.0	36,409	25.5	4,274	437,874
Long-term liabilities:						
Long-term borrowings	5,179		10,394		5,214	125,012
Deferred tax liabilities	953		987		34	11,877
Liabilities for employees' retirement benefits	2,356		2,369		12	28,494
Other liabilities	3,962		3,558		(403)	42,798
Total long-term liabilities	12,452	9.3	17,310	12.1	4,858	208,181
Total liabilities	44,586	33.3	53,719	37.6	9,132	646,055
Net Assets						
Shareholders' equity:						
Common stock	19,985	14.9	19,985	14.0	—	240,354
Capital surplus	23,733	17.7	23,733	16.6	—	285,428
Retained earnings	45,986	34.3	47,184	33.1	1,198	567,464
Treasury stock	(205)	(0.1)	(209)	(0.1)	(4)	(2,521)
Total shareholders' equity	89,499	66.8	90,693	63.6	1,194	1,090,725
Accumulated other comprehensive income:						
Unrealized (loss) gain on available-for-sale securities	512	0.4	(108)	(0.1)	(621)	(1,305)
Deferred loss on derivatives under hedge accounting	(501)	(0.4)	(1,715)	(1.2)	(1,213)	(20,626)
Foreign currency translation adjustments	(1,465)	(1.1)	(1,326)	(0.9)	138	(15,954)
Total accumulated other comprehensive income	(1,453)	(1.1)	(3,150)	(2.2)	(1,696)	(37,885)
Minority interest	1,372	1.0	1,398	1.0	25	16,815
Total net assets	89,418	66.7	88,941	62.4	(476)	1,069,655
Total liabilities and net assets	¥ 134,005	100.0	¥ 142,661	100.0	¥ 8,656	\$ 1,715,710

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥83.15 to U.S. \$1, the exchange rate prevailing on March 31, 2011.
2. Certain 2010 items were reclassified to conform to the presentation for 2011.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED MARCH 31, 2010 AND 2011

	Millions of Yen				Increase or decrease	Thousands of U.S. dollars
	2010		2011			2011
	Amount	%	Amount	%		Amount
Net sales	¥ 171,937	100.0	¥ 181,304	100.0	¥ 9,367	\$ 2,180,456
Cost of sales	90,932	52.9	93,073	51.3	2,141	1,119,343
Gross profit	81,005	47.1	88,231	48.7	7,225	1,061,113
Selling, general and administrative expenses	74,608	43.4	80,253	44.3	5,644	965,161
Operating income	6,397	3.7	7,978	4.4	1,581	95,952
Other income						
Interest income	235		212		(23)	2,554
Dividend income	277		289		12	3,482
Equity in earnings of affiliates by the equity method	245		377		131	4,540
Other	719		343		(375)	4,136
Total other income	1,478	0.8	1,223	0.7	(255)	14,712
Other expenses						
Interest expense	359		241		(117)	2,908
Foreign exchange losses	43		432		388	5,203
Other	168		138		(30)	1,663
Total other expenses	571	0.3	812	0.5	241	9,774
Ordinary income	7,304	4.2	8,389	4.6	1,084	100,890
Extraordinary gain						
Reversal of allowance for doubtful accounts	1		27		25	326
Gain on sales of fixed assets	135		315		180	3,793
Gain on sales of investment securities	—		538		538	6,481
Total extraordinary gain	136	0.1	881	0.5	744	10,600
Extraordinary loss						
Loss on disaster	—		2,795		2,795	33,625
Special payments for disaster victims	—		411		411	4,953
Loss on disposal of fixed assets	146		367		221	4,419
Impairment loss	1,324		—		(1,324)	—
Loss on sales of investment securities	—		107		107	1,295
Write-down of investment securities	7		49		42	593
Write-down of golf club memberships	14		16		1	198
Loss on business liquidation	—		429		429	5,163
Total extraordinary loss	1,491	0.8	4,177	2.3	2,686	50,246
Income before income taxes and minority interests	5,948	3.5	5,092	2.8	(856)	61,244
Income taxes						
Income taxes - current	2,927		2,870		(56)	34,528
Income taxes - deferred	167		(118)		(285)	(1,422)
Total income taxes	3,094	1.9	2,752	1.5	(341)	33,106
Income before minority interests	2,854	1.6	2,339	1.3	(514)	28,138
Minority interests in net loss	(126)	(0.1)	(133)	(0.1)	(6)	(1,606)
Net income	¥ 2,981	1.7	¥ 2,473	1.4	¥ (508)	\$ 29,744
Addition: Minority interests in net loss	(126)		(133)		(6)	(1,606)
Income before minority interests	2,854	1.6	2,339	1.3	(514)	28,138
Other comprehensive income:						
Unrealized (loss) gain on available-for-sale securities	739		(621)		(1,360)	(7,474)
Deferred loss on derivatives under hedge accounting	(590)		(1,213)		(623)	(14,599)
Foreign currency translation adjustments	238		240		2	2,895
Share of other comprehensive income of an affiliate by the equity method	17		49		31	592
Total other comprehensive income	404	0.3	(1,545)	(0.9)	(1,949)	(18,586)
Comprehensive income	¥ 3,258	1.9	¥ 794	0.4	¥ (2,464)	\$ 9,552
Of which attributable to shareholders of the parent	3,390	2.0	994	0.5	(2,396)	11,956
Of which attributable to minority interests	(131)	(0.1)	(199)	(0.1)	(68)	(2,404)

Note:

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- Certain 2010 items were reclassified to conform to the presentation for 2011.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2010 AND 2011

Millions of Yen

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized (Loss) Gain on Available- for-sale- Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income	Minority interests	Total Net Assets
Balance at 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 at March 31, 2010	19,985	23,733	45,986	(205)	89,499	512	(501)	(1,465)	(1,453)	1,372	89,418
Cash dividends			(1,492)		(1,492)						(1,492)
Net income			2,473		2,473						2,473
Other changes in retained earnings			217		217						217
Repurchase of treasury stock				(4)	(4)						(4)
Net change in the year						(621)	(1,213)	138	(1,696)	25	(1,671)
Balance at March 31, 2011	¥ 19,985	¥ 23,733	¥ 47,184	¥ (209)	¥ 90,693	¥ (108)	¥ (1,715)	¥ (1,326)	¥ (3,150)	¥ 1,398	¥ 88,941

Thousands of U.S. Dollars

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Unrealized (Loss) Gain on Available- for-sale- Securities	Deferred (Loss) Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income	Minority interests	Total Net Assets
Balance at March 31, 2010	\$ 240,354	\$ 285,428	\$ 553,050	\$ (2,472)	\$1,076,360	\$ 6,169	\$ (6,028)	\$ (17,625)	\$ (17,484)	\$ 16,512	\$1,075,388
Cash dividends			(17,944)		(17,944)						(17,944)
Net income			29,744		29,744						29,744
Other changes in retained earnings			2,614		2,614						2,614
Repurchase of treasury stock				(49)	(49)						(49)
Net change in the year						(7,474)	(14,598)	1,671	(20,401)	303	(20,098)
Balance at March 31, 2011	\$ 240,354	\$ 285,428	\$ 567,464	\$ (2,521)	\$1,090,725	\$ (1,305)	\$ (20,626)	\$ (15,954)	\$ (37,885)	\$ 16,815	\$1,069,655

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥83.15 to U.S. \$1, the exchange rate prevailing on March 31, 2011.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2010 AND 2011

	Millions of Yen			Thousands of U.S. dollars
	2010	2011	Increase or decrease	2011
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 5,948	¥ 5,092	¥ (856)	\$ 61,244
Depreciation and amortization	6,142	5,837	(305)	70,199
Impairment loss	1,324	—	(1,324)	—
Amortization of goodwill	54	310	255	3,729
Loss on disaster	—	2,795	2,795	33,625
Special payments for disaster victims	—	411	411	4,953
Loss on business liquidation	—	429	429	5,163
Interest and dividend income	(512)	(501)	11	(6,036)
Interest expense	359	241	(117)	2,908
Foreign exchange loss	43	432	388	5,203
Increase in accrued bonuses	821	93	(728)	1,121
Decrease in other provisions	(7)	(25)	(18)	(311)
Equity in earnings of affiliates by the equity method	(245)	(377)	(131)	(4,540)
Gain on sales of securities-net	—	(432)	(432)	(5,199)
Loss on sales and disposal of fixed assets-net	10	52	41	626
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(266)	1,786	2,053	21,486
Decrease (increase) in inventories	(279)	4,123	4,403	49,597
(Increase) decrease in accounts receivable-other	975	(667)	(1,643)	(8,028)
Increase (decrease) in notes and accounts payable	(550)	2,609	3,159	31,377
Increase in accounts payable-other	502	698	196	8,405
Increase in other current assets	(33)	(310)	(277)	(3,731)
Increase in other current liabilities	349	23	(325)	285
Other increase	249	76	(172)	914
Other decrease	—	(37)	(37)	(449)
Subtotal	14,886	22,661	7,775	272,541
Cash received from interest and dividend income	481	450	(30)	5,422
Cash paid for interest expense	(364)	(238)	125	(2,868)
Cash paid for special payments for disaster victims	—	(345)	(345)	(4,154)
Cash paid for income taxes	(450)	(4,289)	(3,838)	(51,584)
Cash received from income tax refund	677	1	(675)	17
Net cash provided by operating activities	15,230	18,241	3,010	219,374

	Millions of Yen			Thousands of U.S. dollars
	2010	2011	Increase or decrease	2011
Cash flows from investing activities:				
Disbursement for time deposits	(12,000)	(11,100)	900	(133,494)
Proceeds from repayment of time deposits	7,000	15,000	8,000	180,397
Purchases of marketable and investment securities	(31,630)	(35,305)	(3,675)	(424,606)
Proceeds from sales of marketable and investment securities	31,500	21,796	(9,703)	262,137
Acquisition of fixed assets	(3,096)	(2,161)	934	(26,001)
Disbursement for disposal of fixed assets	(1)	(135)	(133)	(1,624)
Proceeds from sales of fixed assets	198	348	150	4,195
Disbursement for loans	(255)	—	255	—
Collection of loans	2,171	—	(2,171)	—
Disbursement for transfer of business	—	(7,524)	(7,524)	(90,493)
Other increase	187	160	(27)	1,930
Other decrease	(531)	(172)	359	(2,071)
Net cash used in investing activities	(6,458)	(19,093)	(12,635)	(229,630)
Cash flows from financing activities:				
Decrease in short-term bonds	(8,000)	—	8,000	—
(Decrease) increase in short-term borrowings	273	(242)	(515)	(2,914)
Proceeds from long-term borrowings	1,730	6,600	4,870	79,375
Repayments of long-term borrowings	(2,722)	(3,078)	(355)	(37,026)
Repayments of lease obligations	(2,283)	(441)	1,842	(5,307)
Proceeds from stock issuance to minority shareholders	—	116	116	1,402
Dividends paid	(1,485)	(1,491)	(6)	(17,935)
Dividends paid to minority shareholders	(50)	(44)	6	(533)
Repurchase of treasury stock	(4)	(4)	0	(49)
Net cash provided by (used in) financing activities	(12,544)	1,414	13,958	17,013
Foreign translation adjustment on cash and cash equivalents	29	(108)	(138)	(1,305)
Net increase (decrease) in cash and cash equivalents	(3,742)	453	4,195	5,452
Cash and cash equivalents of newly consolidated subsidiaries	—	20	20	4,147
Cash and cash equivalents at beginning of year	16,013	12,270	(3,742)	147,574
Cash and cash equivalents at end of year	¥ 12,270	¥ 12,744	¥ 474	\$ 157,173

Note:

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2. Certain 2010 items were reclassified to conform to the presentation for 2011.

KAGOME CO., LTD