

Consolidated Financial Report 2008

Fiscal year ended March 31, 2008

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 19, 2008.

(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, 2008

1) Net Sales

Net sales in the fiscal year ended March 31, 2008 were ¥200,483 million, an increase of ¥13,749 million (7.2%) from the previous fiscal year. The principal factors contributing to the increase were the favorable development of sales of vegetable beverages, notably our line-up of *Yasai Seikatsu 100*, which increased 4.8% (¥4,527 million) from the previous year to ¥98,761 million, and the sales of our newly established subsidiary Kagome Creative Foods Inc. contributed to the rise in the sales of the Institutional & Industrial Business Division, which, at ¥34,397 million, was an increase of ¥4,778 million (16.1%) over the previous fiscal year.

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥107,620 million, an increase of 11.7% (¥11,277 million) year-on-year. The cost of sales ratio increased 2.2 percentage points from 51.5% for the previous year to 53.7%; the higher cost of raw materials was the principal factor contributing to this increase.

As a result, gross profit increased 2.4% (¥2,201 million) year-on-year to ¥92,863 million. The gross profit ratio decreased 2.2 percentage points from 48.5% for the previous year to 46.3%.

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

Selling, general, and administrative ("SG&A") expenses in the fiscal year under review increased 2.4% (¥1,934 million) from the previous year to ¥83,011 million. The ratio of SG&A expenses to net sales fell 2.0 percentage points to 41.4%; the improvement was attributable to the increase in net sales and higher marginal profit owing to a decrease in the ratio of variable expenses (notably sales promotion expenses) to sales.

The ratio of sales promotion expenses to sales improved 0.1

percentage points from 16.9% for the previous year to 16.8% due to the continued impact of the ongoing effort to curb sales promotion expenses.

As a result of these developments, operating income increased 2.8% (¥266 million) from the previous year to ¥9,852 million. The ratio of operating income to net sales decreased 0.2 percentage points from 5.1% to 4.9%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review increased ¥142 million from the previous year to ¥897 million, while other expenses increased ¥338 million to ¥2,383 million. The principal reasons for the increase in other expenses were increases in the loss on disposal of inventories and equity in loss under the equity method for overseas affiliates.

As a result, ordinary income increased 0.8% (¥70 million) from the previous year to ¥8,366 million. The ratio of ordinary income to net sales decreased 0.2 percentage points from 4.4% to 4.2%.

5) Extraordinary Gain and Loss

Extraordinary gain increased ¥55 million from the previous year to ¥159 million, principally due to an increase in the gain on sales of land. Extraordinary loss decreased ¥165 million to ¥561 million.

6) Income Taxes and Net Income

Income taxes increased ¥111 million from the previous year to ¥3,946 million. The effective tax rate after applying deferred tax accounting was 49.6%. This was mainly attributable to consolidated subsidiaries to which deferred tax accounting is not applicable and to equity in loss under the equity method.

As a result, net income in the fiscal year ended March 31, 2008 increased ¥80 million from the previous year to ¥4,167 million.

(3) Analysis of Assets and Liabilities

1) Assets

Total assets were ¥135,348 million at the end of the fiscal year under review, a decrease of 10.1% (¥15,213 million) from the previous fiscal year-end.

Current Assets

Current assets were ¥69,285 million at the fiscal year-end, having decreased 20.9% (¥18,346 million) from the previous fiscal year-end. Cash and cash equivalents were ¥13,059 million, a decrease of ¥16,922 million. Notes and accounts receivable decreased ¥2,512 million from the end of the previous fiscal year to ¥26,322 million. Inventories increased ¥3,787 million to ¥19,618 million. Inventory turnover (based on the average of beginning and ending inventories) decreased to 1.90 months from 1.98 months at the previous fiscal year-end.

With regard to derivative assets, Kagome has derivatives to hedge against future cash flow uncertainty in connection with the

settlement of imported purchases. Kagome applies hedge accounting and defers recognition of unrealized gains or losses on derivatives. As unrealized gains on applicable derivatives at the previous fiscal year-end amounted to ¥5,234 million, Kagome recognized derivative assets in this amount. On the contrary, as unrealized losses on applicable derivatives at the end of the fiscal year under review amounted to ¥15 million, Kagome recognized this amount as derivative liabilities and classified such as current liabilities.

Property, Plant, and Equipment (After Accumulated Depreciation)

Property, plant, and equipment at the fiscal year-end were ¥44,881 million, having decreased ¥375 million from the previous fiscal year-end. Principal capital investment during the fiscal year included ¥1,106 million at the Kagome Fujimi Plant (Nagano Prefecture) and ¥1,590 million at Kagome Labio (Aichi Prefecture), both for expansion of beverage production facilities.

Intangible Assets

Intangible assets at the fiscal year-end were ¥2,031 million, having decreased ¥55 million from the previous fiscal year-end.

Investments and Other Assets

Investments and other assets at the fiscal year-end were ¥19,150 million, having increased ¥3,564 million from the previous fiscal year-end. The principal factor contributing to the increase was the increase of investment securities.

2) Liabilities and Net Assets

Liabilities

The total liabilities at the end of the fiscal year under review were ¥44,969 million, having decreased ¥13,192 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥31,807 million, having decreased ¥9,857 million from the previous fiscal year-end. Notes and accounts payable decreased ¥3,553 million from the previous year to ¥14,170 million. Income taxes payable decreased ¥1,838 million to ¥162 million; the decrease was attributable to the decrease in the amount of taxable income, mainly due to the valuation of applicable financial instruments mentioned above.

Long-Term Liabilities

Long-term liabilities at the fiscal year-end decreased ¥3,334 million from the previous year to ¥13,162 million. Long-term borrowings decreased ¥2,357 million to ¥5,000 million, owing to the transfer to current portion 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 2008 (balance of ¥7,000 million as of March 31, 2008).

Total Net Assets

Net assets at the end of the fiscal year under review were ¥90,378 million, having decreased ¥2,020 million from the previous fiscal

year-end. Retained earnings increased ¥2,673 million from the previous fiscal year-end to ¥43,989 million. Deferred hedge gain or loss on derivatives under hedge accounting decreased ¥3,134 million to negative ¥9 million; the decrease was attributable to the unrealized losses on applicable financial instruments after deduction of the tax effect.

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2007 AND 2008

	Millions of Yen				Increase or decrease	Thousands of U.S. dollars
	2007		2008			2008
	Amount	%	Amount	%		Amount
Assets						
Current assets:						
Cash and deposits	¥ 8,015		¥ 5,863		¥ (2,151)	\$ 58,528
Notes and accounts receivable	28,834		26,322		(2,512)	262,723
Marketable securities	22,113		7,338		(14,775)	73,249
Inventories	15,831		19,618		3,787	195,817
Deferred tax assets	1,678		1,569		(108)	15,669
Derivative assets	5,234		—		(5,234)	—
Other current assets	5,963		8,664		2,701	86,481
Allowance for doubtful accounts	(40)		(92)		(52)	(927)
Total current assets	87,632	58.2	69,285	51.2	(18,346)	691,540
Property, plant and equipment:						
Land	12,366		12,190		(176)	121,678
Buildings and structures	32,714		34,379		1,665	343,147
Machinery, equipment and vehicles	58,385		60,229		1,843	601,150
Tools and furniture	4,972		5,053		81	50,440
Construction in progress	1,234		152		(1,081)	1,526
	109,672		112,006		2,333	1,117,941
Accumulated depreciation	(64,416)		(67,125)		(2,709)	(669,982)
Property, plant and equipment, net	45,256	30.0	44,881	33.2	(375)	447,959
Intangible assets						
Goodwill	—		19		19	191
Property in trademarks	170		208		37	2,081
Software	1,720		1,589		(130)	15,868
Other intangible assets	195		213		18	2,134
Total intangible assets	2,086	1.4	2,031	1.5	(55)	20,274
Investments and other assets						
Investment securities	12,613		15,010		2,397	149,820
Long-term loans receivable	957		1,604		647	16,011
Deferred tax assets	145		584		439	5,836
Other assets	2,074		2,114		39	21,106
Allowance for doubtful accounts	(204)		(163)		41	(1,630)
Total investments and other assets	15,586	10.4	19,150	14.1	3,564	191,143
Total fixed assets	62,929	41.8	66,062	48.8	3,133	659,376
Total assets	¥ 150,561	100.0	¥ 135,348	100.0	¥ (15,213)	\$ 1,350,916

	Millions of Yen					Thousands of U.S. dollars
	2007		2008		Increase or decrease	2008
	Amount	%	Amount	%		Amount
Liabilities						
Current liabilities:						
Notes and accounts payable	¥ 17,724		¥ 14,170		¥ (3,553)	\$ 141,440
Short-term borrowings	2,385		2,487		101	24,824
Current portion of long-term borrowings	2,000		2,000		—	19,962
Other payable	12,356		10,026		(2,330)	100,074
Income taxes payable	2,001		162		(1,838)	1,622
Accrued bonuses for employees	2,554		1,839		(715)	18,360
Accrued bonuses for directors	72		73		1	731
Derivative liabilities	—		15		15	153
Other current liabilities	2,570		1,032		(1,537)	10,307
Total current liabilities	41,665	27.7	31,807	23.5	(9,857)	317,473
Long-term liabilities:						
Long-term borrowings	7,357		5,000		(2,357)	49,905
Deferred tax liabilities	1,970		1,431		(539)	14,286
Liabilities for employees' retirement benefits	2,632		2,520		(112)	25,160
Negative goodwill	99		—		(99)	—
Other liabilities	4,436		4,210		(226)	42,021
Total long-term liabilities	16,496	10.9	13,162	9.7	(3,334)	131,372
Total liabilities	58,162	38.6	44,969	33.2	(13,192)	448,845
Net Assets						
Shareholder's equity						
Common stock	19,985	13.3	19,985	14.8	—	199,475
Capital surplus	23,733	15.8	23,733	17.5	—	236,883
Retained earnings	41,316	27.4	43,989	32.5	2,673	439,066
Treasury stock	(33)	(0.0)	(42)	(0.0)	(9)	(428)
Total shareholder's equity	85,001	56.5	87,665	64.8	2,664	874,996
Valuation and translation adjustments						
Unrealized gain on available-for-sale securities	2,462	1.6	1,022	0.7	(1,440)	10,204
Deferred loss on derivatives under hedge accounting	3,125	2.1	(9)	(0.0)	(3,134)	(91)
Foreign currency translation adjustments	(157)	(0.1)	(323)	(0.2)	(166)	(3,228)
Total valuation and translation adjustments	5,430	3.6	689	0.5	(4,740)	6,885
Minority interest	1,966	1.3	2,022	1.5	55	20,190
Total net assets	92,399	61.4	90,378	66.8	(2,020)	902,071
Total liabilities and net assets	¥ 150,561	100.0	¥ 135,348	100.0	¥ (15,213)	\$ 1,350,916

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥100.19 to U.S. \$1, the exchange rate prevailing on March 31, 2008.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

	Millions of Yen					Thousands of U.S. dollars
	2007		2008		Increase or decrease	2008
	Amount	%	Amount	%		Amount
Net sales	¥ 187,004	100.0	¥ 200,483	100.0	¥ 13,479	\$ 2,001,035
Cost of sales	96,342	51.5	107,620	53.7	11,277	1,074,160
Gross profit	90,662	48.5	92,863	46.3	2,201	926,875
Selling, general and administrative expenses	81,076	43.4	83,011	41.4	1,934	828,539
Operating income	9,586	5.1	9,852	4.9	266	98,336
Other income						
Interest income	134		221			2,208
Dividend income	165		218			2,179
Amortization of negative goodwill	103		99			989
Foreign exchange gains	3		—			—
Subsidies received	171		71			717
Other	176		287			2,868
Total other income	754	0.4	897	0.5	142	8,961
Other expenses						
Interest expense	180		253			2,535
Loss on disposal of inventories	1,055		1,186			11,844
Equity in loss of affiliates under the equity method	643		773			7,717
Gain on sales of investment securities	—		2			21
Foreign exchange losses	—		19			199
Other	164		147			1,473
Total other expenses	2,044	1.1	2,383	1.2	338	23,789
Ordinary income	8,296	4.4	8,366	4.2	70	83,508
Extraordinary gain						
Reversal of allowance for doubtful accounts	16		—			—
Gain on sales of fixed assets	34		158			1,579
Gain on sales of investment securities	52		1			11
Total extraordinary gain	104	0.1	159	0.1	55	1,590
Extraordinary loss						
Loss on disposal of fixed assets	547		557			5,561
Impairment loss	152		—			—
Write-down of golf club memberships	6		1			14
Loss on sales of investment securities	0		0			0
Write-down of investment securities	19		3			31
Total extraordinary loss	726	0.4	561	0.3	(165)	5,606
Income before income taxes and minority interests	7,673	4.1	7,964	4.0	290	79,492
Income taxes						
Income taxes - current	4,433		1,721			17,182
Income taxes - deferred	(597)		2,225			22,213
Total income taxes	3,835	2.0	3,946	2.0	111	39,395
Minority interests in net loss	(248)	(0.1)	(150)	(0.1)	98	(1,498)
Net income	¥ 4,086	2.2	¥ 4,167	2.1	¥ 80	\$ 41,595

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥100.19 to U.S. \$1, the exchange rate prevailing on March 31, 2008.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

Millions of Yen

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain 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, 2006	¥ 11,685	¥ 15,433	¥ 38,821	¥ (25)	¥ 65,914	¥ 3,043	—	¥ (237)	¥ 2,806	¥ 1,799	¥ 70,519
Issuance of new shares	8,300	8,300			16,600						16,600
Cash dividends			(1,343)		(1,343)						(1,343)
Bonuses to directors			(84)		(84)						(84)
Net income			4,086		4,086						4,086
Adjustments of retained earnings for newly consolidated subsidiaries			(24)		(24)						(24)
Adjustments of retained earnings for a newly associated company by the equity method			(140)		(140)						(140)
Repurchase of treasury stock				(7)	(7)						(7)
Net change in the year						(580)	¥ 3,125	80	2,624	167	2,792
Balance, March 31, 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

Thousands of U.S. Dollars

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain 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, 2007	\$ 199,475	\$ 236,883	\$ 412,381	\$ (335)	\$ 848,404	\$ 24,581	\$ 31,194	\$ (1,570)	\$ 54,205	\$ 19,632	\$ 922,241
Cash dividends			(14,910)		(14,910)						(14,910)
Net income			41,595		41,595						41,595
Repurchase of treasury stock				(93)	(93)						(93)
Net change in the year						(14,377)	(31,285)	(1,658)	(47,320)	558	(46,762)
Balance, March 31, 2008	\$ 199,475	\$ 236,883	\$ 439,066	\$ (428)	\$ 874,996	\$ 10,204	\$ (91)	\$ (3,228)	\$ 6,885	\$ 20,190	\$ 902,071

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥100.19 to U.S. \$1, the exchange rate prevailing on March 31, 2008.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2007 AND 2008

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	Increase or decrease	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 7,673	¥ 7,964	¥ 290	\$ 79,492
Depreciation and amortization	5,525	6,660	1,135	66,483
Impairment loss	152	—	(152)	—
Interest and dividend income	(300)	(439)	(139)	(4,387)
Interest expense	180	253	73	2,535
Increase (decrease) in accrued bonuses	940	(713)	(1,653)	(7,118)
Decrease in other provisions	(75)	(50)	24	(505)
Equity in loss of affiliates under the equity method	643	773	129	7,717
Loss on disposal of fixed assets	547	557	9	5,561
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(3,744)	2,460	6,025	24,559
Increase in inventories	(1,157)	(3,950)	(2,792)	(39,427)
(Increase) decrease in accounts receivable-other	(1,315)	2,092	3,407	20,881
Increase (decrease) in notes and accounts payable	4,026	(7,924)	(11,950)	(79,090)
Increase (decrease) in accounts payable-other	2,120	(2,914)	(5,034)	(29,085)
Decrease in other assets	14	69	55	695
Increase in other liabilities	102	168	66	1,686
Other increase	248	198	(49)	1,983
Other decrease	(536)	(268)	268	(2,678)
Subtotal	15,046	4,939	(10,107)	49,302
Cash received for interest and dividend income	216	508	292	5,079
Cash paid for interest expense	(186)	(255)	(68)	(2,551)
Cash paid for income taxes	(6,995)	(3,777)	3,217	(37,700)
Net cash provided by operating activities	8,080	1,415	(6,665)	14,130

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	Increase or decrease	2008
Cash flows from investing activities:				
Purchases of marketable and investment securities	(252)	(5,297)	(5,045)	(52,874)
Proceeds from sales of marketable and investment securities	88	38	(49)	383
Acquisition of fixed assets	(7,729)	(8,527)	(798)	(85,116)
Proceeds from sales of fixed assets	68	23	(45)	232
Disbursement for loans	(2,300)	(3,106)	(805)	(31,002)
Collection of loans	1,600	2,006	405	20,025
Other increase	67	23	(44)	230
Other decrease	(56)	(159)	(102)	(1,593)
Net cash used in investing activities	(8,513)	(14,999)	(6,486)	(149,715)
Cash flows from financing activities:				
Proceeds from long-term borrowings	5,468	4,600	(867)	45,919
Repayments of long-term borrowings	(5,760)	(6,696)	(936)	(66,841)
Proceeds from issuance of new common stock to minority shareholders	—	364	364	3,636
Proceeds from issuance of new common stock	16,600	—	(16,600)	—
Dividends paid	(1,340)	(1,483)	(142)	(14,802)
Dividends paid to minority shareholders	(55)	(57)	(1)	(574)
Repurchase of treasury stock	(7)	(9)	(1)	(93)
Net cash provided by (used in) financing activities	14,904	(3,281)	(18,186)	(32,755)
Foreign translation adjustment on cash and cash equivalents	16	(55)	(71)	(556)
Net increase (decrease) in cash and cash equivalents	14,487	(16,922)	(31,409)	(168,896)
Cash and cash equivalents at beginning of year	14,910	29,981	15,071	299,251
Cash and cash equivalents of newly consolidated subsidiaries	583	—	(583)	—
Cash and cash equivalents at end of year	¥ 29,981	¥ 13,059	¥ (16,922)	\$ 130,355

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