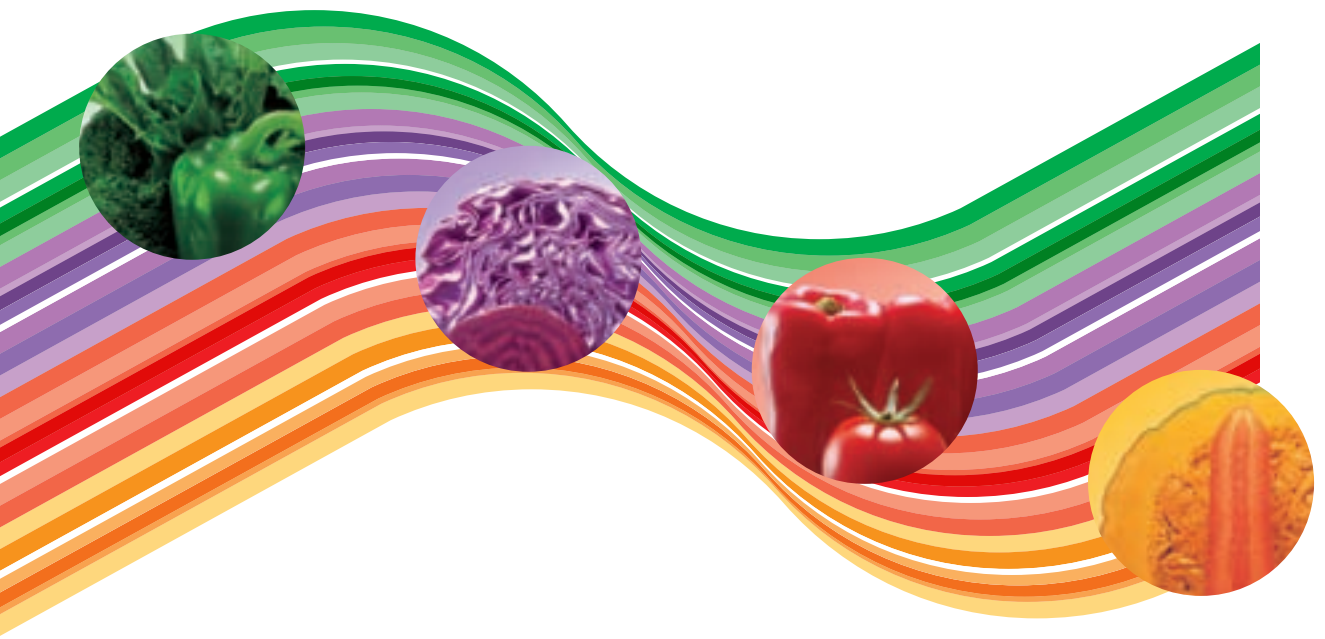




True to nature, the flavor of KAGOME



Consolidated Financial Report

Fiscal year ended March 31, 2012

Management Discussion and Analysis

Forward-looking statements in this document represent the best judgment of the Kagome Group as of June 15, 2012. Certain 2011 financial statement items were reclassified to conform to the presentation for 2012.

(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 Fiscal Year Ended March 31, 2012

Japan has recovered from the aftermath of the Great East Japan Earthquake and Tsunami (the "Great Earthquake") of March 11, 2011. In some areas, such as manufacturing activities and consumer spending, recovery was stable. In other areas, however, recovery was slow. In addition, the European financial crisis and appreciation of the yen have impacted the Japanese economy.

The Great Earthquake also caused damage to Kagome group's manufacturing and supply chain; however, we were able to restore production by September 2011.

1) Net Sales

Net sales in the fiscal year ended March 31, 2012 were ¥180,047 million, a decrease of ¥1,257 million (0.7%) from the previous fiscal year.

Net sales were down slightly from the previous year due to a decrease from the effects of the constraints on the supply chain after the Great Earthquake and a decrease in sales caused by business restructuring such as the transfer of beverage brand "Rokujiyo Mugicha" (barley tea) and the shutdown of chilled dessert production, in spite of marking an increase in tomato juice sales following favorable news reports in February stating that tomatoes prevent metabolic syndrome.

2) Cost of Sales and Gross Profit

The cost of sales in the fiscal year under review was ¥92,828 million, a decrease of 0.3% or ¥245 million on a year-on-year basis. The cost of sales ratio increased 0.3 percentage points from 51.3% for the previous year to 51.6%.

As a result, gross profit decreased 1.1% or ¥1,012 million to ¥87,219 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 decreased 1.9% or ¥1,500 million from the previous year to ¥78,752 million. The ratio of SG&A expenses to net sales was down 0.6 percentage points to 43.7%. The main factors in the decrease of the ratio of SG&A were as follows: (1) the ratio of sales promotion expenses to net sales was down by 0.7 percentage points from the previous year due to constraints on the supply chain after the Great Earthquake, and (2) advertising expenses decreased by ¥189 million from the previous year due to the effects of the Great Earthquake.

As a result, operating income increased 6.1% or ¥488 million from the previous year to ¥8,466 million. The ratio of operating income to net sales was up 0.3 percentage points from 4.4% to 4.7%.

4) Other Income and Expenses and Ordinary Income

Other income in the fiscal year under review decreased ¥170 million from the previous year to ¥1,053 million, mainly due to a decrease in equity in earnings of affiliates of ¥244 million. Other expenses decreased ¥506 million to ¥306 million, mainly due to a decrease in foreign exchange loss of ¥432 million.

As a result, ordinary income increased 9.8% or ¥824 million from the previous year to ¥9,213 million. The ratio of ordinary income to net sales was up 0.5 percentage points from 4.6% to 5.1%.

5) Extraordinary Gain and Loss

Extraordinary gain decreased ¥354 million from the previous year to ¥526 million, principally due to a decrease in gain on sales of investment securities of ¥532 million.

Extraordinary loss decreased ¥943 million from the previous year to ¥3,234 million. This was mainly a result of (1) a decrease in loss on disaster of ¥2,604 million, (2) a decrease in loss on business liquidation of ¥429 million, (3) an increase in write-down of investment securities of ¥768 million, and (4) an increase in impairment loss of ¥1,404 million.

6) Income Taxes and Net Income

Income taxes decreased ¥380 million from the previous year to ¥2,371 million. The effective tax rate after applying deferred tax accounting was 36.5%. This was mainly attributable to changes in valuation allowance for deferred tax assets.

As a result, net income in the fiscal year ended March 31, 2012 increased ¥1,744 million from the previous year to ¥4,217 million.

(3) Analysis of Assets, Liabilities and Net Assets

1) Assets

Total assets were ¥148,207 million at the end of the fiscal year under review, an increase of 3.9% or ¥5,546 million from the previous fiscal year-end.

Current Assets

Current assets were ¥87,619 million at the fiscal year-end, having increased 10.3% or ¥8,207 million from the previous fiscal year-end.

Cash and deposits were ¥15,588 million, an increase of ¥6,170 million. Marketable securities were ¥18,960 million, an increase of ¥743 million.

Notes and accounts receivable increased ¥2,742 million from the end of the previous fiscal year to ¥25,952 million. Inventories decreased ¥752 million to ¥20,793 million. Inventory turnover (based on the average of beginning and ending inventories) was down to 2.74 months from 3.00 months at the previous fiscal year-end.

Property, Plant and Equipment (After Accumulated Depreciation)

Property, plant and equipment at the fiscal year-end were ¥36,999 million, having decreased ¥3,556 million from the previous fiscal year-end.

The main factor was due to an impairment loss for long-lived assets recorded for consolidated subsidiaries Vegitalia S.p.A and Kagome (Hangzhou) Food Co., Ltd. In addition, depreciation decreased the carrying values of the assets.

Intangible Assets

Intangible assets at the fiscal year-end were ¥5,158 million, having decreased ¥360 million from the previous fiscal year-end. Amortization of goodwill decreased the carrying values of the assets. In contrast, software increased by ¥746 million due to the acquisition of new software including software for sales and distribution.

Investments and Other Assets

Investments and other assets at the fiscal year-end were ¥18,430 million, having increased ¥1,256 million from the previous fiscal year-end. The principal factor contributing to the increase was an increase in deferred tax assets of ¥1,583 million.

2) Liabilities and Net Assets

Liabilities

The total liabilities at the end of the fiscal year under review were ¥55,392 million, having increased ¥1,673 million from the previous fiscal year-end.

Current Liabilities

Current liabilities at the fiscal year-end were ¥37,503 million, having increased ¥1,094 million from the previous fiscal year-end. The main factors in the increase were as follows: notes and accounts payable, other payable and income taxes payable increased by ¥1,419 million, ¥2,121 million and ¥2,022 million, respectively. In contrast, current portion of long-term borrowings, provision for loss on disaster and derivative liabilities decreased by ¥1,009 million, ¥2,443 million and ¥1,446 million, respectively.

Long-Term Liabilities

Long-term liabilities at the end of the fiscal year increased ¥579 million from the previous year to ¥17,889 million. The increase was mainly due to an increase in long-term borrowings of ¥772 million.

Net Assets

The total net assets at the end of the fiscal year under review were ¥92,815 million, having increased ¥3,873 million from the previous fiscal year-end.

Retained earnings increased by ¥2,725 million to ¥49,910 million. The increase was mainly the result of a decrease in dividends of ¥1,491 million and an increase in net income of ¥4,217 million.

Unrealized gain on available-for-sale securities increased ¥1,036 million from the previous year to ¥927 million due to a rise in the fair values of investment securities. Deferred loss on derivatives under hedge accounting increased ¥830 million from the previous year to ¥(884) million due to foreign exchange fluctuations. Foreign currency translation adjustments decreased ¥546 million from the previous year to ¥(1,872) million due to foreign exchange fluctuations.

CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2011 AND 2012

	Millions of Yen				Increase (Decrease)	Thousands of U.S. dollars
	2011		2012			2012
	Amount	%	Amount	%		Amount
Assets						
Current assets:						
Cash and deposits	¥ 9,417		¥ 15,588		¥ 6,170	\$ 189,662
Notes and accounts receivable	23,209		25,952		2,742	315,766
Marketable securities	18,216		18,960		743	230,693
Inventories	21,546		20,793		(752)	252,996
Deferred tax assets	2,593		1,899		(694)	23,110
Other current assets	4,512		4,512		(0)	54,905
Allowance for doubtful accounts	(85)		(88)		(2)	(1,073)
Total current assets	79,412	55.7	87,619	59.1	8,207	1,066,059
Fixed assets:						
Property, plant and equipment:						
Land	11,648		11,505		(142)	139,990
Buildings and structures	36,159		34,627		(1,532)	421,312
Machinery, equipment and vehicles	60,124		56,467		(3,657)	687,032
Tools and furniture	5,256		5,382		126	65,484
Lease assets	4,442		4,192		(250)	51,012
Construction in progress	579		791		212	9,630
	118,210		112,966		(5,244)	1,374,460
Accumulated depreciation	(77,655)		(75,967)		1,688	(924,295)
Property, plant and equipment, net	40,555	28.4	36,999	25.0	(3,556)	450,165
Intangible assets:						
Goodwill	3,395		2,441		(954)	29,701
Property in trademarks	78		36		(41)	439
Software	1,511		2,258		746	27,480
Other intangible assets	534		422		(111)	5,146
Total intangible assets	5,519	3.9	5,158	3.5	(360)	62,766
Investments and other assets:						
Investment securities	13,518		13,366		(152)	162,625
Deferred tax assets	996		2,579		1,583	31,390
Other assets	2,733		2,567		(166)	31,233
Allowance for doubtful accounts	(74)		(82)		(8)	(1,001)
Total investments and other assets	17,174	12.0	18,430	12.4	1,256	224,247
Total fixed assets	63,249	44.3	60,588	40.9	(2,660)	737,178
Total assets	¥ 142,661	100.0	¥ 148,207	100.0	¥ 5,546	\$ 1,803,237

	Millions of Yen					Thousands of U.S. dollars
	2011		2012		Increase (Decrease)	2012
	Amount	%	Amount	%		Amount
Liabilities						
Current liabilities:						
Notes and accounts payable	¥ 11,967		¥ 13,387		¥ 1,419	\$ 162,884
Short-term borrowings	2,846		2,904		57	35,335
Current portion of long-term borrowings	2,102		1,092		(1,009)	13,294
Other payable	8,879		11,001		2,121	133,856
Income taxes payable	1,193		3,215		2,022	39,128
Accrued bonuses for employees	1,943		2,257		313	27,464
Accrued bonuses for directors	52		66		14	810
Provision for loss on disaster	2,443		—		(2,443)	—
Provision for loss on business liquidation	139		—		(139)	—
Derivative liabilities	2,872		1,426		(1,446)	17,356
Other current liabilities	1,967		2,151		183	26,174
Total current liabilities	36,409	25.5	37,503	25.3	1,094	456,301
Long-term liabilities:						
Long-term borrowings	10,394		11,166		772	135,865
Deferred tax liabilities	987		1,001		13	12,183
Liabilities for employees' retirement benefits	2,369		2,543		174	30,947
Other liabilities	3,558		3,177		(380)	38,666
Total long-term liabilities	17,310	12.1	17,889	12.1	579	217,661
Total liabilities	53,719	37.6	55,392	37.4	1,673	673,962
Net Assets						
Shareholders' equity:						
Common stock	19,985	14.0	19,985	13.5	—	243,161
Capital surplus	23,733	16.6	23,733	16.0	—	288,762
Retained earnings	47,184	33.1	49,910	33.6	2,725	607,252
Treasury stock	(209)	(0.1)	(210)	(0.1)	(1)	(2,563)
Total shareholders' equity	90,693	63.6	93,418	63.0	2,724	1,136,612
Accumulated other comprehensive income:						
Unrealized gain (loss) on available-for-sale securities	(108)	(0.1)	927	0.6	1,036	11,291
Deferred loss on derivatives under hedge accounting	(1,715)	(1.2)	(884)	(0.6)	830	(10,766)
Foreign currency translation adjustments	(1,326)	(0.9)	(1,872)	(1.2)	(546)	(22,786)
Total accumulated other comprehensive income	(3,150)	(2.2)	(1,829)	(1.2)	1,320	(22,261)
Minority interest	1,398	1.0	1,226	0.8	(171)	14,924
Total net assets	88,941	62.4	92,815	62.6	3,873	1,129,275
Total liabilities and net assets	¥ 142,661	100.0	¥ 148,207	100.0	¥ 5,546	\$ 1,803,237

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥82.19 to U.S. \$1, the exchange rate prevailing on March 31, 2012.
2. Certain 2011 items were reclassified to conform to the presentation for 2012.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED MARCH 31, 2011 AND 2012

	Millions of Yen					Thousands of U.S. dollars
	2011		2012		Increase (Decrease)	2012
	Amount	%	Amount	%		Amount
Net sales	¥ 181,304	100.0	¥ 180,047	100.0	¥ (1,257)	\$ 2,190,624
Cost of sales	93,073	51.3	92,828	51.6	(245)	1,129,433
Gross profit	88,231	48.7	87,219	48.4	(1,012)	1,061,191
Selling, general and administrative expenses	80,253	44.3	78,752	43.7	(1,500)	958,177
Operating income	7,978	4.4	8,466	4.7	488	103,014
Other income						
Interest income	212		308		96	3,753
Dividend income	289		263		(26)	3,200
Equity in earnings of affiliates by the equity method	377		133		(244)	1,622
Other	343		348		4	4,239
Total other income	1,223	0.7	1,053	0.6	(170)	12,814
Other expenses						
Interest expense	241		198		(42)	2,419
Foreign exchange losses	432		—		(432)	—
Other	138		107		(30)	1,311
Total other expenses	812	0.5	306	0.2	(506)	3,730
Ordinary income	8,389	4.6	9,213	5.1	824	112,098
Extraordinary gain						
Reversal of allowance for doubtful accounts	27		—		(27)	—
Gain on sales of fixed assets	315		324		9	3,951
Gain on sales of investment securities	538		6		(532)	78
Reversal of provision for loss on disaster	—		106		106	1,295
Reversal of loss on business liquidation	—		88		88	1,081
Total extraordinary gain	881	0.5	526	0.3	(354)	6,405
Extraordinary loss						
Loss on disaster	2,795		191		(2,604)	2,326
Special payments for disaster victims	411		—		(411)	—
Loss on disposal of fixed assets	367		767		400	9,341
Impairment loss	—		1,404		1,404	17,084
Loss on sales of investment securities	107		0		(107)	0
Write-down of investment securities	49		818		768	9,955
Write-down of golf club memberships	16		16		0	200
Loss on business liquidation	429		—		(429)	—
Loss on liquidation of an subsidiary	—		36		36	447
Total extraordinary loss	4,177	2.3	3,234	1.8	(943)	39,353
Income before income taxes and minority interests	5,092	2.8	6,505	3.6	1,412	79,150
Income taxes						
Income taxes - current	2,870		4,540		1,669	55,240
Income taxes - deferred	(118)		(2,168)		(2,049)	(26,380)
Total income taxes	2,752	1.5	2,371	1.3	(380)	28,860
Income before minority interests	2,339	1.3	4,133	2.3	1,793	50,290
Minority interests in net loss	(133)	(0.1)	(84)	(0.0)	49	(1,022)
Net income	¥ 2,473	1.4	¥ 4,217	2.3	¥ 1,744	\$ 51,312
Addition: Minority interests in net loss	(133)		(84)		49	(1,022)
Income before minority interests	2,339	1.3	4,133	2.3	1,793	50,290
Other comprehensive income:						
Unrealized gain (loss) on available-for-sale securities	(621)		1,036		1,657	12,611
Deferred gain (loss) on derivatives under hedge accounting	(1,213)		830		2,044	10,101
Foreign currency translation adjustments	240		(563)		(804)	(6,861)
Share of other comprehensive income of an affiliate by the equity method	49		(82)		(131)	(1,007)
Total other comprehensive income	(1,545)	(0.9)	1,220	0.7	2,765	14,844
Comprehensive income	¥ 794	0.4	¥ 5,353	3.0	¥ 4,559	\$ 65,134
Of which attributable to shareholders of the parent	994	0.5	5,537	3.1	4,543	67,380
Of which attributable to minority interests	(199)	(0.1)	(184)	(0.1)	15	(2,246)

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥82.19 to U.S. \$1, the exchange rate prevailing on March 31, 2012.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED MARCH 31, 2011 AND 2012

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 Accumulated Other Comprehensive Income	Minority interests	Total Net Assets
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
Cash dividends			(1,491)		(1,491)						(1,491)
Net income			4,217		4,217						4,217
Repurchase of treasury stock				(1)	(1)						(1)
Net change in the year						1,036	830	(546)	1,320	(171)	
Balance at March 31, 2012	¥ 19,985	¥ 23,733	¥ 49,910	¥ (210)	¥ 93,418	¥ 927	¥ (884)	¥ (1,872)	¥ (1,829)	¥ 1,226	¥ 92,815

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 Accumulated Other Comprehensive Income	Minority interests	Total Net Assets
Balance at March 31, 2011	\$ 243,161	\$ 288,762	\$ 574,093	\$ (2,550)	\$ 1,103,466	\$ (1,320)	\$ (20,867)	\$ (16,141)	\$ (38,328)	\$ 17,011	\$ 1,082,149
Cash dividends			(18,153)		(18,153)						(18,153)
Net income			51,312		51,312						51,312
Repurchase of treasury stock				(13)	(13)						(13)
Net change in the year						12,611	10,101	(6,645)	16,067	(2,087)	13,980
Balance at March 31, 2012	\$ 243,161	\$ 288,762	\$ 607,252	\$ (2,563)	\$ 1,136,612	\$ 11,291	\$ (10,766)	\$ (22,786)	\$ (22,261)	\$ 14,924	\$ 1,129,275

U.S. dollar amounts have been translated from Japanese yen at the rate of ¥82.19 to U.S. \$1, the exchange rate prevailing on March 31, 2012.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2011 AND 2012

	Millions of Yen			Thousands of U.S. dollars
	2011	2012	Increase (Decrease)	2012
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 5,092	¥ 6,505	¥ 1,412	\$ 79,149
Depreciation and amortization	5,837	5,372	(464)	65,364
Impairment loss	—	1,404	1,404	17,084
Amortization of goodwill	310	754	444	9,183
Loss on disaster	2,795	191	(2,604)	2,326
Special payments for disaster victims	411	—	(411)	—
Loss on business liquidation	429	—	(429)	—
Interest and dividend income	(501)	(571)	(69)	(6,954)
Interest expense	241	198	(42)	2,419
Foreign exchange loss	432	6	(425)	85
Increase in accrued bonuses	93	329	236	4,014
Decrease in provision for loss on disaster	—	(2,443)	(2,443)	(29,729)
Increase (decrease) in other provisions	(25)	42	67	511
Equity in earnings of affiliates by the equity method	(377)	(133)	244	(1,622)
Gain on sales of securities-net	(432)	(6)	425	(78)
Write-down of investment securities	49	818	768	9,955
Loss on sales and disposal of fixed assets-net	52	442	390	5,390
Changes in assets and liabilities:				
Increase (decrease) in notes and accounts receivable	1,786	(2,769)	(4,556)	(33,701)
Decrease in inventories	4,123	430	(3,693)	5,240
Increase in accounts receivable-other	(667)	(489)	178	(5,953)
Increase in notes and accounts payable	2,609	1,745	(863)	21,241
Increase in accounts payable-other	698	1,634	935	19,890
Decrease (increase) in other current assets	(310)	172	482	2,095
Increase in other current liabilities	23	282	259	3,442
Other increase	26	202	175	2,458
Other decrease	(37)	(11)	26	(136)
Subtotal	22,661	14,109	(8,551)	171,673
Cash received from interest and dividend income	450	541	90	6,588
Cash paid for interest expense	(238)	(197)	40	(2,406)
Cash paid for special payments for disaster victims	(345)	(67)	277	(823)
Cash paid for income taxes	(4,289)	(2,629)	1,659	(31,996)
Cash received from income tax refund	1	1	(0)	17
Net cash provided by operating activities	18,241	11,757	(6,483)	143,053

	Millions of Yen			Thousands of U.S. dollars
	2011	2012	Increase (Decrease)	2012
Cash flows from investing activities:				
Disbursement for time deposits	(11,100)	(21,000)	(9,900)	(255,506)
Proceeds from repayment of time deposits	15,000	12,100	(2,900)	147,220
Purchases of marketable and investment securities	(35,305)	(39,982)	(4,676)	(486,464)
Proceeds from sales and redemptions of marketable and investment securities	21,796	47,788	25,991	581,441
Acquisition of fixed assets	(2,161)	(3,984)	(1,822)	(48,484)
Disbursement for disposal of fixed assets	(135)	(364)	(229)	(4,435)
Proceeds from sales of fixed assets	348	413	64	5,029
Disbursement for transfer of business	(7,524)	—	7,524	—
Other increase	160	164	3	1,997
Other decrease	(172)	(119)	52	(1,455)
Net cash used in investing activities	(19,093)	(4,985)	14,108	(60,657)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(242)	216	459	2,639
Proceeds from long-term borrowings	6,600	1,940	(4,659)	23,611
Repayments of long-term borrowings	(3,078)	(2,107)	970	(25,647)
Repayments of lease obligations	(441)	(376)	64	(4,586)
Proceeds from stock issuance to minority shareholders	116	11	(104)	142
Dividends paid	(1,491)	(1,500)	(9)	(18,259)
Dividends paid to minority shareholders	(44)	(43)	0	(533)
Repurchase of treasury stock	(4)	(1)	2	(13)
Net cash (used in) provided by financing activities	1,414	(1,861)	(3,275)	(22,646)
Foreign translation adjustment on cash and cash equivalents	(108)	(106)	1	(1,299)
Net increase in cash and cash equivalents	453	4,804	4,350	58,451
Cash and cash equivalents of newly consolidated subsidiaries	20	—	(20)	—
Cash and cash equivalents at beginning of year	12,270	12,744	474	155,067
Cash and cash equivalents at end of year	¥ 12,744	¥ 17,549	¥ 4,804	\$ 213,518

Note:

1. U.S. dollar amounts have been translated from Japanese yen at the rate of ¥82.19 to U.S. \$1, the exchange rate prevailing on March 31, 2012.
2. Certain 2011 items were reclassified to conform to the presentation for 2012.

KAGOME CO., LTD