

[February 3] Results Briefing for the Fiscal Year Ended December 31, 2016

Introduction

Thank you very much for taking the time out of your busy schedules to attend the results briefing today. I would like to take this opportunity to express my gratitude for your support of Kagome Co., Ltd.

PPT2

- As we announced yesterday, the financial results for FY2016 marked record high sales and profits at all levels.
- The earnings structural reforms and the way of working reforms, which we have been working on since I became president, have gradually penetrated throughout the Company and have finally begun to bear quantitative fruit. In Japan, in particular, we were able to conduct business activities that were well adjusted to diversified health awareness in the fiscal year under review. The reason why I said, “The reforms have gradually penetrated throughout the Company” is that it was not the result of having done all we could. There is still a lot of waste, unreasonableness and inconsistency in our jobs and our way of working, and many elements that will enable us to make more profits. Our financial results were better than expected, not because we have done all we could, but partly because we had positive effects such as lower raw material prices due to the stronger yen and falling energy costs.
- I will now begin my explanation of the details of our financial results, using the content you can see here.

I. Details of financial results

PPT3

1. Consolidated results

- First, I will show you the summary of the consolidated results. As you can see,
- Net sales increased 4% year on year, to 202.5 billion yen, operating income rose 63%, to 10.9 billion yen, ordinary income was up 61%, to 11.3 billion yen, and net income climbed 97%, to 6.8 billion yen.

PPT4

- By business segment, the domestic processed food business recorded net sales of 163.7 billion yen, an increase of 5% year on year, and operating income of 8.8 billion yen, up 53%. In the domestic agriculture business, net sales increased 5%, to 11.5 billion yen, and operating income rose 18%, to 0.9 billion yen. In the international business, net sales were 47.4 billion yen, remaining nearly flat from the previous year, and operating income increased fivefold, to 1.3 billion yen.

PPT5

2. Results by segment

◆Domestic processed food business

- In the domestic processed food business, net sales increased in all segments, except for food, and

operating income increased in all segments.

<Beverages>

- The beverages business succeeded in connecting diversified health needs for vegetable beverages to sales by preempting these needs.
- We launched functional tomato juices as foods with functional claims that can increase beneficial cholesterol for the first time in Japan, and their sales increased 30% year on year because they accurately captured the health needs of consumers in their 40s and 50s who are concerned about their cholesterol level.
- “Yasai Seikatsu 100 Peel & Herb” and “Yasai Seikatsu 100 Smoothie” also made a contribution to the strong performance of the beverage business because we were able to launch products that proposed a new beverage drinking scenario such as a change of mood and a quick light meal.

<Food and Institutional and Industrial>

- In the food business, we were able to undertake the effective in-store promotion of low-salt menus using tomato ketchup in step with growing interest in salt reduction, in addition to the media coverage of health information on tomato ketchup, although sales declined as a result of our reviewing unprofitable products.
- Tomato pazza, which is deliciously easy to eat with vegetables and seafood, also contributed to higher sales of tomato sauces in cooperation between the institutional and industrial business and the household use business.

<Gifts and corporate sales>

- In the gifts and corporate sales business, we promoted the development of new channels such as the Internet, catalog mail-order and stockpiling for disaster, and significantly reviewed unprofitable products.

<Direct marketing>

- In the direct marketing business, Tsubuyori Yasai, a specialty product, had a strong showing, thanks to the successful outcome of web advertising with high targeting accuracy.

◆Domestic agriculture business

- In the domestic agriculture business, we were able to capture consumer needs for the efficient taking of vegetable nutrients by enhancing sales of high value-added products such as High Lycopene Tomatoes.
- Sales of High Lycopene Tomatoes have been increasing steadily every year since the launch in 2007, and have grown to a product that makes up 40% of the sales of fresh tomatoes.
- It also made a contribution to our strengthening our readiness for supply-demand conditions by concluding a contract with a major tomato grower in Yamanashi Prefecture with the latest facilities, including a large greenhouse, which is able to supply tomatoes even in midsummer.

PPT6

- Next, I will explain the international business.
- In the international business, there were negative impacts of exchange rates of 5.5 billion yen on net sales and 0.1 billion yen on operating income. In real terms, however,

excluding the impact of exchange rates, both sales and income increased.

◆ Global Institutional and Industrial

In the global institutional and industrial business, sales of culinary sauces developed for leading food service customers remained strong.

◆ Seeds and Seedlings

- In the seeds and seedlings business, major customers held off on the purchase of seeds because of the abundant harvest of tomatoes in the United States two years ago, but sales for Europe remained firm.

◆ Consumer Business

- In the consumer business, net sales increased due to the effect of the full-year consolidation of PBI in the United States, which we acquired in fiscal 2015. In Asia, income increased significantly because the loss decreased as a result of viewing the business structure and recording extraordinary losses in fiscal 2015.

◆ Topics in the international business

- In the international business, demand is expected to increase.
- Aiming for growth in the processing tomato market, we took a 20% stake in Ingomar Packing Company LLC in the United States, a market leader, and Ingomar became an equity-method affiliate in October 2016.

PPT7

3. Factors contributing to changes in consolidated operating income

- I will now explain the increases and decreases in operating income.
- In Japan, progress in the earnings structural reforms, in addition to the increase in sales, became a major factor for higher income.
- Regarding cost reductions, factors such as the review of the procurement policy of raw materials, the optimization of the production system, and the stronger capability of responding to supply-demand conditions in the domestic agriculture business led to cost reductions. In addition, a fall in energy costs due to lower oil prices also became a factor for a 2.2 billion yen increase in income.
- We were able to spend sales promotion costs efficiently by strengthening income management and reduce expenses for the disposal of long-held goods. These were factors for a 1.3 billion increase in income.
- For the effect of price revisions, we revised the price of tomato ketchup in April 2015 and focused on measures to boost demand by holding the Rice Omelet Stadium in the first year of the price revision, among other measures. This became a factor for a 0.5 billion yen increase in income through the substantive price revision effect in fiscal 2016.
- The review of unprofitable products also became a factor for a 0.3 billion yen increase in income.
- The factors above were the outcome of the earnings structural reforms, and income increased significantly, by 4.2 billion yen from the previous year.

PPT8

4. Changes on the consolidated balance sheet

- The changes on the consolidated balance sheet are as you can see on the slide.
- We conducted a takeover bid for our own shares in December 2016 and acquired these shares for a total of 25.8 billion yen from Asahi Group Holdings, Ltd. and Dynapac Co., Ltd. This was equivalent to 10.54% of the total number of issued shares. The method of handling the shares we have acquired is currently under consideration.

PPT9

- Changes in goodwill are as shown on the slide.

PPT10

- Cash flows are as you can see.
- That's all for my explanation of our financial results for fiscal 2016.

PPT11-14

II. Long-term vision and progress in the mid-term management plan

- I will now explain our long-term vision and the progress of the mid-term management plan.

1. Long-term vision

- The ideal picture of the Company we have painted is to become “a strong company capable of sustainable growth, using food as a means of solving social issues.”
- We will therefore help solve the social issue of extending healthy life expectancy with the aim of solving the problem of not eating enough vegetables in Japan by going from being a “tomato company” to being a “vegetable company” making a shift from a tomato company to a vegetable company.
- We will contribute to the extension of healthy life expectancy by delivering various kinds of vegetables as tasty Kagome brand products such as salads, juices, seasonings, frozen ingredients, soups and supplements.
- We will expand our business domains by providing events and experiences in the service field, as well as vegetable-related goods and products.
- We entered into a business alliance with FiNC inc., a healthcare venture company using smartphones, in 2016. We plan to begin developing a health support business for corporations and local governments in 2017.
- We are also considering an agriculture consulting business using the tomato cultivation technologies we have fostered and the commercialization of agricultural experience facilities.
- Quantitatively, we are seeking to achieve net sales of 300 billion yen and operating income of 20 billion yen by 2025.
- In addition, as part of the method of working reforms for further sustainable growth ahead of the long-term vision, we will work to achieve the target of increasing the female

employment ratio to 50% or more at all levels of employees, management-level employees and officers by promoting diversity.

PPT15-17

2. Progress of the mid-term management plan

- The mid-term management plan will become an important foothold for achieving the long-term vision.
- We will revise our quantitative targets for fiscal 2018 upward because we made more progress than planned in fiscal 2016 and our ability to make a profit has solidified.
- We will set the targets of net sales of 220 billion yen, which remains the same as the initial plan, operating income margin of 6%, operating income of 13.2 billion yen and ROE of 8%.
- The breakdown by business segment is as you can see on the slide.
- We will also add the marginal income ratio and the ratio of the break-even point to sales to our management indicators. By adding these two management indicators, we will strengthen our income structure. We will translate them into the income structure in the mid-term management plan up to fiscal 2018 and shift the emphasis to growth in the next mid-term management plan.

PPT18

III. Challenges for FY2017

- I will now explain our efforts for fiscal 2017, the second year of the mid-term management plan.
- We will continue to proceed with tasks for the earnings structural reforms and the way of working reforms and, at the same time, evolve our response to diversified health awareness in the domestic businesses and our response to global food services in the international business.

PPT19

1. Domestic processed food business

- In the beverage business, while tomato juices with functional claims worked as a driving force in the previous fiscal year, we plan to launch “Kagome Yasai Juice” that indicates the function of reducing blood pressure in May 2017 as a new food with functional claims.
- “Yasai Seikatsu 100 Smoothie” that proposes a new beverage drinking scenario also has room for expansion. The smoothie market grew 1.5 times last year, and we expect that the market will continue to grow in the future because we do not believe that this growth is a transient trend. We therefore seek to achieve a significant increase by adding new items and releasing a TV commercial at the end of February.
- In the food business, we will extend our menus for household use, such as the low-salt menus of tomato ketchup and tomato pazza, into the home-meal replacement of prepared food for industrial use and menus for the food service industry by evolving the promotion of menus for household use.

- In May 2017, we will hold the Napolitan Stadium with the aim of boosting demand for tomato ketchup. We held the Rice Omelet Stadium two years ago, and it made a significant contribution to the expansion of demand for ketchup after the price revision. This year, the Napolitan Stadium will lead to higher sales of ketchup in cooperation between the household use business and the institutional and industrial business.

PPT20

2. Domestic agriculture business

- In the domestic agriculture business, we will enhance sales of high lycopene tomatoes and beta-carotene tomatoes, etc. as the super-vegetable series.
- We will also strive to reduce the volatility of the domestic agriculture business by strengthening our ability to respond to supply-demand conditions through the expansion of supply bases in cooperation with contracted large greenhouses.
- Although we have shipped baby leaves cultivated in Kumamoto Prefecture in the past, we will begin shipping baby leaves from the cooperative grower in Hokuto City, Yamanashi Prefecture from this year as a new supply base to the Tokyo metropolitan area in order to increase sales.
- We are currently selling packed salads, which we launched last year, in some areas of Kanto and Kinki, but we plan to expand our sales areas to increase their sales.
- Operating income is expected to decline in fiscal 2017 because fixed costs will increase temporarily associated with the business expansion.

PPT21

3. International business

- In the international business, we will continue to proceed with our response to global food services, which is our focus issue.
- Although the main areas of business are currently the United States, Europe and Australia, we will also strengthen our efforts in Asia this year by coordinating sales activities on a global basis.
- We will also proceed with our collaboration with Ingomar in the United States, with which we formed a business alliance last year. Ingomar is the third largest tomato processing company in the world, and synergetic effects can be expected because the integrated value chain from seeds to processing and sales will be further solidified in the United States through the collaboration with Ingomar.

PPT22

4. Earnings structural reforms

- We still have a lot to do with regard to the earnings structural reforms. This year, we will strive to reduce inventories in earnest. We will also improve cash flows by reducing distribution expenses and disposal costs, etc.
- In the logistics business, we will establish a joint venture company in cooperation with three food companies. We aim to improve logistics efficiency by building a joint distribution system.

- We will also restructure our manufacturing bases to improve the efficiency of the production system.

5. Way of working reforms

- For the way of working reforms, we have been working on measures such as the prohibition of overtime work after 8 p.m. and the introduction of the summer time system.
- In the current fiscal year, we will continue to make improvements to achieve a pleasant and meaningful working environment to increase productivity by setting a target for the rate of paid holidays taken by all employees at 70%.
- We will also respond to flexible working arrangements by introducing the work from home system and the flextime system.

IV. Results forecasts for FY2017

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- Finally, please take a look at our results forecasts for fiscal 2017.
- We will seek to achieve net sales of 210 billion yen, an increase of 4% year on year, and operating income of 11.5 billion yen, up 6%.
- The results forecasts for each business are as you can see on the slide.
- Please note that we have decided to explain our financial results in three business segments, namely the domestic processed food business, the domestic agriculture business and the international business, from the interim results of 2017, as you can see.
- Our plans for capital investments and cash flows are as shown on the slide.
- In fiscal 2017, we plan to increase annual dividends by 2.5 yen, to 27 yen per share.
- 2017 will be a touchstone year for becoming a strong company that is capable of sustainable growth. We will continue to make efforts to achieve the mid-term management plan and realize the long-term vision.

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Thank you for your attention.