

[February 2] Results Briefing for the Fiscal Year Ended December 31, 2017

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

- The financial results for FY2017 marked record high sales and profits at all levels. Although all results except for net income fell short of the revised forecasts, we succeeded in setting new records for the second consecutive year.
- This is because we were able to conduct business activities that preempted diversified health awareness, and because we made further progress with the earnings structural reforms and the way of working reforms that formed the basis for these activities.
- 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.
- Net sales increased 6% year on year, to 214.2 billion yen, operating income rose 9%, to 12.0 billion yen, ordinary income was up 11%, to 12.6 billion yen, and net income climbed 49%, to 10.1 billion yen.

PPT4

- Results by segment are as follows. I will explain results divided into three segments, as revised last year: the domestic processed food business, the domestic agriculture business and the international business.
- The domestic processed food business recorded net sales of 157.6 billion yen, an increase of 7% year on year, and operating income of 10.7 billion yen, up 31%. The domestic agriculture business posted net sales of 11.4 billion yen, down 1%, and an operating loss of 0.2 billion yen. In the international business, net sales were 48.8 billion yen, climbing 3%, and operating income fell 33%, to 0.8 billion yen.

PPT5-6

- Results by segment
- I will now explain conditions in FY2017 by segment.

◆Domestic processed food business

<Beverages>

- In the domestic processed food business, vegetable beverages performed strongly.
- The two smoothies “Yasai Seikatsu 100 Smoothie” and “GREENS” were the main drivers of the overall performance of vegetable beverages.

- With a 330ml recappable container not seen before among vegetable beverages, “Yasai Seikatsu 100 Smoothie” met new demand such as demand for a quick light meal and, as a result, notched up sales of 9.4 billion yen, five times higher than a year earlier.
- Relunched as a premium smoothie initially only in the Tokyo area, “GREENS” expanded its sales area to Tokai, Hokuriku and Kinki and registered sales of 0.9 billion yen.
- We have succeeded in becoming the top brand in the smoothie market. The smoothie market is not a fleeting trend and we expect that it will continue growing in the future.
- Sales of tomato juices have been consistently strong since we relaunched them as foods with functional claims two years ago with “Recommended for those concerned about blood cholesterol levels” printed on the packaging. Last year, the health benefits of tomato juice were once again highlighted on TV and, as a result, tomato juice has become even more popular.
- Following the tomato juices, in October last year, we launched new vegetable juices labelled as “Recommended for those with high blood pressure” as foods with functional claims, and these have sold well.
- These foods with functional claims captured the health needs of consumers because they made functional claims about naturally derived ingredients, and we have been able to increase our sales accordingly.

PPT7

<Food and Institutional and Industrial>

- For tomato ketchup, we hosted the “Napolitan Stadium” contest in May. We conducted promotions based on the napolitan pasta dish in collaboration with supermarkets and restaurants and this led to growth in demand for tomato ketchup.
- Besides spaghetti napolitan, ready-made dishes using tomato ketchup and tomato sauce became more widespread due to the expansion of the prepared food market, and sales of institutional and industrial products for readymade dishes sold at convenience stores and supermarkets grew.

<Direct marketing>

- In the direct marketing business, “Tsubuyori Yasai,” a vegetable beverage, had a strong showing, thanks to effective promotion through TV commercials and newspaper inserts.
- Lycopene Cholestefine, a supplement with functional claims similar to those of tomato juice, also contributed to increased sales.
- Full-year sales in the direct marketing business topped 10.0 billion yen for the first time since the start-up of the business in 1998.

PPT8

◆Domestic agriculture business

- The domestic agriculture business posted declines in sales and income. Although we increased the volume of tomatoes we supply to the market by 8% mainly due to

expansion in contracted growers, this was offset by larger-than-anticipated decline in market prices.

- We made progress building an earnings structure that is not significantly affected by fluctuation in market prices, but these efforts were not enough.
- In October last year, we launched ready-washed baby leaves. This is a product that meets consumer needs for time-saving, convenience and health because it can be used straight out of the bag without washing. Although sales are still small in scale, we will work to expand sales in the future.

PPT9

◆ International business

- In real terms, excluding the impact of exchange rates, the international business posted declines in sales and income. This reflects the impact of heavy rains in Australia and a temporary increase in administration expenses at Kagome USA, Inc., despite a firm performance in institutional and industrial business with global food service customers.
- Kagome USA Inc. recorded declines in sales and income. This was attributable to a change in the timing of intra-Group sales transactions and a temporary increase in administration expenses due to quality issues, which offset a firm performance in solution-type business including culinary sauces developed for leading food service customers. The change in intra-group transactions is temporary and will only affect last fiscal year.
- At HIT in Portugal, shipments of tomato paste were solid.
- At Kagome Australia, earnings deteriorated, reflecting a decrease in the volume or tomatoes harvested for processing due to heavy rains.
- Kagome Australia recorded an impairment loss as a result of the implementation of structural reforms, and will be more profitable from this fiscal year.
- US-based United Genetics, which is involved in the seeds and seedlings business, registered increased sales due to the expansion of sales channels. However, income declined mainly due to the impact of exchange rates on the earnings of its Turkish subsidiary.
- As announced already, we sold US-based PBI in October last year. We reached the conclusion that we needed more investment and time to launch products and expand sales as initially intended in the BtoC business in North America and judged that sale would help enhance our corporate value. The sale of PBI resulted in extraordinary income of 2.2 billion yen.

PPT10

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 increased sales of vegetable beverages were factors for higher income.

- Cost reductions through the review of the procurement policy of raw materials and the consolidation of production bases pushed income up by 1.7 billion yen.
- The review of unprofitable products such as foods was a factor for a 0.2 billion yen increase in income, while the efficient spending of sales promotion costs was a factor for a 1.0 billion increase in income.
- Although the domestic agriculture business and the international business posted lower income, overall, consolidated operating income rose 1.1 billion yen year on year.

PPT11

4. Changes on the consolidated balance sheet

- The changes on the consolidated balance sheet are as you can see on the slide.

PPT12

- Changes in goodwill are as shown on the slide. Goodwill decreased considerably as a result of the sale of PBI.

PPT13

- Cash flows are as you can see.
- That's all for my explanation of our financial results for fiscal 2017.

PPT14

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.

PPT15-16

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 help solve the social issue of extending healthy life expectancy by making a shift from a tomato company to a produce company.
- Last year, we internally launched a system for calculating the “volume of vegetables supplied to the market through Kagome products,” aimed at solving the problem of insufficient consumption of vegetables in Japan.
- Through this system, we are now able to understand the volume of vegetables we have supplied by customer. The problem of insufficient vegetable consumption is not something that we can solve alone, and we will also collaborate with the retail industry on this.
- In January this year, we announced that we are conducting joint research with Hirosaki University to clarify the mechanisms by which the intake of vegetables helps to maintain health and prevent disease.
- We will help solve the social issue of extending healthy life expectancy by scientifically clarifying the relationship between the intake of vegetables and staying healthy through

the analysis of health examination big data and applying this to the development of products and new services.

PPT17

2. Progress of the mid-term management plan

- The mid-term management plan, under which this year is the final year, will become an important foothold for achieving the long-term vision
- Although progress was almost as planned as of the end of FY2017, we decided to change the FY2018 sales plan from 220 billion yen to 215 billion yen due to the sale of PBI.
- We expect to achieve the target operating income margin of 6% and target ROE of 8%.
- Looking ahead, the issues are the sustainability and stability of vegetable beverages and the development of diverse sources of earnings other than vegetable beverages.
- The breakdown by business segment is as you can see on the slide.
- To achieve the long-term vision, we will strengthen profitability under the current mid-term management plan and shift the focus to growth under the next mid-term management plan from FY2019. We plan to announce details of the next mid-term management plan at the results briefing in February next year.

PPT18-19

III. Challenges for FY2018

1. Challenges by segment

- I will now explain our efforts for fiscal 2018, the final year of the mid-term management plan.

◆ Domestic processed food business

<Beverages>

- We will further expand the beverages business, with “Yasai Seikatsu 100 Smoothie” and “GREENS” as our two main products in the smoothie market.
- We will invest 1.4 billion yen to strengthen production capacity of “Yasai Seikatsu 100 Smoothie” and then launch new products to meet healthy snacking demand as well as new products in large 1-liter containers. We are aiming for total smoothie sales, including premium line GREENS, of 14 billion yen.
- We added the claim “Recommended for those with high blood pressure” to tomato juices which already have the functional claim “Recommended for those concerned about blood cholesterol levels” and relaunched them in January this year as products with two functional claims. We will expand sales of tomato juices together with vegetable juices with functional claims.
- In the area of foods with functional claims, we are also planning new products in new categories.

<Food and Institutional and Industrial>

- In the food business, we will promote “Kihon no Tomato Sauce,” which is our main

product, as a product that can be used to make easy, tasty tomato dishes. We will also use TV advertising and seek to increase product recognition and the rate of purchases.

- We will also step up product development for soups using vegetable stock, which have the savoriness of vegetables. This year, we plan to launch new products targeting elderly customers who want to enjoy the original flavor of vegetables.
- For the growing prepared food market, we previously conducted sales activities for household products, for institutional and industrial products and for the domestic agriculture business separately. However, in the future we will conduct sales activities through collaboration between these three areas and we will propose “Yasai no Okazu” using seasonings and frozen vegetables for the ready-made meal sections of supermarkets, etc.

PPT20

◆Domestic agriculture business

- In the domestic agriculture business, we will work to improve tomato harvests and the accuracy of price predictions to building an earnings structure that is not significantly affected by fluctuations in market prices.
- For fresh tomatoes, we will stress efficient ways of consuming lycopene, a nutrient found in tomatoes, which has drawn attention to tomato juices with functional claims. We will indicate on packaging that eating olive oil and tomatoes together increases the rate of absorption of lycopene.
- Baby leaves are shipped from a grower in Yamanashi to the Tokyo area, but this year we established new growers in Chiba and Yamanashi and plan to start shipments from a total of three growers aiming for a threefold increase in production capacity.
- The domestic market for baby leaves will grow to around 10 billion yen and, besides use in restaurants and other food outlets, use in salads at home will also increase. Demand for both household products and institutional and industrial products is in an upward trend, and we will develop this business into a second core business after tomatoes.

PPT21

◆International business

- Excluding the impact of the sale of PBI, the international business is projected to post growth in both sales and income. We will strengthen our ability to make customer-specific menu proposals and expand the solidly performing solutions business for global food service customers.
- We will also work to strengthen sales of tomato paste in Eastern Europe and the Middle East, where growth is expected in the future.
- In December last year, we established an agricultural business for cultivating, purchasing and selling tomatoes for processing in Senegal as a strategic base in the West Africa market, where demand is expanding. We will use the Group’s agricultural technologies and resources such as seed and seedling technologies to form a new tomato production

area, and aim to enter the local market for processed tomato products.

- We believe that developing the tomato processing business in Senegal will increase and stabilize farmers' incomes and also help to improve the food self-sufficiency rate and alleviate poverty.

PPT22

2. Earnings structural reforms

- We will also make progress with earning structural reforms.
- On the sales frontline, we will tighten control of promotion costs by customer and by products and strengthen management on the basis of marginal income.
- On the production frontline, we will seek to improve productivity through the automation of production lines and the introduction of equipment such as unmanned forklifts that will allow more efficient allocation of personnel.

3. Way of working reforms

- We will also continue to work on way of working reforms.
- We prohibited overtime work after 8 p.m. and introduced the work from home system and the staggered working hours system. However, we will continue working on reform in the future, having set ourselves the quantitative target of reducing total annual working hours per person from their current level of 1,980 hours to 1,800 hours by 2020.
- We achieved our target for rate of paid holidays taken by all employees, which was set at 70%. We have therefore set a new target of 80% and we will continue to make improvements to achieve a pleasant and meaningful working environment.

IV. Results forecasts for FY2018

PPT23-26

- Finally, please take a look at our results forecasts for fiscal 2018.
- We will seek to achieve net sales of 215 billion yen, an increase of 0.4% year on year, and operating income of 13.0 billion yen, up 9%.
- The results forecasts for each business are as you can see on the slide.
- Our plans for major fixed investments and cash flows are as shown in the slide. The amount of capital investments is higher than usual, to strengthen the foundations for growth under the next mid-term management plan.
- As announced recently, we plan to increase dividends for FY2017 by 2.0 yen from the forecast, to 30 yen per share. In FY2018, we plan to pay a 120th anniversary commemorative dividend of 5 yen which combined with the ordinary dividend will bring the annual dividend to 35 yen.
- This year is the final year of the mid-term management plan, when we will make the final touches and become more profitable. We will continue our efforts to achieve the mid-term management plan and realize our long-term vision.
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Thank you for your attention.