

Results Briefing for the Fiscal Year Ended December 31, 2018

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 FY2018 marked record high operating income and net income for the third consecutive fiscal year, while sales decreased.
- I will now begin my explanation of the details of our financial results, using the content you can see here.

PPT4

1. Consolidated results

- First, I will show you the summary of the consolidated results.
- Net sales decreased 2% year on year, to 209.9 billion yen, operating income rose 0.3%, to 12.0 billion yen, ordinary income was down 5%, to 12.1 billion yen, and net income rose 14%, to 11.5 billion yen. Operating income and net income hit record highs.
- In comparison, excluding the financial results of the U.S. subsidiary that was sold last year (PBI), sales increased.

PPT5

2. Results by segment

- I will now explain the results by segment.
- In the domestic processed food business, sales of food and institutional and industrial products fell below the level of the previous year; however, sales of Yasai Seikatsu 100 Smoothie, tomato juice and direct marketing were strong. As a result, sales increased. In addition, income rose with the implementation of cost reductions, among other efforts.
- The domestic agriculture business posted an operating loss for the second consecutive year due to the lower market price of fresh tomatoes in the first half (the peak season) than that of the previous year; however, the loss was reduced by cost reductions from the second half of FY2018 onward.
- In the international business, both sales and income decreased, mainly due to an operating loss in Portugal arising from the impact of the low price of tomato paste,

despite a return to profits through the structural reform of Kagome Australia.

PPT6

<Domestic processed food business – beverages>

- I will now explain the details of the results of each business.
- Of the domestic processed food business, the beverages business recorded an increase in sales and a decrease in income, with net sales of 89.1 billion yen and operating income of 5.8 billion yen.
- Yasai Seikatsu 100 Smoothie gained high recognition with the 330ml recappable container and its product value as a quick light meal, along with the function of providing an opportunity for the intake of dietary fiber while maintaining good flavor. In addition, a lot of corners for the said product set up in mass retailers contributed to sales expansion.
- For tomato juice, we added the second functional claim from January last year. In addition, the description of the function was changed to be more direct and easier to understand in October, leading to consistently higher sales than the previous year.
- On the other hand, the existing Yasai Seikatsu 100 series, Yasai Ichinichi Kore Ippon and other mainstay beverages recorded lower sales than the previous year.
- In addition, income decreased, mainly due to increased advertising expenses.

PPT7

<Domestic processed food business – food, etc.>

- Of the domestic processed food business, food, etc. recorded a decrease in sales and a rise in income, with net sales of 68.6 billion yen and operating income of 5.2 billion yen.
- Sales of “Kihon no Tomato Sauce” were strong due to the advertising strategy linking commercials and social media.
- The mainstay products such as tomato ketchup and Worcester sauce recorded lower sales than the previous year.
- In the direct marketing business, sales of our main beverage product, Tsubuyori Yasai, and Lycopene Cholestefine (a supplement) were strong.
- In the institutional and industrial business, we saw a possibility that may lead to strong business, while ready-made dishes using vegetables were increasingly proposed and adopted with an eye toward the expanding prepared food market, although sales of unprofitable products were halted and sales of consigned goods decreased, among other unfavorable results.

- In addition, income increased, mainly due to efforts regarding the product mix and cost reductions.

PPT8

<Domestic agriculture business>

- The domestic agriculture business recorded an increase in sales, with net sales of 11.5 billion yen, but posted an operating loss of 0.2 billion yen for the second consecutive year.
- We focused on sales of high value-added tomatoes containing abundant lycopene, beta-carotene and other specified ingredients. As a result, the sales quantity of tomatoes increased.
- However, the market prices in the first half (peak season) were lower than those of the previous year, and we delayed taking actions to address the market structure of excessive supply. In addition, partly due to the impact of the closure of Kada Greenfarm Co., Ltd., we posted an operating loss for the second consecutive year.
- The cost improvements of growers progressed in the second half of FY2018, and the amount of loss decreased from the previous figure.

PPT9

<International business>

- In the international business, both sales and income decreased, with net sales of 46.4 billion yen and operating income of 0.3 billion yen. When the impact of sales of PBI is excluded, the sales increased 3.5 billion yen.
- Kagome Australia recorded increased sales with a return to profits by proceeding with structural reforms, including the reduction of the crop period by avoiding the risk of weather and the improvement of productivity.
- Kagome USA Inc. recorded increased sales and decreased income, partly due to failures with new facilities installed, despite a net increase in sales attributable to the sales expansion of the business for the global food service and the change of the time for shipment to the Group. In addition, the failures of facilities were improved in the previous year, and the production system has returned to its normal state.
- HIT in Portugal posted an operating loss, mainly due to a fall in sales prices arising from low market prices for tomato paste, which is its main product.
- UG recorded an increase in sales and a decrease in income. While sales of seeds for the Middle East and Central and South America increased, sales of seeds of

tomatoes decreased because of low market prices for tomato paste.

PPT10

3. Factors contributing to changes in operating income

- I will now explain the factors for the increases and decreases in operating income.
- The domestic processed food business recorded an improvement of 2 billion yen in total due to cost cutting and greater efficiency in sales promotion costs, despite the adverse impacts of cost variances and the increased freightage expenses and storage fees.
- Advertising expenses increased 0.5 billion yen as a result of the strategic use thereof.
- Mainly because of the above factors, income remained almost the same as the previous year.

PPT11

4. Main items of extraordinary loss (income)

- Next, I will explain the main items of extraordinary loss (income).
- As disclosed in the corporate governance report, the Company decided to dispose of and reduce the shares held for the purpose of cross-shareholding as promptly as possible when the significance of such shareholdings is small. Accordingly, we recorded a gain on sales of investment securities of 4.6 billion yen.
- Kada Greenfarm Co., Ltd., which was a subsidiary included in the scope of consolidation, suffered serious damage due to the typhoon and subsequently needed to be closed. As a result, we recorded a loss of 1.3 billion yen.
- In the international business, the Company commenced reforms of the business structure, particularly the seeds business, and closed unprofitable sales bases and disposed of inventories, among other actions. As a result, we recorded a temporary loss of 0.5 billion yen.
- Due to the impacts of such developments, among other causes, extraordinary loss (income) was 3.9 billion yen, up 0.9 billion yen year on year.

PPT12

5. Changes on the consolidated balance sheet, cash flows

- The changes on the consolidated balance sheet are as you can see on the slide.
- Fixed assets decreased by 9.8 billion yen, to 76.3 billion yen. The topics include the implementation of capital investments of 11.3 billion yen for, among others, the

smoothie line at the Ibaraki Plant and the sterilized PET line at the Nasu Plant, which is due to commence operation this year. In addition, investment securities decreased by 12.0 billion yen, or by half, from the end of the fiscal year 2017.

PPT13

- Changes in cash flows are as you can see.

PPT14

- I will now review the achievements and issues under the first mid-term management plan for fiscal 2016 to fiscal 2018.

PPT15

- In comparison to the fiscal year 2015, net sales and operating income increased 14.2 billion yen and 5.3 billion yen, respectively. The operating margin ratio did not reach the revised target of 6% but remained at the level of 5% in a stable manner, contributing to a significant improvement in profitability.
- Looking at the results by segment shown in the table on the lower left, the domestic processed food business increased income through beverage sales expansion and earnings structural reforms.
- The domestic agriculture business showed a delayed response to the market structure of excessive supply, resulting in lower profitability.
- The international business improved its income through the withdrawal of unprofitable business in Asia, among other actions, despite a net sales decrease due to the sale of PBI.
- The results above show greater dependence on the domestic beverage business with the issue of a delay in earnings structural reforms of the domestic agriculture business and the international business.
- The supply of green and yellow vegetables by the products of the Company in Japan increased about 50,000 tons from the fiscal year 2015, to 600,000 tons, which will account for about 18% of the consumption of green and yellow vegetables in Japan.

PPT16

- In the domestic business, two reforms of the earnings structure and the way of working made progress.
- Cost reduction measures such as a review of the policy for the procurement of raw materials and the improvement of production efficiency in the domestic processed

food business led the decrease in the COGS of sales ratio by 1.5 pts on a consolidated basis from the fiscal year 2015.

- Due to the system for the management of earnings based on marginal profit, the ratio of sales promotion costs to net sales on a consolidated basis decreased 1.0 pt. In addition, unprofitable products were reduced by 246 SKUs and income improved by 0.84 billion yen.
- In the way of working reforms, we proceeded with the initiatives to become “a company that provides an appropriate environment for working and work satisfaction.” Under the first Mid-Term Management Plan, the Company introduced various systems and programs to support an appropriate environment for working.
- The overtime per person was reduced by 20% and the rate of paid leave taken improved significantly, from 55% to 83%.
- In addition, the Company concentrated on the promotion of diversity, leading to an increased ratio of women in managerial positions and women employed who are new graduates. The Company was also recognized for its activities for encouraging the good reflection of diverse viewpoints and senses of value in the workplace, and was selected among the “New Diversity Management Selection 100” of the Ministry of Economy, Trade and Industry, among others.

PPT17

I will now explain the summary of the second Mid-Term Management Plan for the fiscal year 2019 to the fiscal year 2021.

PPT18

- The ideal toward which the Company aims is that “we will become a strong company that can maintain sustainable growth by resolving social issues through food.” The Company will aim to achieve the resolution of three social issues through its business activities and realize both the creation of economic value and the improvement of social value. In addition, the Company has set the long-term vision “From a tomato company to a vegetable company” by 2025.
- The second Mid-Term Management Plan will be an important milestone for achieving the ideal and vision above.

PPT19

- The basic strategy under the second Mid-Term Management Plan is “to continue to increase the earning power and challenge new business/fields toward growth.”

- During the fiscal year 2019, the Company will complete the earnings structural reforms that were not completed under the first Mid-Term Management Plan, and challenge new business/fields to undertake growth from the fiscal year 2020 onward.

PPT20

- From now on, I will explain the details of the second Mid-Term Management Plan. From the fiscal year 2019, the Company will apply the International Financial Reporting Standards. The main impact based on the results of the fiscal year 2018 is revenue of 184.6 billion yen upon the deduction of part of the sales promotion costs and the sales commission from net sales of 209.9 billion yen. The amount of the deduction equals 12% of net sales.
- In addition, core operating income will be used as the Company's own index for management. Core operating income will not differ significantly from operating income, since operating income is 12.0 billion yen while core operating income is 12.4 billion yen.

PPT21

- Under the second Mid-Term Management Plan, the Company will first of all complete the earnings structural reforms of the domestic agriculture business and the international business, which remain as issues, during the fiscal year 2019.

<Domestic agriculture business>

- In the domestic agriculture business, the Company will control the supply by changing cropping patterns from April to June, when supply is excessive.
- In addition, in the market off-season, when the market price of tomatoes rises, the Company will increase the volume of tomatoes procured from the production areas where tomatoes are produced in summer and fall and reduce the volatility in terms of the supply volume throughout the year.
- Other than the above, core operating income is expected to improve from a loss of 0.1 billion yen for the fiscal year 2018 to profit of 0.1 billion yen owing to the more efficient management of farms and the implementation of cost reductions.

PPT22

<International business>

- In the international business, the Company increased the involvement of the Head Office in the respective subsidiaries and tightened their management, thereby

establishing a system for responding rapidly to change.

- In addition, the Company will disseminate the initiatives for quality, production technology and cost reductions that were implemented in Japan, among other initiatives, to the overseas subsidiaries and reinforce the management foundation.
- HIT will strengthen profitability management by customer to ensure the appropriate amount of processed tomatoes. In addition, the Company will place greater emphasis on the food service business, whose profitability is high.
- In the BtoC business in Asia, the Company established Kagome Nissin Foods (Hong Kong) in the previous year and reduced overhead costs and fixed costs, resulting in improved profitability. We will aim for further business expansion in the fiscal year 2019.
- Due to the actions above, the foundation of the international business will be restructured during the fiscal year 2019, and core operating profit is expected to improve from 0.6 billion yen for the fiscal year 2018 to 1.3 billion yen.

PPT23

- In challenges to new business/fields, we will increase proposals for “intake of vegetables in the form of dishes” for home-meal replacement and food for restaurants as a vegetable company.
- Food consumption outside the home has been increasing, and the markets for home-meal replacement and food for restaurants have been growing. In particular, the scale of the home-meal replacement market exceeded 1 trillion yen in 2017, with the expectation of continued growth in the future.
- There are needs for delicious readymade dishes with rich nutrients that can be eaten easily, offering an opportunity for consumers to increase their consumption of vegetables.
- Currently, the mainstay products of Kagome are fresh vegetables and vegetable beverages/condiments, among others. The Company intends to place greater emphasis on the area of processed vegetables for use as ingredients, such as vegetable purée, sautéed onion and frozen grilled vegetables, and increase menus for the addition of vegetables to standard dishes.
- The Company will develop attractive production areas and bases for processing in Japan and offer processed vegetables in new genres one after another.

PPT24

- Under the second Mid-Term Management Plan, the Company will strengthen the

initiatives for vegetable solutions to solve problems with vegetables in home-meal replacement and food for restaurants, thereby making steady progress toward becoming a vegetable company.

- Through the reorganization in October of last year, the Company removed the barriers among consumer products, institutional and industrial products and fresh products. Under the new sales system, the Company will propose Yasai no Okazu for home-meal replacement and food for restaurants, mainly seven dishes that will be strategically featured by using the convenient ingredients of vegetables and condiments.

PPT25

- I will now explain the strategy for the beverage business.
- In the vegetable beverage business, the Company will strengthen the three pillars of functional claims, the plant-based products area and products by target.
- We will spread the successful case of tomato juice in the stimulation of the market with functional claims to other beverages. In February, the Company will launch Labre Alpha with functional claims.
- Yasai Seikatsu 100 Smoothie will be expanded from the existing area of vegetable/fruit beverages into the area of plant-based beverages using almond and soy milk, among other ingredients, and will thereby differentiate itself from the existing vegetable beverages.
- As for beverages by target, the Company will release beverages with definite targets, like the young people whom we have not yet reached, and will place greater emphasis on efficient promotion utilizing social networks and other media. With respect to Yasai Seikatsu 100 Original, we will renew the product to emphasize the value of the beverage, meaning that mothers will want their children to drink it.

PPT26

- This slide shows the numerical targets under the second Mid-Term Management Plan.
- For the fiscal year 2021, the last year under the second Mid-Term Management Plan, the targets of revenue, core operating income and core operating income margin are 212.0 billion yen, 16.2 billion yen and 7.6%, respectively.
- Sales growth is estimated at an increase of 27.4 billion yen, exceeding the level under the first Mid-Term Management Plan. Through the further improvement of the earnings structure, the core operating income margin will increase by 0.9 pt.

- With respect to the targets for 2025, in light of the introduction of IFRS and changes in the external environment, we provide revised estimates of revenue and core operating income of 250 billion yen and 20 billion yen, respectively.

PPT27

- The slide shows the numerical targets by business.
- In the domestic processed food business, the Company will aim to achieve revenue of 148 billion yen and core operating income of 12.4 billion yen by increasing proposals with vegetable solutions to the markets for home-meal replacement and food for restaurants and placing greater emphasis on the three pillars of the vegetable beverage business.
- In the domestic agriculture business, the Company will aim to achieve revenue of 14 billion yen and core operating income of 0.8 billion yen by shifting to profits through structural reforms during the fiscal year 2019, restructuring the product lines and introducing a variety of high-quality food flavors, among other measures.
- In the international business, the Company will improve its earnings structure through structural reforms and engage in the expansion of the food service business from the U.S. to Europe and Asia and the vegetable beverage business in the markets of Hong Kong and China. In addition, the Company will aim to achieve revenue of 50 billion yen and core operating income of 3 billion yen by proceeding with the construction of the foundation for the business of tomatoes for processing in Africa and India, where future market growth is expected, among other business activities.
- In addition to the three existing business types described above, we will grow the business of experience as a new pillar of business through the maximum utilization of the brand assets and vegetable research results that Kagome has developed for 120 years, including the health business for companies and municipalities and dietary education.

PPT28

- I will now explain the cash flow under the Mid-Term Management Plan.
- During the period of the second Mid-Term Management Plan, the Company will make investments to further improve the profitability of the domestic business, and the fixed investments will be 35 to 38 billion yen.
- Cash flow from operating activities is estimated at 44 to 46 billion yen in the three years. The Company intends to appropriate the said cash flow to the funds

necessary for capital investment.

- With respect to the dividend policy, we undertake comprehensive consideration of the new ideal return to shareholders.

PPT29

- The strategies under the Mid-Term Management Plan are as explained above. To put these strategies into practice and become a strong company that is able to grow in a sustainable manner, the Company established a new code of conduct that serves as the standard for everyday behavior applicable to the employees of the Kagome Group and includes the principles of cooperation, respect for human rights and fairness, which complement the corporate philosophy.

PPT30

- Under the second Mid-Term Management Plan, the Company will proceed with way of working reforms and diversity.
- We will increase the appropriate systems and programs for working, such as the approval of second jobs, the introduction of the flextime system and the opening of a nursery school that encourages enjoyment of vegetables in the proximity of the Tokyo Head Office, among others.
- The Company will implement additional measures to improve operations to achieve total annual working hours per person of 1,800 hours in 2020.
- The rate of paid leave taken is 83% on average under the first Mid-Term Management Plan. The target rate under the second Mid-Term Management Plan is 80% for all employees.
- In addition, we will continue our initiatives for diversity and promote more active roles not only of women but also of LGBT individuals, persons with disabilities and employees of foreign nationalities.

PPT31

- Next, I will explain the initiatives for increasing governance under the second Mid-Term Management Plan.
- We will apply IFRS and change the accounting audit corporation to increase the governance of the Group. In addition, the Company has established a policy for accounting, tax and financial affairs that should be observed, and has strengthened the guidance and support provided to the group companies.
- In terms of quality, the Global Quality Assurance Department that was launched in

2016 has been improving the quality control standards commonly applicable to the Group for quality improvement.

- In the fiscal year 2018, the Company proceeded with the disposal and reduction of the shares held for the purpose of cross-shareholding. We will continue considering the appropriateness of such shareholdings according to the internal rules for investment and management.
- With respect to the process for determining directors' compensation, we will disclose it in the securities report from the fiscal year ended December 31, 2018 onward before the imposition of the duty of disclosure thereof.

PPT32/33

- Finally, please take a look at our results forecasts for fiscal 2019.
- In the domestic processed food business, a decrease in income is forecasted because of adverse effects on costs, mainly due to a rise in the costs of imported raw materials that will be caused by the impact of exchange rates and an increase in depreciation. However, we will make efforts to achieve growth in the top line and greater efficiency in advertising expenses to reduce the income decrease.
- To reduce the risk of short-term exchange rate change, our company hedges part of this risk with long-term forward exchange contracts. As shown in the reference material, the forward exchange contracts for fiscal 2019 are for the impact that has worsened from the previous year.
- In the domestic agriculture business and the international business, the Company will complete the earnings structural reforms and ensure changes to the structure that is able to generate profits irrespective of the external environment in the fiscal year 2019.
- Through the initiatives described above, we will seek to achieve revenue of 189.0 billion yen, an increase of 2.4% year on year, and core operating income of 12.6 billion yen, up 2%, on a consolidated basis.

PPT34

- As announced recently, as net income hit a record high in fiscal 2018, mainly due to the reduction of shares held for the purpose of cross-shareholding, we decided to increase the commemorative dividend from 5 yen to 10 yen and pay a total dividend of 40 yen together with the ordinary dividend for FY2018. We plan to pay a dividend of 35 yen for FY2019.
- This year is the first year under the second Mid-Term Management Plan, which we

position as a very important year. We will continue our efforts to achieve the long-term vision and the ideal.

PPT35

- Thank you for your attention.

PPT36

- Reference material: Changes in the exchange rate of the yen to the dollar

End.