

## Questions and Answers

Satoshi Yamaguchi, President and Representative Director/Yoshihide Watanabe, Director and Senior Managing Executive Officer

Q1 The vegetable beverage market is shrinking, but your sales started recovering in the second half of 2019. Why was KAGOME alone able to return to growth in this market in the fourth quarter and capture market share? Please provide information about current trends in the vegetable beverage market and your outlook for Japan.

A1 (Yamaguchi)

In the fourth quarter, we stepped up sales activities in order to offset the July decline caused by unfavorable weather. Fourth quarter beverage sales were higher than one year earlier mainly because of the consistent popularity of the new Yasai Seikatsu Apple Salad and other products and marketing campaigns for our vegetable beverages.

For many years, Japan's vegetable beverage market has been going through repeated growth and contraction cycles of about five years. During downturns, the vegetable beverage market loses customers to other health drinks like soy milk. However, even during the current contraction phase of the vegetable beverage market, sales of tomato juice have continued to climb. This is because functional claims for tomato juice give people a clear purpose for consuming this juice. I believe that demand for other types of vegetable juice can increase too if we show people a clear purpose for consuming this juice.

Our "Let's eat vegetables" campaign went back to the basics. We told people they are not eating enough vegetables and explained why vegetables are necessary. I want to use these activities to give people a clear purpose for drinking vegetable beverages.

Q2 I believe that the basic objective of the "Let's eat vegetables" campaign is for KAGOME, as a vegetable company, to make people aware once again of the value of vegetables and achieve top line growth amid intense competition with other health beverages. I think this makes sense. However, this campaign appears to have a very high hurdle because KAGOME must create demand on its own. Can KAGOME alone create demand for vegetables and have an impact on the entire market? Please provide more information about the activities and strategies of the "Let's eat vegetables" campaign.

A2 (Yamaguchi)

As you said, we cannot do everything by ourselves. We are currently looking for other companies and organizations in the food as well as other industries that can participate in the promotion of vegetables. We are holding discussions with about 20 companies and organizations and I expect to announce around the end of March information about these companies and organizations and specific activities. I want to use a broad range of partnerships in order to make this campaign an enormous movement.

Japan's Ministry of Agriculture, Forestry and Fisheries is currently conducting its own "Let's eat vegetables" project. We will work with this ministry regarding activities for increasing the consumption of vegetables. Our goal is to become a vegetable company. If we can change the eating habits of many people and increase the consumption of vegetables, our campaign will be extremely worthwhile, including the benefit of an increase in our self-confidence.

Q2 (follow-up) Since the available stomach space of Japanese consumers is fixed, I think the fundamental objective of your “Let’s eat vegetables” campaign is to capture market share from competing health drinks. How do you plan to differentiate your products from those of competitors as you once again promote the purposes of drinking vegetable beverages and the value of consuming vegetables? Please provide more information from the standpoint of differences in relation to other health drinks.

A2 (Yamaguchi)

I used vegetable beverages as an example in the explanation I just gave you. “Let’s eat vegetables” is not a campaign solely to increase sales of these beverages. Our goal is to help people enjoy a longer healthy life. The Ministry of Health, Labour and Welfare has established the target of consuming 350 grams of vegetables every day. This target is based on irrefutable evidence showing that the fiber, vitamins and other components of vegetables are vital to a long healthy life.

We want to contribute to extending the healthy life expectancy by increasing the consumption of vegetables. Our goal is raising the consumption of vegetables in all types of food, not simply beverages. Consequently, our first objective is to raise the total consumption of vegetables. By clearly showing people that more vegetables can extend a healthy life, I believe that we can create an adequate differentiation in relation to other healthy food and ingredients.

The daily goal of 350 grams of raw vegetables is high and difficult to achieve. We plan to increase activities for creating ideas for ready-to-eat dishes with cooked vegetables. This will include collaboration with retailers.

Q3 The backgrounds of Mr. Yamaguchi and Mr. Terada, the previous president, are very different. Will KAGOME change in some way under Mr. Yamaguchi’s leadership? What points are your highest priorities?

A3 (Yamaguchi)

Before becoming president, I was assigned to a research unit called the Innovation Department. I encouraged open innovation and worked on creating innovative ideas. One result of these activities was the joint development of Vegecheck with a company in Germany. This device makes it easy to measure the adequacy of vegetable consumption. Innovation from now on will be necessary for everything from big to small things. I want to use my experience and network of relationships in order to build an infrastructure for the constant creation of innovation at KAGOME.

We currently have many activities for innovation, such as a new business idea contest. I intend to conduct many activities that make use of my background.

Q4 Your goal is to increase vegetable consumption. But you have been repeating basically the same message for a long time. Will there be some sort of big change this time?

A4 (Yamaguchi)

KAGOME has been working on raising vegetable consumption for a long time. “Let’s eat vegetables” will be the biggest campaign in our history. The greatest significance of this campaign is the number of people and the number and size of companies that the campaign encompasses.

I want at least one million people to use Vegecheck measurements in order to understand their current level of vegetable consumption. We also plan to supply information about vegetables by

using a large number of external advisers like nutritionists and people in the academic sector. In addition, we plan to have all 1,600 employees in Japan take our internal certification test in order to reaffirm their basic knowledge concerning vegetables. This will enable them to participate in the distribution of information. For our activities, we want to use an even broader range of partnerships that include industries other than food, as I mentioned earlier. Therefore, the change from our previous activities is our plan to conduct activities for this campaign on a much larger and broader scale than in the past.

Vegetable consumption in Japan has not increased during the past decade. By using a campaign of this magnitude, we want very much to raise consumption this time.

Q5 I think KAGOME's own resources are insufficient for increasing vegetable consumption and achieving a change. Exactly what do you want to change?

If daily vegetable consumption rises to 350 grams, how would that alter the composition of your business activities, your business portfolio and other aspects of your operations? How would this affect earnings? Please explain your vision for KAGOME.

A5 (Yamaguchi)

First, I want everyone at KAGOME to be able to participate in activities for boosting vegetable consumption. This is why people throughout the company, rather than only in sales departments, will take certification tests. We are also asking our stakeholders to take actions on their own to promote vegetable consumption.

I believe that changing KAGOME internally means conducting activities so that everyone at KAGOME can play a role in increasing the consumption of vegetables.

Regarding our portfolio and vision for when the 350 gram goal is achieved, unfortunately we have not been progressing as planned regarding the second medium-term management plan and our goals for 2025. We are performing studies that include a review of our plans. I expect to announce the results of these studies at our next earnings announcement information meeting.

Q5 (follow-up) You said that the inclusion of many other companies in the campaign is a big change. Will there be changes within KAGOME for speeding up collaboration with other companies, such as a new department to oversee collaboration or the inclusion of the campaign in the KPI for employees and executives?

A5 (Yamaguchi)

At this time, the executive officer for our Marketing Division is in charge of collaboration with other companies and organization. We now have more than 20 prospective partners. This division will also be in charge of the launch of the "Let's eat vegetables" campaign. After that, other departments will be involved depending on the types of activities. We will have to think about how this will be done. For example, the Health Business Division may oversee activities or we may decide to create a new organizational unit.

Q6. (involving Q5) In your message about eating more vegetables, I think a key component will have to be a shift from animal protein. After all, our stomachs can hold only a certain amount of food. But I think vegetable protein is only a small portion of your business portfolio.

Can the goal of 350 grams per day be achieved without making any changes to KAGOME's current business portfolio? Perhaps plant-based meat substitutes? Can KAGOME maintain its

4.4% market share? Or is there some sort of further action that KAGOME may use to achieve more growth? What are your thoughts about this subject?

A6 (Yamaguchi)

In February, we started selling Yasai Seikatsu Soy+, a beverage that combines soy milk and vegetable juice. This is an example of the shift from animal protein. Plant-based protein is a field that is very close to the vegetable business and we plan to rapidly expand our operations involving plant-based protein. This may or may not involve substitute meat products. The first step was Yasai Seikatsu Soy+. We will establish a plan for upcoming operations as we monitor the sales of this beverage.

Q7 The KPI of vegetable consumption is easy to understand because it is quantitative. However, I think this number is difficult to track. Are you thinking about tracking a different number as the KPI for accomplishing the vegetable consumption goal?

A7 (Yamaguchi)

We initially expected to use data announced by the Ministry of Health, Labour and Welfare as the basis for vegetable consumption. However, as you said, there is a time lag between the collection of data and announcements. Of course, we have had discussions about the KPI. Now, we are thinking about using our own system for monitoring vegetable consumption in conjunction with the Ministry of Health, Labour and Welfare data. This would result in two stages. Our data would be the preliminary indicator and we would confirm this number afterward by using the ministry's numbers.

Q8 My understanding is that the "Let's eat vegetables" campaign will take place mostly in Japan. Can you explain a little more about upcoming activities in the international business?

A8 (Yamaguchi)

The international business is now in the process of enacting structural reforms for earnings. In 2020, every company in this business is focusing on increasing core operating income by reexamining unprofitable products and business activities. Another goal is cutting fixed expenses and taking other actions to become more cost competitive.

The vegetable beverage business in Asia plans to increase earnings by selling these products in more areas of Asia. In 2019, sales were about 600 million yen for the entire export business. This is the value of shipments from Japan. Our first goal is to increase these sales to about 1.7 billion yen in 2021. Overall, however, we are now at the stage of reexamining our vision for the international business in 2025.

Q9 You said you are currently reviewing the medium-term management plan. When you announced this plan one year ago, your goal for the international business was core operating income of 3 billion yen. I think the performance of this business no longer matches your outlook.

Regarding the business climate when you established the plan for 3 billion yen and current conditions, what unexpected events caused the international business to fall behind the plan? Also, even if you decide to revise this goal to reflect present market conditions, what sorts of actions are you planning on taking?

A9 (Watanabe)

The most significant unexpected event was the decline in the demand for tomato paste and other primary processing stage products. We expected growth of about 3 million tons in 2019. But demand was down worldwide, particularly in the United States. Another reason was progress with value engineering. Companies have created technologies for manufacturing

finished tomato products while using smaller amounts of tomato paste. In addition, countries like Russia and Ukraine that had relied on tomato imports have started to grow their own tomatoes. This reduced the global trade in primary tomato products, which lowered prices and made it difficult to earn a profit. This has created problems concerning the outlook for converting equity-method affiliate Ingomar Packing into a consolidated subsidiary. The chain reaction of effects created by lower prices also makes it difficult for United Genetics to increase sales of tomato seeds. This big shift in the outlook for the international business is responsible for the gap between its performance and the 3 billion yen target.

We are reexamining the strategy for this business now and I expect to make an announcement about this when we announce our second quarter results of operations.