



KAGOME
Integrated
Report
2019

Long-term Vision

By 2025

Transform from a “tomato company” to a “vegetable company”

- To become a unique entity that deals with vegetables across a variety of food ingredients, categories, temperature zones, containers, and volumes
- To become a company that provides not only products but services as well, by expanding its business concept from tomatoes to vegetables

By around 2040

50% of the workforce consisting of women – from employees to executive officers

- To promote business activities incorporating a wide range of views, catering to diverse consumer needs
- To become a strong company where employees of any gender can work enthusiastically, thus achieving high productivity

What Kagome strives for by 2025

To become a “strong company” capable of sustainable growth, using food as a means of resolving social issues

Social issues we seek to address

Longer, healthier lives

Agricultural development and regional revitalization

Global food problems

In the domestic processed foods business, we aim to help people live longer, healthier lives by increasing the provision of vegetables.

In the domestic agri-business, we support agricultural development and regional revitalization through the development of vegetable production areas and processing locations.

In the international business, we work to tackle global food problems through a global, vertically integrated tomato business model.

Corporate Philosophy

An inherited management spirit that pervades through the changing times

Appreciation
We are thankful for nature's bounty and for human relationships. We respect natural ecosystems and value human sensibility.

Nature
Through nature's bounty, we endeavor to create rich value that is ahead of the times and to contribute to consumers' health and wellbeing.

Corporate Openness
We aim to be an open company that engages in fair and transparent corporate activities and respects each person's individuality and abilities.

Brand Statement

Our promise to society and our customers

Nature

True

Flavor

To strive for healthier food that makes the most of the antioxidants and immunological capabilities of nature's bounty.

To produce healthy, great tasting foods without relying on unnatural additives and technologies.

Create new demand for delicious food, paying attention to the needs of our bodies and our planet.

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Kagome Co., Ltd.
Integrated Report 2019

Editorial Policy

Since the release of its Environmental Report for fiscal 1999, the Kagome Group has continuously reported to our stakeholders on our efforts toward making a social contribution through our businesses by means of the Sustainability Report (CSR report) and Kagome Story (company brochure). This Integrated Report is issued to create new opportunity for discussion by informing our stakeholders, in particular shareholders and investors, about Kagome's mid- to long-term efforts for enhancing corporate value. For details of the financial data and CSR activities not included in this document, please refer to our website. Website <https://www.kagome.co.jp/company/>

Target Period

This document covers the period from January 1, 2018 to December 31, 2018. However, some portions of this document contain matters related to activities outside this defined period. The scope of this document covers the activities of Kagome Co., Ltd. and its consolidated subsidiaries, but there are items that only pertain to Kagome Co., Ltd.

Referenced Guidelines

This Report is prepared with reference to the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) and the Guidance for Collaborative Value Creation issued by Japan's Ministry of Economy, Trade and Industry (METI). Moreover, our CSR activities are reported on our website, and highlights are included in the ESG section of this report.

Notes regarding forecasted information

The information in this report includes forward-looking statements. These statements are made on the basis of assumptions and judgments based on information available at the time of publication, hence they may contain risks and uncertainties. Accordingly, please be advised that the actual results may differ from such statements due to various changes.

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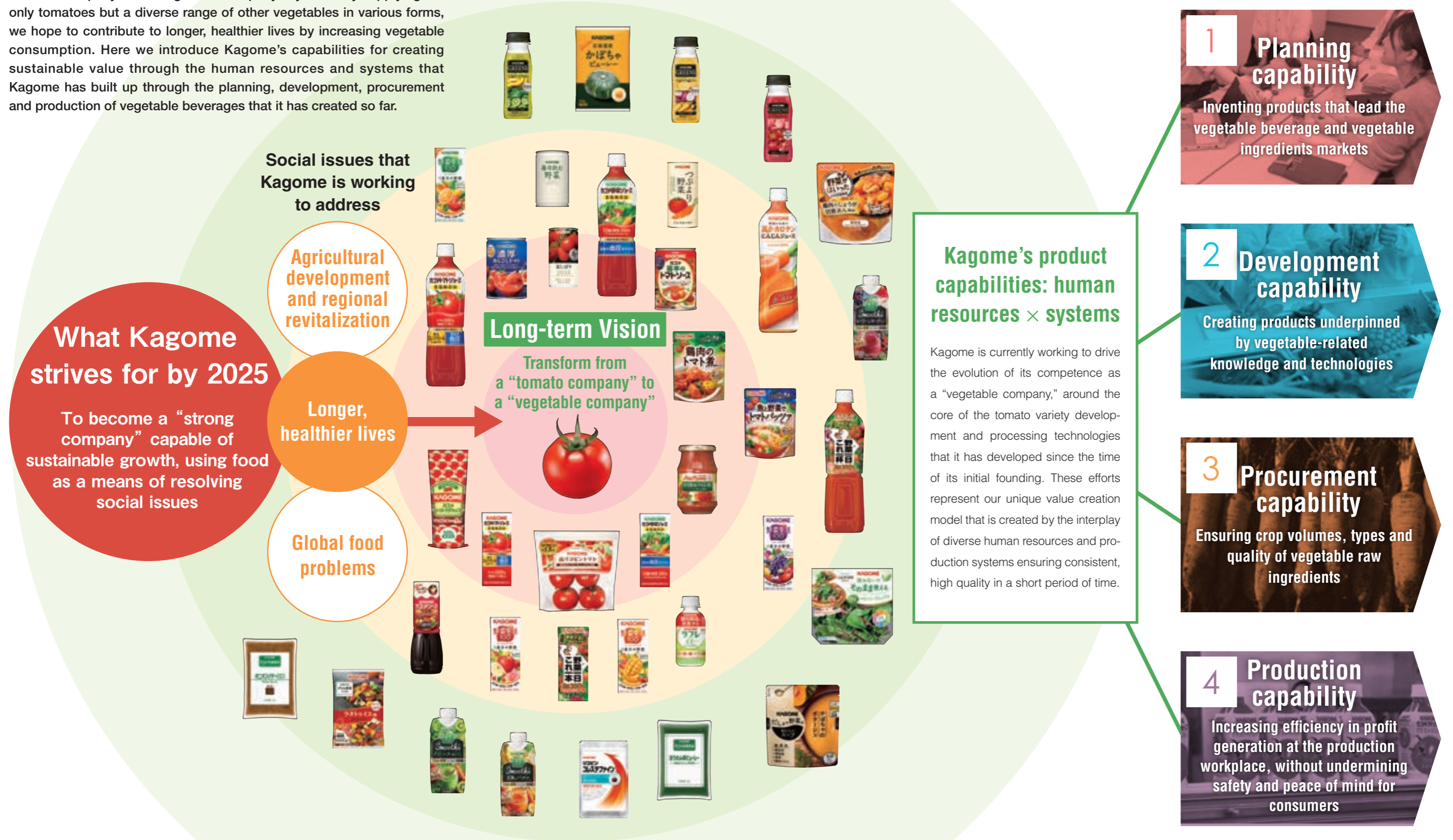
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Kagome's Capabilities for Achieving Sustainable Growth

Kagome has established the long-term vision of transforming from a “tomato company” to a “vegetable company” by 2025. By supplying not only tomatoes but a diverse range of other vegetables in various forms, we hope to contribute to longer, healthier lives by increasing vegetable consumption. Here we introduce Kagome's capabilities for creating sustainable value through the human resources and systems that Kagome has built up through the planning, development, procurement and production of vegetable beverages that it has created so far.



What Kagome strives for by 2025

To become a “strong company” capable of sustainable growth, using food as a means of resolving social issues

Longer, healthier lives

Social issues that Kagome is working to address

Agricultural development and regional revitalization

Global food problems

Long-term Vision

Transform from a “tomato company” to a “vegetable company”

Kagome's product capabilities: human resources × systems

Kagome is currently working to drive the evolution of its competence as a “vegetable company,” around the core of the tomato variety development and processing technologies that it has developed since the time of its initial founding. These efforts represent our unique value creation model that is created by the interplay of diverse human resources and production systems ensuring consistent, high quality in a short period of time.

1 Planning capability
Inventing products that lead the vegetable beverage and vegetable ingredients markets

2 Development capability
Creating products underpinned by vegetable-related knowledge and technologies

3 Procurement capability
Ensuring crop volumes, types and quality of vegetable raw ingredients

4 Production capability
Increasing efficiency in profit generation at the production workplace, without undermining safety and peace of mind for consumers

Product planning creates demand by giving shape to dietary lifestyle needs

Kagome personnel
Risa Morimoto
 Beverage Planning Department,
 Marketing Division
 (joined Kagome in 2014)

Kagome personnel
Tatsuto Nishizaki
 Beverage Planning Department,
 Marketing Division
 (joined Kagome in 2006)



Kagome's products are made from vegetables, fruits and other natural ingredients. To make the most of these ingredients, we are committed to offering our products with the least amount of additives possible. Kagome's product planning stays true to this commitment, and invests energy into the creation of delicious products that fit dietary trends and the needs of consumers.

Planning Story

Yasai Seikatsu 100 Smoothie

A mix of vegetables and fruits, Yasai Seikatsu 100 Smoothie features natural sweetness and satisfying fullness with no sugar, sweeteners or thickeners.

A beverage born out of the need for a filling drink-snack

In July 2014, we released the first Yasai Seikatsu 100 Smoothie in a chilled cup package, as a new variation of the Yasai Seikatsu 100 series. At the time, other companies' cup beverages were performing strongly, and many consumers had needs for cup-type beverages with enough volume to satisfy their appetite when they were feeling a little hungry. Smoothies were also beginning to establish their popularity in the beverage market, and Kagome's

Kagome's key strengths in product planning

- Flexible and imaginative thinking of young employees, and sensitivity to catch market trends
- Planning capability to create "additive-free" products in collaboration with the development division

chilled cup beverage also received a positive response, particularly from young female consumers. In fall 2015, we launched an additional two items in the 330ml carton package with a cap to respond to demand for a beverage that could be sipped and consumed over several sittings in order to satisfy light hunger at the office, or when out elsewhere. Since 2015, Yasai Seikatsu 100 Smoothie has contributed to expanding Kagome's sales of vegetable beverages by creating new demand for healthy snacks between meals.

Creating a thick consistency, without using additives

The most distinctive feature of smoothies is their thick texture. Although thickeners are typically used to give liquids this kind of thick consistency, Kagome's smoothies contain no thickening agents whatsoever. "At Kagome, our uncompromising approach in creating our products is to make use of natural ingredients, and to avoid using additives wherever possible." (Nishizaki)

Yasai Seikatsu 100 Smoothie achieves the desired texture, consistency and drinking sensation for consumers through a complex blend of vegetables, fruits and plant-derived dietary fibers, based on insights gained through Kagome's past development of vegetable beverages.

"Because we are using natural ingredients, in some cases, our uncompromising attitude towards not using additives can place constraints on our product planning. For example, depending on the combination of raw ingredients used, the balance may be disrupted. However, working in collaboration with our development division—with its intimate knowledge of vegetables and fruits—and making inventive use of raw materials and manufacturing methods while referring to examples of blends accumulated so far enables us to achieve the creation of delicious additive-free products." (Morimoto)

Creating unconventional products by pursuing unique possibilities of smoothies

In addition to vegetables and fruits, Kagome's

smoothies make use of other raw ingredients currently drawing attention, including soy milk, almond milk, yogurt and amazake sweet and thick beverage.

"We come up with new product concepts by analyzing and researching where opportunities and issues exist through combination of market and specialty store trends and Kagome's resources, strengths and weaknesses." (Nishizaki)

Yasai Seikatsu 100 Smoothie has also attracted customers with no past experience of consuming vegetable drinks.

"I think people have felt that this product is in style and worth snacking to satisfy their hunger. Smoothies allow us to deliver a complex blend of ingredients and to take an aggressive approach by making relatively easy use of currently trendy ingredients." (Morimoto)

In contrast with long-selling products such as Kagome Tomato Juice and Yasai Seikatsu 100, Yasai Seikatsu 100 Smoothie uncovers new demand.

Creating the unique value of satisfying light hunger cravings

Yasai Seikatsu 100 Smoothie caters to the "healthy snacks" needs of working women and the demand for light meals as a substitute for salads and soups for lunch. In this way, it has created unique value in satisfying light hunger cravings, unlike existing vegetable beverages. Looking ahead, Kagome will seek to widen its base of demand by launching new products utilizing limited seasonal fruits and topical ingredients aimed at various generations of consumers, based on the keywords of "healthy snacking × leisurely sipping."

Development draws out the inherent flavor and possibilities of vegetables and gives shape to value supplied



Kagome personnel
Kazuki Naganawa
 Product Development Department,
 Solution Sales Division
 (joined Kagome in 2009)

Kagome personnel
Masahiro Matsuzaki
 Product Development Department,
 Solution Sales Division (joined
 Kagome in 2006)

The development division considers practical aspects of product concepts created by the product planning division, from the selection of raw ingredients and blending ratios to processing methods and containers. Products are then manufactured by the production division. The technique for utilizing diverse combinations of vegetables and fruits and unlocking the potential of these raw ingredients is a sustainable competitive advantage developed by Kagome for more than 100 years.

Development Story

GREENS



A premium smoothie that delivers the ingredients as they are, 100% additive-free, with no added preservatives, colorings or flavorings. The application of Kagome's proprietary "cold coarse-straining production method" draws out the color, fragrance and texture of vegetables and fruits, resulting in a beverage with three times the dietary fiber and six times the amount of vitamin C from the ingredients in comparison with conventional production methods. Keep refrigerated.

The challenge of developing a vegetable beverage that allows consumers to feel the "freshness" of processed food products

Launched in September 2015, GREENS was developed with the aim of delivering a vegetable beverage that allows consumers to feel the freshness of the ingredients and enjoy a drinking experience that feels almost like eating fresh vegetables; in response to the increase in consumer needs to consume fresh—almost "raw"—vegetables, in view of popular trends such as those of handmade smoothies and juice bars.

Kagome's key strengths in product development

- Knowledge of processing techniques and bacteria control methods accumulated through past development of beverage drinks
- Development of vegetable ingredients unique to Kagome
- Blending capability of ensuring a targeted flavor and viscosity development through the combination of multiple vegetables and fruits

"We began by considering how 'fresh' we could make our Tomato Juice and Yasai Seikatsu 100 products. However, this would not enable us to break away from the domain of our existing product lines. So we changed our way of thinking and decided to create a range of juice products that utilized the delicious flavor and texture of fresh vegetables as they are." (Matsuzaki)

Through discussions with other relevant departments, we concluded that the essential elements of "freshness" that consumers require from vegetables are bright color, fragrance and texture. One raw ingredient that we focused our attention on as being able to achieve this was *komatsuna* (Japanese mustard spinach), which is often used as an ingredient at fresh juice bars.

A drinking experience achieved through an intimate knowledge of the characteristics of vegetables

While putting juice into bottles and selling it as a storable product requires sterilization through the application of heat or other methods, *komatsuna* was not well suited to use as processed food, due to issues such as color change and odors released upon heating. The development team created numerous prototypes at a test plant and accumulated various insights as they searched for optimal conditions for sterilization by heating that would maintain the original color and fragrance and allow consumers to enjoy the freshness of the ingredient. They also worked to find ways of cutting that would give a texture similar to that of biting into fresh vegetables, and cut the solid vegetables in complex shapes. In order to show that this beverage was created using completely new production methods, the developers came up with the name "cold coarse-straining production method," and sought to clearly set the product apart from others by displaying this name on the packaging.

"When setting sterilization conditions, we referred to materials such as past research reports on the development of vegetable juices. We have also stored the knowledge and insights gained through the development of GREENS in database form. I think the fact that we have a system for utilizing the assets gained through these attempts in future developments is also one of Kagome's key advantages." (Matsuzaki)

Updating the product to match consumer needs

We are continually renewing and updating the GREENS range based on the results of numerous consumer surveys. In 2017, when converting all products in the series into smoothies based on the strong performance of the Yasai Seikatsu 100 Smoothie, we also reviewed and updated their choice of ingredients.

"Typically, banana puree is used to add viscosity and give smoothies their thick consistency. At Kagome, we use different ingredients to add viscosity to each product, in order to match the flavor of the main fruits contained in that product." (Naganawa)

We also used various creative ideas such as changing the method used to wash the containers before use, and in 2018 succeeded in extending the best before date for GREENS products from the initial period of around two weeks to three weeks. GREENS has now grown into a standard choice product in luxury supermarkets, department stores and mass-retailers throughout Japan.

Ingredient development to achieve Kagome's vision of becoming a "vegetable company"



Kagome has some products that use independently-developed ingredients. For example, a technique in which tomato juice is fractionated through centrifuga-

tion and separated into supernatant liquid and fibers is already utilized in the production of other products. This technique finds various applications, such as in using the supernatant to create smooth-textured products, or adding the fibers in order to give a natural viscosity to other products. We are currently also researching the fractionation of carrot juice, and are working on a proprietary technology for improving the flavor of onions. In this way, we are advancing the development of various ingredients for achieving our vision of becoming a "vegetable company."

Kohei Danzuka, Material Resource Development Department, Innovation Division (joined Kagome in 2008)

Procurement capability

created by human resources × systems

Procurement capability to secure a stable supply of over 600,000 tons of vegetables through systems such as dispersed cultivation areas and assessment of raw ingredients

Kagome is enhancing its global procurement network in order to ensure a stable supply of products produced by combining natural ingredients. We have created a system in cooperation with our overseas suppliers for producing tomatoes with the desired quality and flavor. For other vegetables and fruit juices, too, we ensure constant quality and flavor by using a combination of tomatoes from different cultivation areas.

How Kagome procures a stable supply of high-quality raw ingredients

Kagome has around 20 procurement locations in ten countries around the world for procuring tomatoes for processing. During the growing season, Kagome employees visit the plantations and factories to conduct quality checks and give guidance to ensure quality in cooperation with local suppliers.

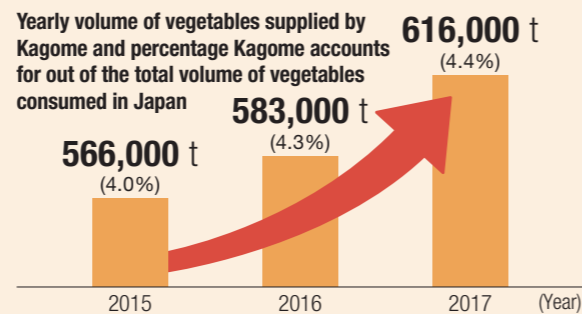
To handle climate change risks, which go hand in hand with reliance on natural farm-produced ingredients, we diversify cultivation areas into northern and southern hemispheres and acquire more new procurement locations. In doing so, we perform ingredient assessments and audits at new procurement locations, and only engage in business with suppliers that meet Kagome's required standards. Even for the same vegetables, flavor differs depending on the production region. Kagome quantifies how much vegetable from each production area can be used in each product. In this way, Kagome's Purchasing and Development Departments have built a system that enables the blend of ingredients to be adjusted to ensure the same flavor for each product.

Partial list of procured vegetables and products in which they are used

 <p>Tomatoes approx. 440,000 tons</p>	 <p>Carrots approx. 150,000 tons</p>
 <p>Onions approx. 6,000 tons</p>	 <p>Red peppers approx. 2,000 tons</p>

Supplying 616,000 tons of vegetables

The volume of vegetables supplied by Kagome is increasing year by year. In fiscal year 2017, this volume increased by 33,000 tons from the previous year, to 616,000 tons.



Source: Calculated based on the Food Balance Sheet (confirmed values for fiscal 2016 and estimates for fiscal 2017) compiled by the Ministry of Agriculture, Forestry and Fisheries (MAFF)
Volumes supplied by Kagome are calculated based on actual 2017 sales results.

Experience in factory work comes in useful for procurement duties

Many of Kagome's purchasing personnel have experience working in factories, and have valuable insights with regard to manufacturing and quality control. In our procurement assessments, we think from the perspective of factories that will be using the raw ingredients, and assess procured products in terms of their quality and costs as well as processability and manageability, based on our own experience. The procurement side and the factory side share the passion for safe, high-quality products. In addition to delivering assured quality ingredients, we are also enhancing our collaborative ties with suppliers and sharing information on needs and risks, in order to increase the quality of our products through the application of human resources × systems.

Kagome personnel



Yutaka Yoshida
Purchasing Department, Production & Purchasing Division
(joined Kagome in 2013)

Production capability

created by human resources × systems

Plants supplying products that offer safety and peace of mind, and working to reduce costs

Kagome's Nasu Plant manufactures beverages packaged in cans, PET plastic bottles and paper packs. In April 2019, the plant commenced operation of an aseptic plastic bottle filling line, expanding Kagome's production capacity to 1.3 times the previous level. This has enabled Kagome to enhance its supply network, reduce costs, and expand its range of product varieties.



What is aseptic filling?

The conventional hot packing sterilizes the bottle and cap by filling the bottle with heated liquid. In contrast with this, the aseptic filling method pasteurizes the liquid by heating it at a high temperature in a short time and cools it right after the pasteurization to fill the bottle at room temperature. All stages of the process from bottle molding to filling and capping are carried out under aseptic conditions.

Approaching Kagome's vision of becoming a "vegetable company" in the field of vegetable beverages with the introduction of Japan's first aseptic plastic bottle filling line

Kagome has installed a new production line at its Nasu Plant (its main beverage production plant) with a view to consolidating its domestic production locations for beverages bottled in plastic bottles. In this way, we are working to improve production capacity and reduce costs. Behind the introduction is our intention to absorb the impact of risks such as the soaring cost of overseas-produced raw materials and ingredients, and avoid the risk of fluctuating product demand to drive down the rate of food loss. In comparison with Kagome's previous filling method, this new aseptic filling line enables faster sterilization, and retains the original flavor and aroma of the ingredients. Because we mold our own plastic bottles, this method reduces the unit cost of containers significantly and helps to cut CO₂ emissions during transportation. Furthermore, this method has also made possible the production of products in the neutral pH range, unlike the traditional filling method. This has allowed us to ramp up our range of product varieties towards realizing our vision of a "vegetable company."

Potential benefits from the introduction of the aseptic bottle filling line

- (1) Contribution to business growth
 - ▶ Approx. 1.3 times higher production capacity
 - ▶ Expansion of range of product varieties
 - ▶ Enables production of beverage in the neutral pH range
- (2) Contribution to cost reduction
 - ▶ Lower costs through in-house plastic bottle production and workforce minimization

Reflecting cost-reducing measures and the needs of each department in the design process

In the introduction of the aseptic filling line, as project manager for the Production Department, I made repeated adjustments to increase production capacity, while at the same time incorporating the needs of the Product Development Department and various other departments. We also incorporated measures against personnel shortages into the design process, and minimized personnel requirements by installing the line with a highly work-efficient layout and monitoring systems. It was a valuable experience to be involved in such a large-scale project that was a focus of the company's hopes and expectations.

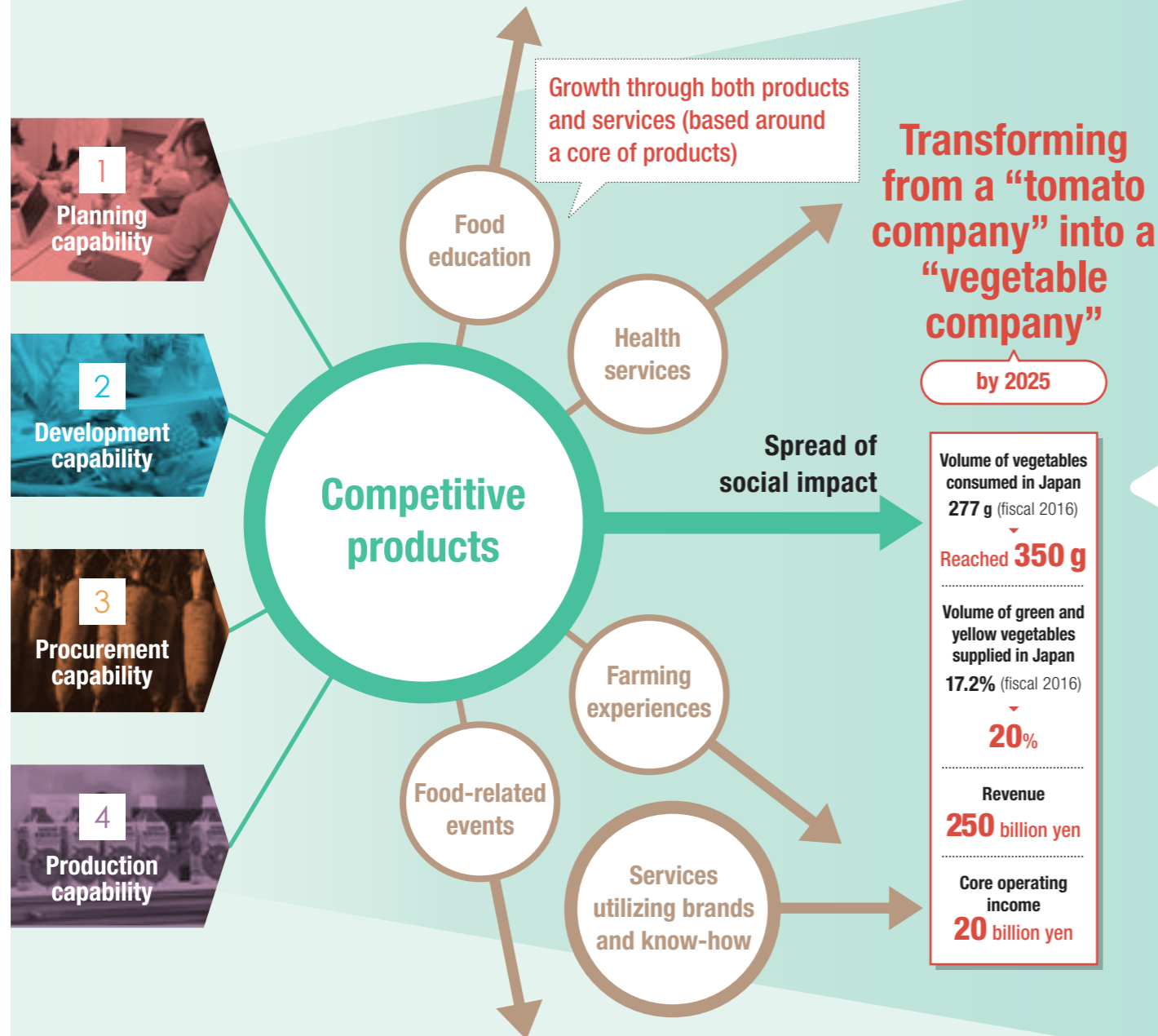
Kagome personnel



Takahito Hamamiya
Production Technology Department, Production & Purchasing Division
(joined Kagome in 2007)

A scenario for growth with scalability, based on product power

Moving forward, products created through the application of human resources × systems will continue to play a core role in Kagome's future growth. With this product power as its base, Kagome will accelerate its progress towards the realization of what Kagome strives for by becoming a company that offers not only products but also services, such as health services and food education, utilizing our brands and know-how developed so far.

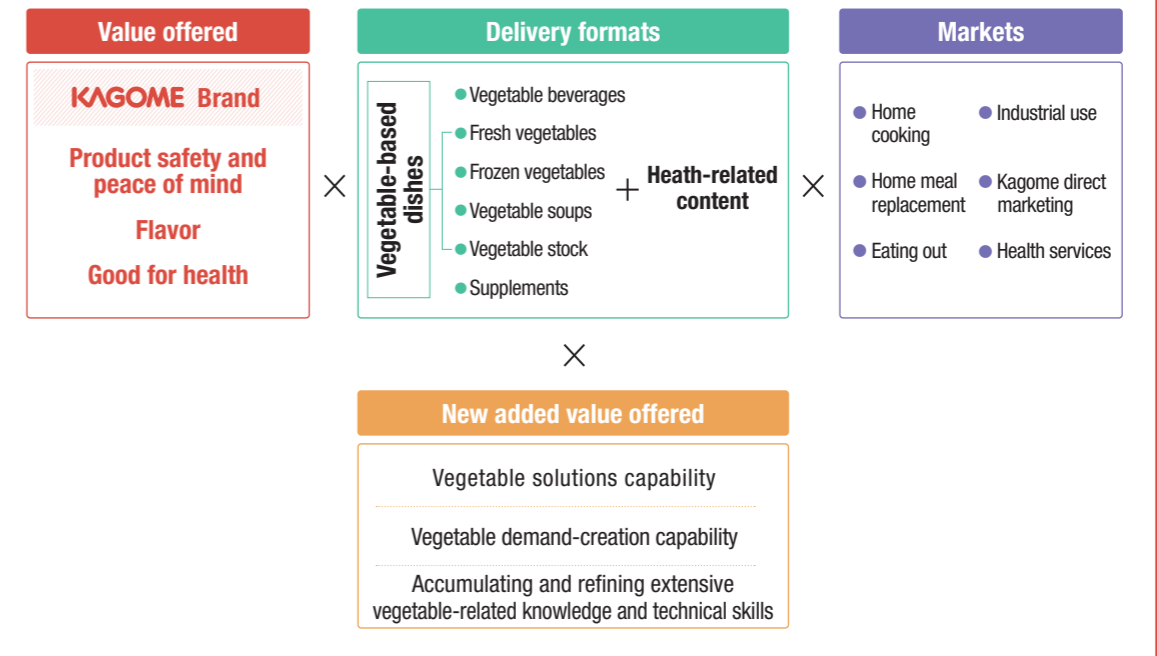


Becoming a "Vegetable Company" to Realize "What Kagome Strives for"

In order to fulfill its 2025 Vision to "become a 'strong company' capable of sustainable growth, using food as a means of resolving social issues," it is necessary for Kagome to transform from a "tomato company" into a "vegetable company."

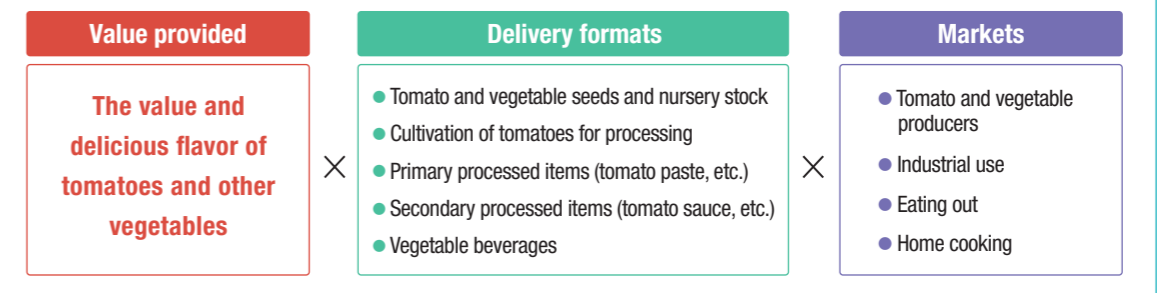
Domestic Business

Kagome will provide a diverse range of vegetables in different formats to a wide range of markets through various processing methods, thereby enhancing its proposals for consuming vegetable-based dishes. This requires capabilities for delivering vegetable solutions and creating demand. By refining the extensive range of vegetable-related knowledge and technical skills that we have accumulated and changing ourselves, we will continue to greatly expand the range of areas in which we can contribute to resolving social issues and to engage in new challenges.



International Business

Through the vertically integrated business model of tomatoes for processing, in which it engages in all stages of the business from seeds to secondary processing, Kagome facilitates healthy dietary lifestyles in the countries and regions where it operates, and contributes to resolving global food shortages and other food problems. We will also create new demand by conducting B-to-C vegetable beverage business operations in Asia, and developing and introducing exclusive products to match local tastes.



Kagome's History of Creating Value

Kagome was founded in 1899. Since then, we have instilled our founding sentiment of wanting to “contribute to people’s health by leveraging the value of agricultural products, which are part of nature’s bounty” into our products, and continued to deliver them to consumers. The history of food and the history of Kagome itself are intimately linked, and we have continued to create the value demanded by society in various eras. We could not have created that value or woven that history by ourselves alone. “Appreciation” is one aspect of our corporate philosophy, and a sentiment of gratitude towards nature’s bounty and the many

people whom we have encountered along the way. It is because we have maintained this philosophy and achieved harmonious co-existence with society that we have been able to create a history of over 120 years. Our spirit of collaboration and mutual support remains unchanged throughout the ages, and is still alive today in the implementation of Kagome’s corporate philosophy. Moving forward, Kagome will continue to value dialogues with society and work to identify those that must change and those that must remain the same, as it aims to achieve further growth.



Kagome's Value Creation Through Coexistence with Society

✓ A view to the future, based on the advice of a superior officer

The words of a superior army officer—that “the future of agriculture is in growing Western vegetables”—opened Ichitaro Kanie’s eyes, and prompted him to begin the challenge of cultivating tomatoes, which were still rare in Japan at the time. Farmers could not survive by depending on rice growing alone. Ichitaro Kanie opened up a new “progressive” path for Japanese agriculture, to protect families and communities and pass them on to the next generation.



Kagome's Founder Ichitaro Kanie (1904)

✓ Collaboration and mutual support with partners

Kagome’s contract farming system not only ensures stable procurement but also achieves coexistence with partners. Kagome asks farmers to grow tomatoes based on a pre-determined transaction price agreed through advance discussions with the farmers. This means Kagome buys all of the tomatoes produced. Additionally, by providing guidance for maintaining and improving quality, Kagome has built a win-win relationship with these farmers.



✓ Promoting the good health of citizens

While awareness of public health increases with the growing seriousness of Japan’s super-aged society, consumption of vegetables—which are essential to good health—continued to decline. Kagome regards this situation as a critical social issue to be resolved by Kagome. We are therefore engaged in continuous research and development efforts to contribute to extending healthy life expectancy by delivering numerous products that enable people to consume delicious vegetables in a casual manner.

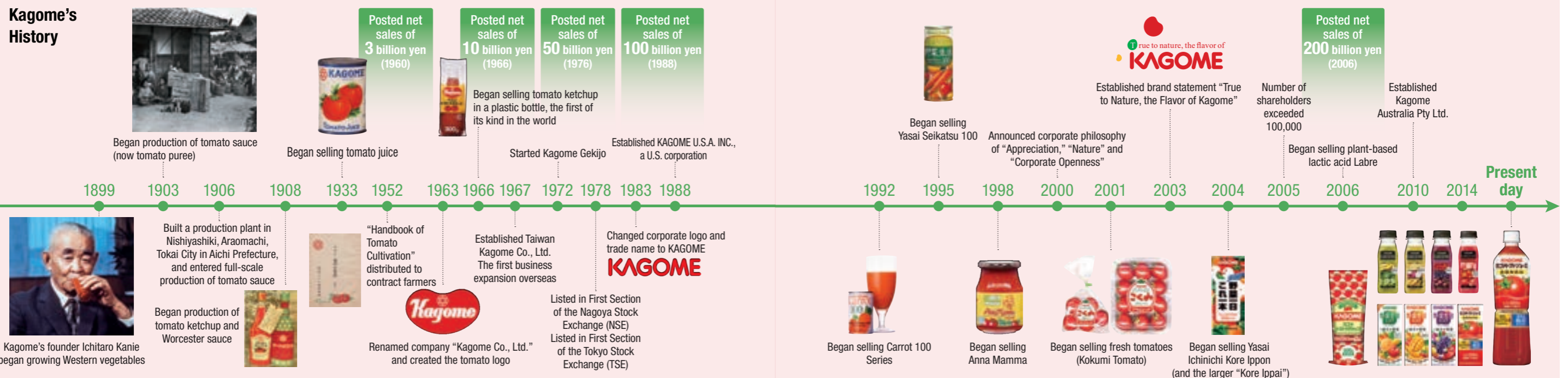


✓ Attempts to resolve social issues in emerging countries

Kagome possesses genetic resources for 7,500 varieties of tomatoes. Over the course of our 120-year history, we have created tomato varieties to match different needs. Today, we are trying to resolve food shortages and other food problems overseas using tomatoes for processing, which is the area in which Kagome can make most effective use of its knowledge. We are currently advancing numerous operations with local partners overseas, such as cultivating tomatoes for processing in Senegal and processing tomatoes in India.



Kagome's History



Kagome's Strength

Vertical integration business model

Creating consistent value, from seeds to table

Research & Development

Kagome engages in research and product development efforts to maximize the value of agricultural produce—nature's bounty—and contribute to longevity and good health.

Cultivation

Kagome utilizes contracted growing of specified varieties, offers agricultural guidance, and cultivates fresh tomatoes using large-scale greenhouses.

Product Production

Kagome uses manufacturing processes and quality management methods that maximize the value of its raw ingredients, through an optimal combination of good ingredients and technology.

Creating Demand

Kagome engages in activities to communicate value to convey the value of its products to customers and create demand.

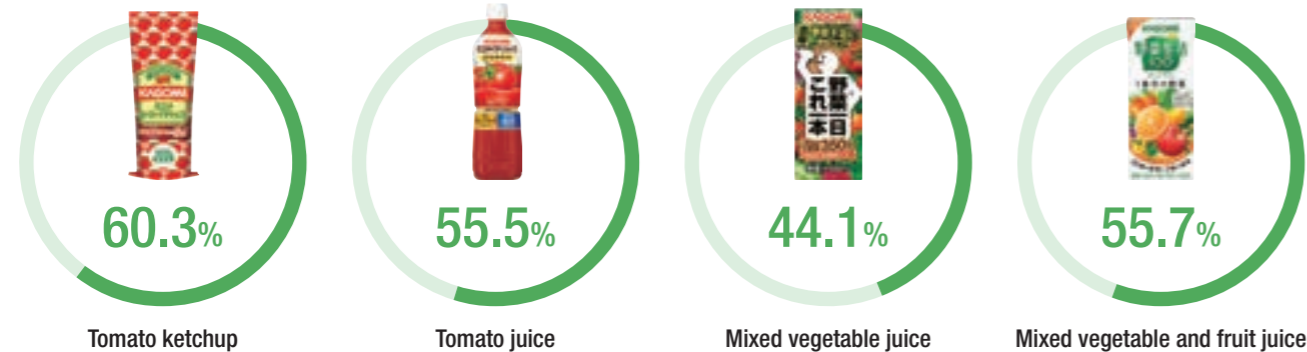
Procurement & Primary Processing

Kagome purchases only high-quality raw ingredients that meet its own standards, and carries out primary processing to ensure that the flavor of its ingredients is not degraded.

Developing Plant Varieties & Producing Seeds and Nursery Stock

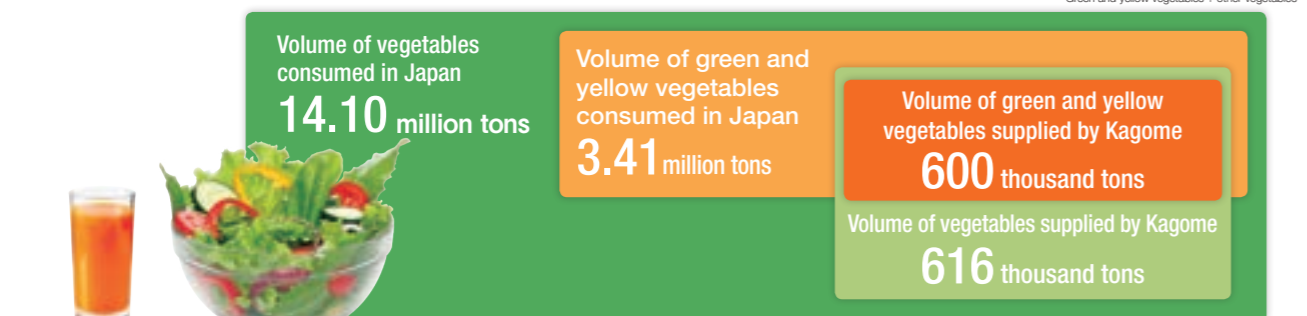
Kagome utilizes its own genetic resources for agricultural produce to create useful varieties through crossbreeding, and produces and supplies competitive seed and nursery stocks.

Our product lineup boasting the largest share in Japan /



Source: Intage SRI / Period: January through December 2018 / Based on monetary amount
 Geographic area: All of Japan / Sales Settings: Supermarkets, drug stores & convenience stores
 Also includes: Ambient & chilled, and the tomato juice category

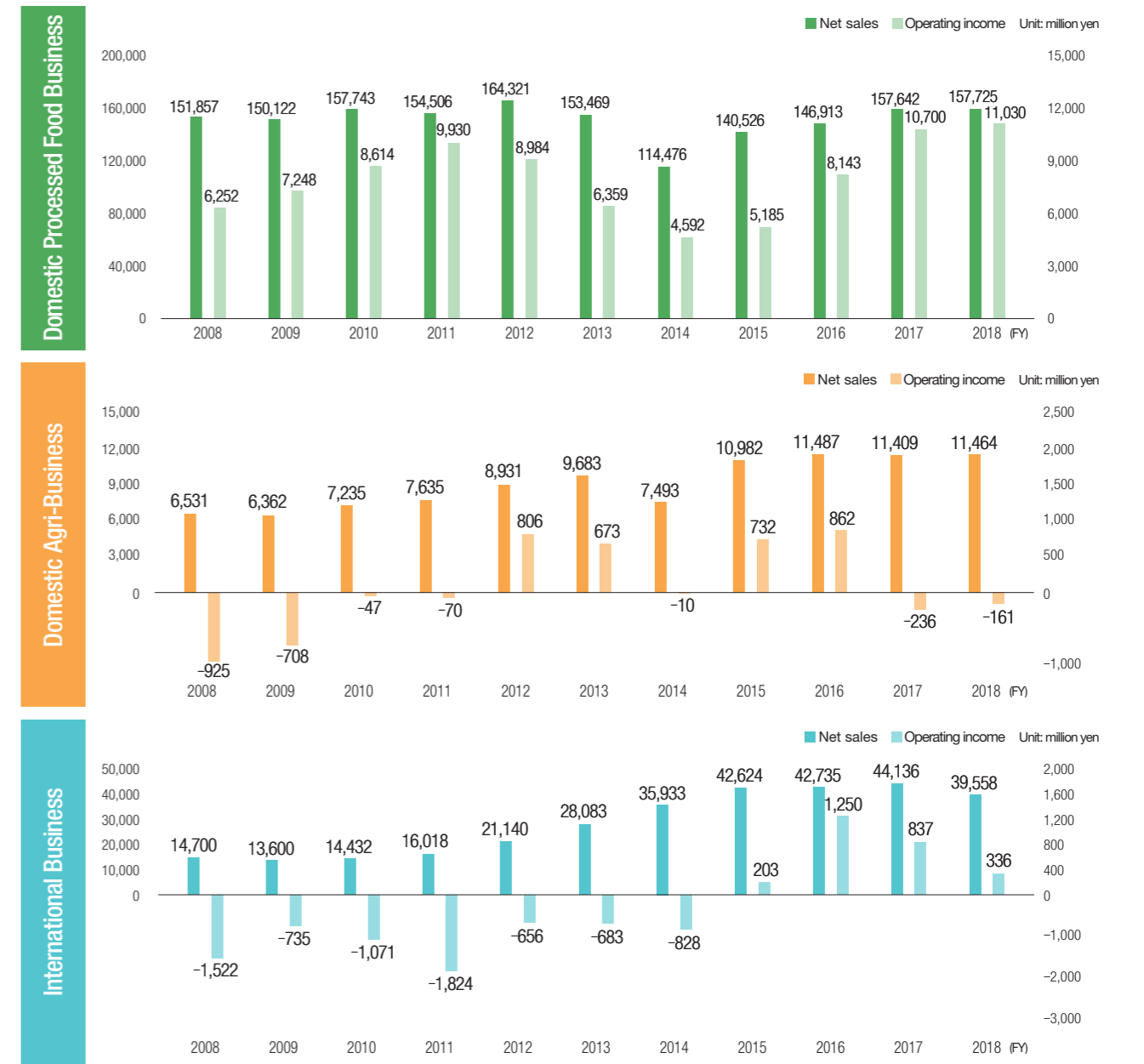
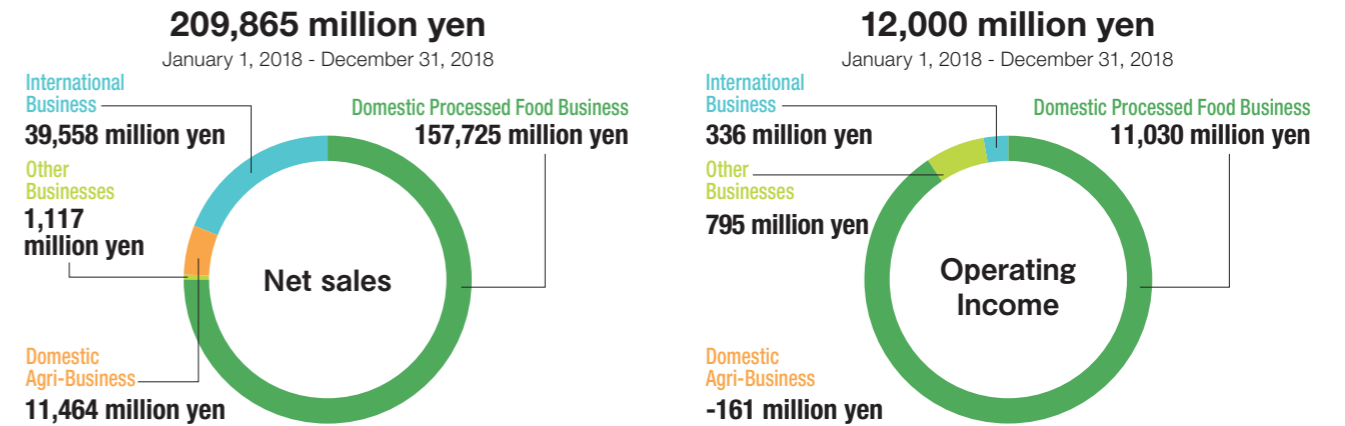
17.6% of the volume of green and yellow vegetables and 4.4% of all vegetables* consumed in Japan are supplied by Kagome



Source: Food Balance Sheet (fiscal 2017 estimates), Ministry of Agriculture, Forestry and Fisheries (MAFF) Volumes supplied by Kagome are calculated based on actual 2017 sales results.
 Note: In past reports, Kagome's supply volume was calculated using the sorted consumption amount from MAFF's Food Balance Sheet as the denominator and Kagome's actual raw ingredient usage results as the numerator. However, this calculation method has now been changed, since it was judged more appropriate to use the actual amount of product delivered by Kagome to customers as the standard. We now use the net amount of food from MAFF's Food Balance Sheet as the denominator and Kagome's actual product sales results as the numerator.

Kagome's Revenue Structure

Ratio by business segment



*Figures after elimination and adjustment between segments.
 *Figures for FY2014 are for the nine-month period between April 1 and December 31, 2014, as a result of a change to the company's business year.

Feature Story | Outline of Kagome | President's Commitment | Kagome's Vision and Growth Strategies | Kagome's Management | Financial Performance/Company Information

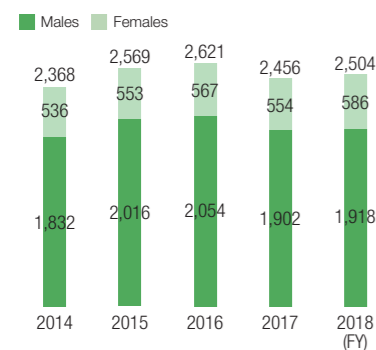
Key Financial and Non-Financial Data

Thousands of U.S. dollars

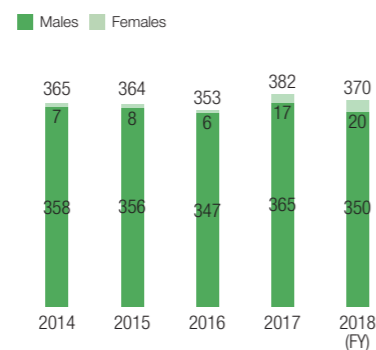
Accounting Period (Fiscal Year)	2008	2009	2010	2011	2012	2013	2014 ¹	2015	2016	2017	2018	2018
Profit and Loss (Unit: million yen)												
Net sales	175,134	171,937	181,304	180,047	196,233	193,004	159,360	195,619	202,534	214,210	209,865	1,890,676
Research and development expenses	2,541	2,577	2,567	2,655	3,009	3,084	2,566	3,240	3,219	3,346	3,557	
Advertising expenses	6,784	5,326	6,312	6,122	7,053	6,918	5,319	4,671	5,086	5,977	6,109	
Operating income	4,447	6,397	7,978	8,466	9,278	6,775	4,328	6,723	10,946	11,968	12,000	108,108
Operating income to net sales (%)	2.5	3.7	4.4	4.7	4.7	3.5	2.7	3.4	5.4	5.6	5.7	
Ordinary income	4,249	7,304	8,389	9,213	10,025	7,529	4,969	7,015	11,315	12,618	12,051	108,568
Profit attributable to shareholders of parent	2,000	2,981	2,473	4,217	6,480	5,105	4,366	3,441	6,764	10,100	11,527	103,847
Financial Condition (Unit: million yen)												
Total assets	140,938	134,005	142,661	148,207	168,965	183,621	203,413	208,885	219,804	195,737	193,612	1,744,252
Net assets	87,707	89,418	88,941	92,815	104,432	113,023	124,566	126,344	97,991	105,853	104,843	944,532
Interest-bearing debt	23,267	12,665	16,159	15,851	24,004	31,088	35,904	37,419	74,538	37,168	37,302	
Cash Flows (Unit: million yen)												
Cash flows from operating activities	4,137	15,230	18,241	11,757	7,407	(1,073)	1,753	12,039	18,824	16,598	10,130	91,261
Cash flows from investing activities	(5,431)	(6,458)	(19,093)	(4,985)	(1,781)	(3,941)	(7,110)	(11,023)	(18,576)	17,271	(299)	(2,694)
Cash flows from financing activities	4,433	(12,544)	1,414	(1,861)	1,050	2,322	1,793	1,555	6,904	(40,761)	(1,083)	(9,757)
Free cash flow	(1,559)	13,902	8,757	7,866	(1,417)	(12,661)	(4,269)	(4,011)	10,442	21,588	1,575	
Per Share Information (Unit: yen)												
Net income per share	20.09	29.97	24.87	42.40	65.15	51.39	44.01	34.64	68.30	114.03	130.03	
Net assets per share	866.10	885.16	880.13	920.81	1,020.86	1,094.07	1,204.77	1,201.96	1,043.89	1,150.50	1,146.85	
Annual dividend per share	15.0	15.0	15.0	18.0	20.0	22.0	16.5	22.0	24.5	30.0	40.0	
Key Management Indicators (Unit: %)												
Net assets to total assets	61.1	65.7	61.4	61.8	60.1	59.1	58.8	57.2	42.1	52.1	52.5	
Return on equity (ROE)	2.3	3.4	2.8	4.7	6.7	4.9	3.8	2.9	6.4	10.4	11.3	
Return on assets (ROA)	3.0	5.3	6.1	6.3	6.3	4.3	2.6	3.4	5.3	6.1	6.2	
Dividend payout ratio	74.7	50.1	60.3	42.5	30.7	42.8	37.5	63.5	35.9	26.3	30.8	
Dividend on net assets ratio	1.7	1.7	1.7	2.0	2.1	2.1	1.4	1.8	2.2	2.7	3.5	
Non-Financial Information												
Number of employees ² (persons)	2,038	2,031	2,045	2,101	2,209	2,349	2,368	2,569	2,621	2,456	2,504	
Energy used ³ (thousands of gigajoules)	1,368	1,360	1,379	1,319	1,297	1,289	1,329	1,336	1,380	1,376	1,334	
Water used ³ (thousands of tons)	3,583	3,440	3,484	3,452	3,627	3,945	3,850	3,828	3,628	3,442	3,247	
CO ₂ emissions ^{3,4} (tons)	70,682	69,875	69,908	66,379	65,454	62,777	64,693	63,968	66,499	66,599	64,839	

*1 The accounting period was changed in 2014, and FY2014 only covers the 9-month period from April 1 until December 31, 2014. *2 Scope: Kagome Group

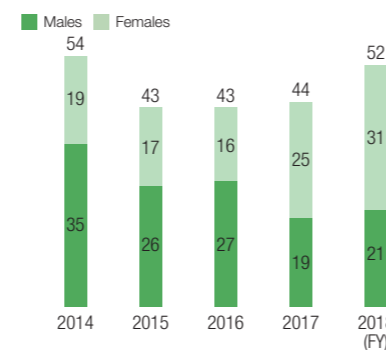
*3 Scope: Kagome Co., Ltd. + Group companies in Japan

*4 Company management fixed coefficient of 0.421kg-CO₂/kWh was used as the electricity conversion factor for calculated values of CO₂.**Number of employees (consolidated)**
(Unit: persons)

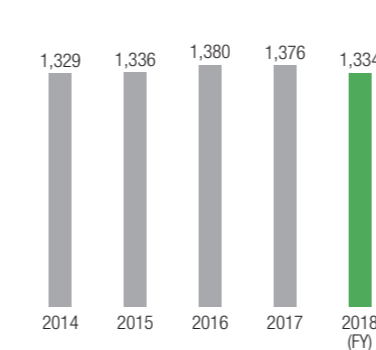
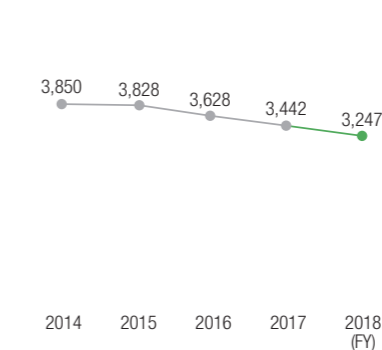
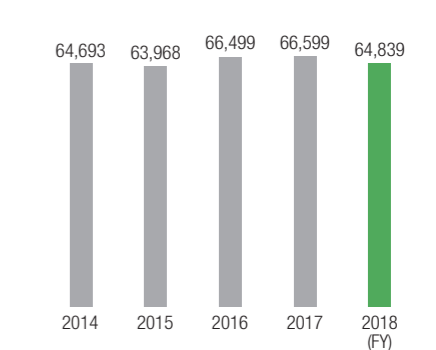
*Scope: Kagome Group

Number of employees in managerial positions (managers and above) (in Japan)
(Unit: persons)

*Scope: Kagome and Kagome Axis

Number of new hires (Unit: persons)

*Scope: Kagome

Energy used (Unit: thousands of gigajoules)**Water used (Unit: thousands of tons)****CO₂ emissions (Unit: tons)**

Becoming a strong company capable of sustainable growth by transforming into a “vegetable company”

Naoyuki Terada, President and Representative Director

Naoyuki Terada



Achievements under First Mid-Term Management Plan (Fiscal 2016-2018) and Remaining Issues

Achievements under First Mid-Term Management Plan

At Kagome, in 2016, we set our sights on becoming a “strong company capable of sustainable growth, using food as a means of resolving social issues” by the year 2025. We have also adopted the long-term vision of transforming from a “tomato company” to a “vegetable company” and aim to achieve revenue of 250 billion yen and core operating income of 20 billion yen by 2025*.

Under our First Mid-Term Management Plan (2016-2018), we implemented earnings structural reforms in the domestic processed food business in fiscal years 2016 and 2017 that enabled us to achieve a stable consolidated operating margin in the 5% range. In particular, the implementation of earnings structural reforms using marginal income ratio as a KPI in the domestic processed food business led to good results. It goes without saying that our profits are generated through every single product. We once again became conscious of this “profit on every single product,” radically reduced the costs of goods sold and sales promotion, and exhaustively reviewed “unreasonableness, waste and inconsistency” in fixed costs. In the process, we also made a start on reviewing unprofitable products and this had the effect of improving profit by approximately 800 million yen. Combined with other measures, the review enabled us to surpass our initial profit target throughout the three years.

In the meantime, vegetable beverages, which are Kagome’s core business, performed strongly and Yasai

Seikatsu 100 Smoothie and tomato juice, which is now a food with functional claims, contributed to expansion of earnings. Furthermore, in our direct-marketing business, products using specially selected ingredients won over health-conscious elderly consumers. I believe that our quick response to new trends by designing products that meet the needs of our target customers and increasing product value have borne fruit.

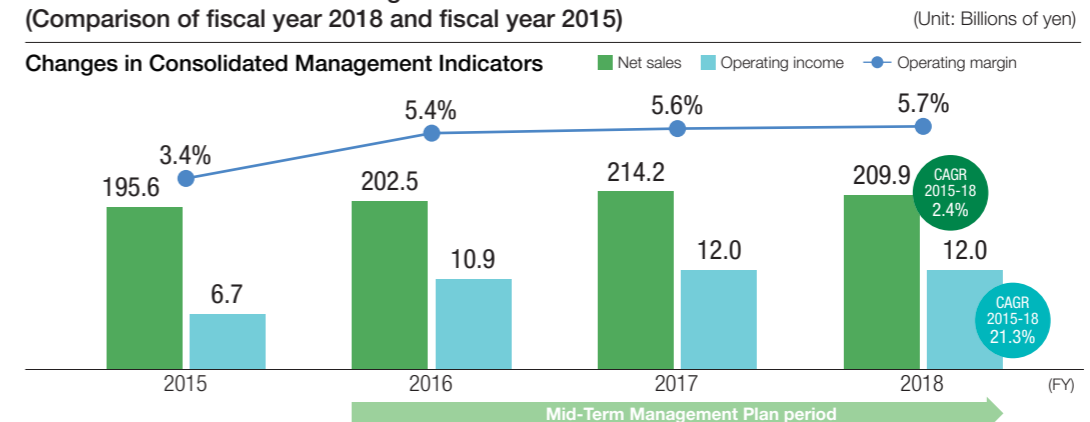
I feel that by offering products that match market “needs and seeds” whilst steadily implementing the “earnings structural reform so that stronger sales come with better profits,” we have succeeded in raising the profitability of every single product and enhancing our general “earning power” in every organization.

Remaining Issues and Measures to Address Them

There are, however, still issues that need to be addressed in our domestic agri-business and international business. The agri-business performed strongly in fiscal year 2016 but posted an operating loss in fiscal years 2017 and 2018 due to its slow response to over-supply in the fresh tomato market. Our lack of capacity to assess market conditions is hugely regrettable. In the agri-business, improving the accuracy of supply-demand forecasting is a matter of great urgency and we are urgently implementing earnings structure reforms to ensure that the business remains profitable even when market conditions deteriorate.

* Our previous targets in accordance with J-GAAP were revised as a result of transition to IFRS.

Achievement of Mid-Term Management Plan (Comparison of fiscal year 2018 and fiscal year 2015)



The international business was affected by a world-wide increase in tomato paste inventories in the B-to-B market for processed tomato products and therefore recorded lower revenue. I believe that one factor behind this poor performance is that we have shown too much respect for the business autonomy of overseas group companies and have failed to instill in overseas group companies the earning knowhow we have built up in Japan. To ensure that overseas group companies are sufficiently profitable to be able to stand on their own two feet, we are currently increasing the involvement of staff from Japan in overseas group companies and

working to be able to realize the quality and production technology improvements and cost reductions seen in Japan at each of our overseas subsidiaries as well.

In summary, although we succeeded in achieving the outcomes expected under the First Mid-Term Management Plan in our domestic processed food business, the issues described above still remain in our domestic agri-business and international business, resulting in the earnings structural reform falling a year behind schedule. Therefore, we recognize that we urgently need to address the delay during the Second Mid-Term Management Plan period.

Background to the Formulation of the Second Mid-Term Management Plan and Its Overview

Recognize risks and identify issues

The Second Mid-Term Management Plan (2019-2021) is positioned as a growth phase for aiming to realize our long-term vision of transforming from a “tomato company” to a “vegetable company” and we determined issues to be addressed by management for realization of this vision based on exhaustive environmental forecasting looking ahead 10 years into the future. We are slow at responding to change, and the rapid change of the times can pose a risk to Kagome’s sustainable growth. To prevent this risk, we need to prepare by predicting the trends of the future as much as possible. To realize this, we will have to draw on the opinions of people outside the company. Taking on board opinions of our five External Directors, who are experts in areas such as food and health, population and household structure, deregulation, ESG considerations and climate change risks as well as global risks, we earnestly discussed “themes that need to be addressed more quickly” and visualized the issues that need to be addressed.

Basic Strategies and Issues to Be Addressed under the Second Mid-Term Management Plan

The basic strategy of the Second Mid-Term Management Plan is to “achieve growth by continuing to strengthen earning capacity and taking on the challenge of entering new businesses and domains.” We will accomplish the earnings structural reforms in the domestic agri-business and international business that we failed to complete under the First Mid-Term Management Plan during the fiscal year 2019 and we will turn to growth from the fiscal year 2020 by taking on the challenge of entering new businesses and domains.

The most important point in tapping into new domains is to respond to the growing trend towards dining out. We will step up proposals for “eating vegetables as a side dish” to the growing home meal replacement and restaurant markets. To address this challenge, we implemented restructuring in October 2018, putting in place a structure that allows us to conduct activities from development of products and menus to making

proposals more flexibly. As a result, we removed the boundaries between sales divisions which have separated operations into consumer use, food service use, and agri-business (fresh vegetables), and we are now conducting organized sales activities across a wide range of channels including home cooking, home meal replacement and restaurant channels.

We will also detect signs of fresh food trends and take on new domains. Having already established the Vegetable Business Division in October 2018, we launched the “Vegetable Processing Business Project,” which links producers and processors via the network we have built up to date and manufactures and sells custom-made products for food service use. We have also made a start on the development of processed vegetable products with brand power and some of these are already on sale.

Furthermore, anticipating that a time will come when our products will no longer sell as they have in the past in Japan, we also intend to fully utilize the “Kagome brand” assets we have built up over our 120-year

history to create a business pillar out of experiences and services. This represents our challenge of “experiential business.” For example, our Health Business Department, set up last year, launched the business of providing health promotion services for companies and local governments. Also, in April 2019, we opened the “Veggie Kids Nursery,” which teaches children to love vegetables, near our Tokyo Head Office and are piloting a childcare service that incorporates food education. In the same month, we opened “Kagome Yasai Seikatsu Farm Fujimi” in Fujimi, Nagano Prefecture, which proposes new value by combining a production plant tour and an experiential learning facility where visitors can enjoy eating vegetables. These initiatives can be described as litmus tests for building up know-how and translating this into the creation of new businesses. In Japan, it is obvious that the market will contract in the future. Given this situation, transition into the growth stage through full utilization of Kagome’s brand strength to create new value is a major goal under the Second Mid-Term Management Plan.

Why is Kagome aiming to transform to a “vegetable company”?

To resolve the social issue of “longer, healthier lives”

Our long-term vision of transforming from a “tomato company” to a “vegetable company” encapsulates our desire to contribute to resolving wider social issues. The extent to which we can contribute to longer, healthier lives is inevitably much narrower if we confine ourselves to tomatoes. Every vegetable contains many different types of nutrients and other components that can contribute to people’s health and many studies have shown that the consumption of vegetables prevents lifestyle diseases and other illnesses. Obviously, to extend healthy life expectancy, it is important to consume various types of vegetables, which is why this vision can be communicated clearly and has also found support among people outside the company.

I believe that, through our initiatives to achieve this vision, we will be able to make a significant contribution to resolving the “health” issues faced by every Japanese in the 21st century. Through collaboration among people both inside and outside the company, we will create business that is derived from the vegetable business and develop a comprehensive

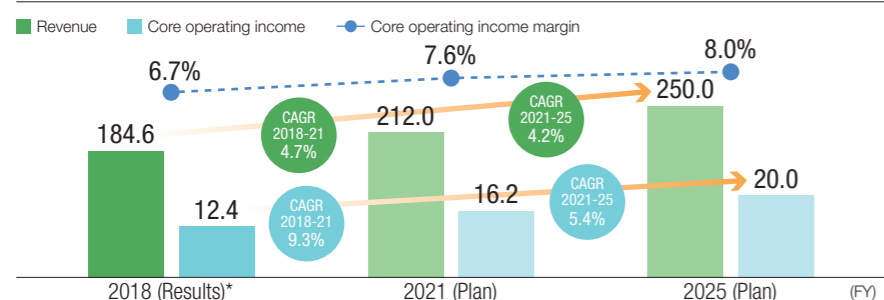
health business which is not merely confined to the provision of food. The amount of progress we make toward actually becoming a “vegetable company” under the Second Mid-Term Management Plan will be key to this. The desired outcomes are an increase in vegetable consumption, Kagome’s growth, and achieving longer, healthier lives. We are aiming to achieve this vision by 2025 but this will not be the end of our mission. We recognize that this challenge is simply laying the foundations for the next step that comes after Kagome has become a “vegetable company” both in name and reality.

Recognition of risks and opportunities to avoid being a passing phenomenon

The risk that will have the greatest impact on Kagome’s management is a contraction of demand due to population decline in Japan. The situation is so serious that the business model for processed foods which has held good for more than 100 years is no longer tenable. We, too, would probably be unable to achieve “longer, healthier lives” by repeatedly implementing measures to address immediate

Quantitative targets (IFRS basis)

(Unit: Billions of yen)



* Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

problems. Kagome is seriously addressing this risk. To do this, accelerating the development of new domains and new businesses and understanding how we can stem the decline in demand and turn it around are major challenges. The key to this problem lies in the shift in consumer values towards “experiences over goods.” Under the Second Mid-Term Management Plan, we are gradually giving shape to this concept as explained earlier.

Addressing global issues is also essential in order to achieve sustainable growth. Natural threats also pose a significant risk to us because of the nature of our products, which are made from agricultural produce. We are not immune to recent threats such as the impact of intensifying extreme weather events all over the world. Mitigating this risk, we diversify procurement bases of tomatoes, our core ingredient in both our domestic and international businesses, into the northern and southern hemispheres. The diversification not only serves as a risk hedge but as a strategy to improve our competitive advantage.

A “strong company” survives even in an era of contraction

Our goal of becoming a “strong company”

Multiple factors are needed for us to become a “strong company” that grows continuously in an age when the domestic market is contracting. At the top of the list comes diversity & inclusion. As for women’s participation, we have adopted the target of “50% of the workforce consisting of women, from employees to executive officers” by around 2040. Going forward, we will also need to consider hiring more non-Japanese employees and enhancing our systems and frameworks so that anyone can fulfil themselves at Kagome. The second requirement is to actively incorporate the opinions of experts from outside Kagome into management. The key drivers for the initiative are our five External Directors. The third requirement is the ability to execute tasks quickly. It is developed through the interplay of strong organizations, well-targeted management and personal strengths. At present, it is especially important to enhance personal strengths and we are pressing forward with the work style reform to maximize the potential of individuals.

Governance required for a “strong company” involves the key factors of “transparency” and “fairness.” My

Also, in overseas markets, we are implementing a range of measures using tomatoes, which is Kagome’s specialist field. In our farming business in Senegal, West Africa, we raised the salary of local tomato producers and reduced poverty and hunger, thereby helping to create a new market based on the principle of local production for local consumption. In India, Kagome encourages a shift away from fresh tomatoes, which are often used as a seasoning, towards processed tomatoes, and formed a new market for hygienic, preservable processed tomatoes. As such, we are introducing initiatives aimed at making producers more economically stable.

While these initiatives can only contribute to achieving some of the sustainable development goals (SDGs), Kagome is able to help resolve social issues through its businesses whilst also growing itself through the assessment of risks and opportunities. I believe that Kagome’s mission lies in expanding such initiatives from tomatoes to vegetables as a whole and realizing the long-term vision of transforming from a “tomato company” to a “vegetable company.”

thoughts on the realization of fairness are expressed in the “Kagome Code of Conduct” revised in October 2018. With the aim of endeavoring to conduct fair business practices and fulfilling our social responsibilities with a high standard of ethics looking ahead the future, I held exhaustive discussions with all executive officers and adopted the new code, which consists of the three strands of “mutual support,” “respect for human rights” and “fairness,” as the basis for the conduct of Kagome Group employees (for more details, please refer to p. 62). In addition, Kagome launched a succession plan in full scale and have begun rotating employees’ assigned jobs with an eye on personnel changes several years ahead and making decisions on the allocation of human resources through discussion from diverse perspectives.

Rationale of the work style reform and its results

A company is made up of people. Believing that a company will not change unless its employees fundamentally change their mindsets, Kagome has worked to be “a company with a pleasant and rewarding workplace” ahead of the government’s work

How do we transform our organizations, companies and individuals in times of turbulent change? The answer is Kagome’s long-term vision.

style reform legislation. Following a review of our systems, we introduced teleworking and flextime systems in April 2019 to encourage employees to fulfil their potential according to their circumstances.

Alongside the system development, we are also continuing our efforts to change employees’ mindsets. Long working hours, male-dominated working environments, lifetime employment, seniority system, and other customs peculiar to Japan only came into being on the assumption that a larger population would keep driving economic growth. On the contrary, Japan will be facing negative growth in the near future. Under this environment, it will be integral to improve the performance of individual employees. Therefore, we established the concrete target of “reducing total working hours per year to 1,800 hours by 2020.” This is not a matter of merely reducing overtime. By setting the target, we are trying to raise the question of how individuals use their time, or how individuals spend their lives. I have reiterated to Kagome’s employees that the “work style reform” is the “lifestyle reform.” Work is just one part of life. Spending time away from work with family or on hobbies, cultural activities or skill development is essential for enriching your life. From Kagome’s viewpoint, we cannot foster diversity if the employees only mix with their company colleagues and their families. The necessity of conducting the work style reform only comes out of our desire for our employees to work innovatively.

The working hours reduction initiative has come to fruition, resulting in a steady reduction in total working hours. The rate of paid leave usage, previously at around 50%, has reached 83% on average at the end of the fiscal year 2018. Because



we have seen healthier profit since we introduced the work style reform, the reform has contributed to solid productivity improvement.

My biggest wish is that our employees lead happy lives. We will continue implementing the work style reform in the future to ensure that our employees can say they have led fulfilled lives and were able to do what they wanted while working at Kagome and to develop innovative individuals through this.

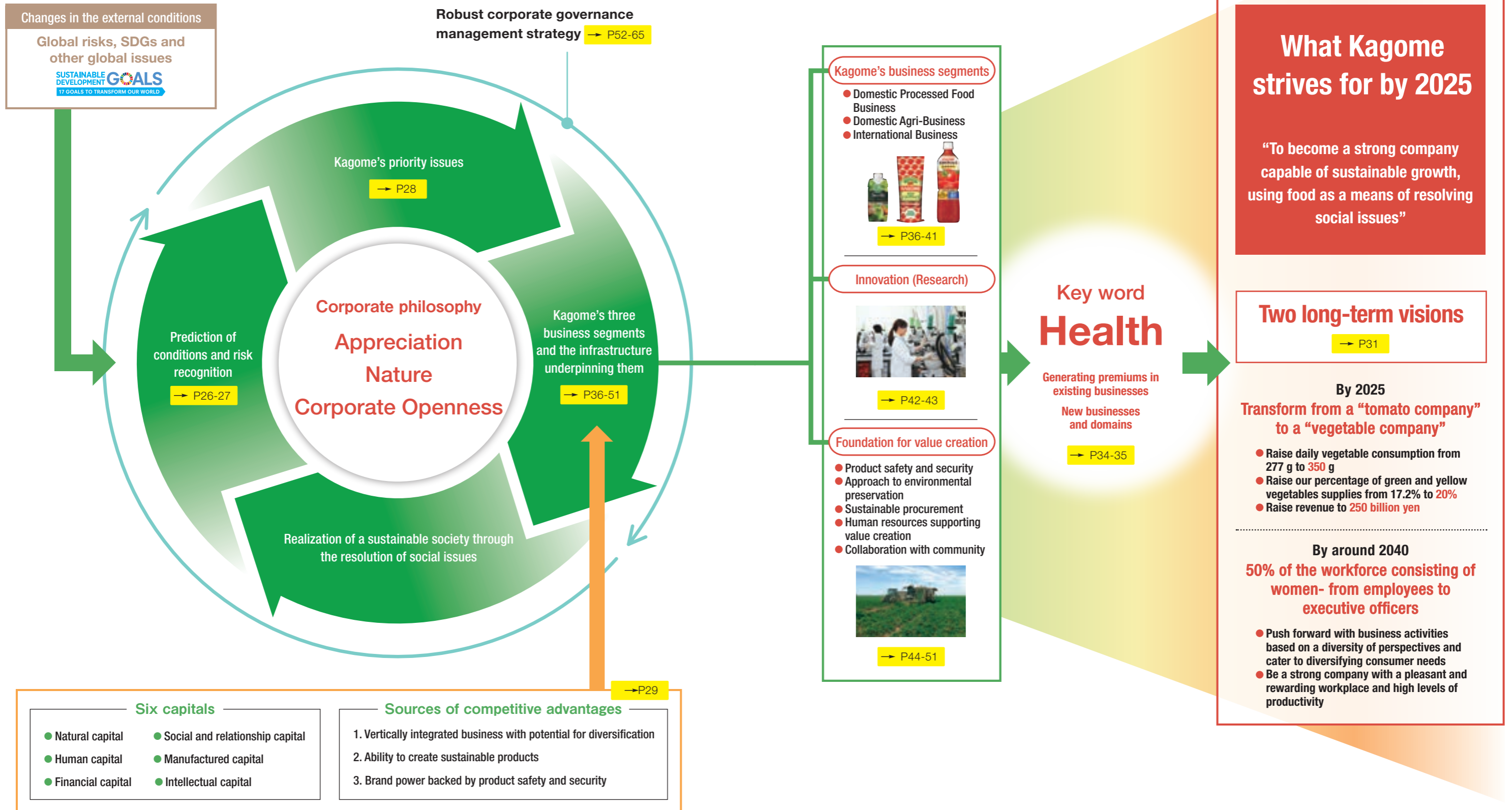
Adapting to the times

My idea is that management means understanding the times; in other words, the most crucial factor in management is management’s understanding of the future. The social environment changes more quickly than we anticipate. We sometimes need to reflect on the past, but past frameworks and systems are no longer tenable in times of turbulent change. For this reason, we should transform organizations, companies and individuals. The aim of these changes is what Kagome strives for, our long-term vision. And this long-term vision also serves as the foundation for the future beyond the vision’s time horizon. We are now in the first fiscal year of our Second Mid-Term Management Plan, which marks a new step towards realization of our vision. Kagome will proceed steadily and more speedily towards realization of its vision of transformation to a “vegetable company.”

Through engagement with our many shareholders and by using food as a means of resolving social issues, we will continue to focus our efforts on the realization of a sustainable society and enhancement of our corporate value.

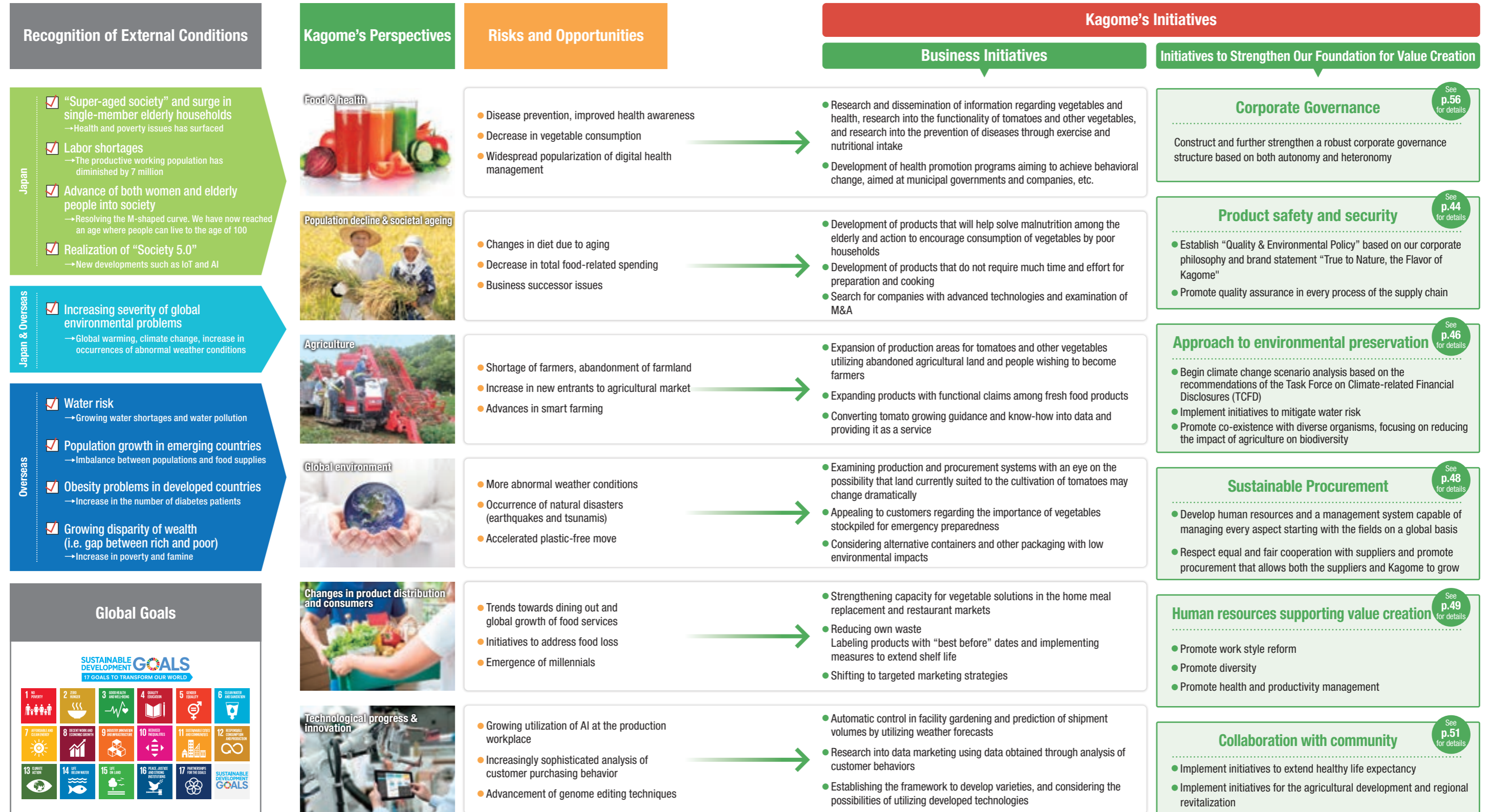
Value Creation Process

To become “a strong company capable of sustainable growth, using food as a means of resolving food issues,” which is what Kagome strives for by 2025, we need to become an organization that constantly predicts changes in the conditions surrounding our business and is capable of responding flexibly. Providing society with value that only Kagome can create and resolving social issues, we will continue to achieve sustainable growth and contribute to the realization of a sustainable society. That is Kagome's process for creating value.



Recognizing External Conditions, Risks and Opportunities

To realize what Kagome strives for by 2025, we need to swiftly recognize changes in external conditions and identify risks and opportunities for Kagome from short-, mid- and long-term perspectives. We also believe that in order for Kagome to continue being a company that is "needed" by society, it is important for us to implement initiatives with regard to both of the two aspects of business operations and our foundation for creating value (value creation infrastructure).



Important Issues (Materiality) of Kagome

Important issues (materiality) of Kagome

Kagome has begun to identify important issues (materiality) in order to remain a “strong company.” By identifying factors that are indispensable to the circulation of Kagome’s sustainable growth and the resolution of social issues and allocating capital appropriately, the company aims to remain an integral part of society.

Process of identifying the factors



In fiscal year 2018 we identified social issues that Kagome should address by using the SDGs, ISO 26000, GRI, SASB, etc. as a reference, and narrowed down the issues to approximately 100, taking into account the aspects that are important for sustainable value creation. In addition, we held a workshop with 27 members from corporate planning, quality assurance and other departments, assessed the importance of the issues both in terms of society and business and put them in order of priority. Through this process, we narrowed the issues down to around 20 and organized them into eight groups: three social issues to be addressed through business activities and five components of the foundation for value creation. These issues were then deliberated at Management Meetings and meetings of the Board of Directors, and were deemed to be self-evaluated important issues (materiality).

In fiscal year 2019, we plan to conduct third-party evaluation of the self-evaluated materiality through dialogues with stakeholders and experts outside the company and verify the gap between self-evaluation and third-party evaluation to identify materiality. We will determine specific measures and KPIs in relation to the materiality that have been identified, evaluate each initiative and implement a PDCA cycle.

	Group	Important issues (materiality)	
Business aspects	Longer, healthier lives	<ul style="list-style-type: none"> Response to super-aged society Development of products that can help solve health issues Promotion of healthy lifestyle habits 	Business strategies
	Agricultural development and regional revitalization	<ul style="list-style-type: none"> Sustainable procurement of natural raw materials Response to dramatic decline in agricultural population Improvement of productivity through the utilization of technology Establishment of sustainable agriculture Contribution to turning agriculture into a growth industry 	
	Global food problems	<ul style="list-style-type: none"> Response to critical shortage in food supply due to population growth Response to malnutrition as a consequence of poverty Response to rising raw material costs Food loss 	
Foundation for value creation	Corporate Governance	<ul style="list-style-type: none"> Compliance 	Management
	Diverse Human Resources	<ul style="list-style-type: none"> Creation of innovative human resources Consideration for human rights 	
	Supply chain	<ul style="list-style-type: none"> Strengthening of supply chain management 	
	Environment	<ul style="list-style-type: none"> Response to climate change Response to water risk 	
	Quality	<ul style="list-style-type: none"> Product safety and security 	
			Sustainability strategies

Six Capitals Essential for Value Creation and Sources of Competitive Advantage

Six capitals

Kagome’s business builds on leveraging “the value of agricultural products,” which are part of nature’s bounty. We procure safe, high quality raw materials, process them with all the flavors and nutrients intact, and deliver them to consumers. We are also endeavoring to branch out into experiential business by fully utilizing Kagome’s assets, including its research findings relating to vegetables and health as well as the Kagome brand. Kagome leverages the six capitals explained below to conduct these businesses and to create Kagome’s corporate value.

Kagome's "Six Capitals"	Main components
Natural capital Productivity from fields	<ul style="list-style-type: none"> Production of safe and high-quality ingredients based on the ideology that “fields are the primary production plant” Own standards for pesticides and fertilizers that take environmental impact into consideration Vegetable cultivation technology and expertise focused on tomatoes
Social and relationship capital Diverse partnerships and social contribution	<ul style="list-style-type: none"> Cooperation among industry, government and academia to resolve social issues (locally grown, nationally consumed campaign, research to promote health, agricultural development) Provision of food education to a total of 3,506,000 children using proprietary contents Development of tomato processing industry in emerging countries
Human capital Tomato spirit that connects diversity	<ul style="list-style-type: none"> Diverse human resources supporting the development of vegetable products Internal qualifications, including vegetable advisor and rice omelet certification, and unique human resources, such as food planner Fostering our founder’s entrepreneurial spirit that runs in the company through requests for new business plans, etc.
Manufactured capital Balancing product safety and reassurance with flavor	<ul style="list-style-type: none"> Belief in “Quality First, Profit Second,” in other words, that product “safety and reassurance” are the most important social responsibilities of Kagome and that “if the quality of our products is good, then profits will follow.” Advanced vegetable processing technologies (concentration of tomato juice by reverse osmosis under high pressure, carrot juice extraction, vegetable fractionation technology, etc.) Mechanisms for blending various agricultural products from all over the world whilst maintaining consistency in taste and flavor
Financial capital Shareholder structure consisting mainly of Kagome fan shareholders	<ul style="list-style-type: none"> Stable financial base due to establishment of long-term relationship with Kagome fan shareholders Suitable investment leading to business growth and shareholder returns
Intellectual capital Creation of new value through open innovation	<ul style="list-style-type: none"> Open innovation for the integration of cutting-edge technologies from different industries into new businesses Creation of new value by combining products and services

Sources of Competitive Advantages

Kagome’s brand statement “True to Nature, the Flavor of Kagome” is Kagome’s promise to society and customers. We seek out the value of ingredients, from tomatoes to vegetables, and work to create sustainable value.

1 Vertically integrated business with potential for diversification:



Our vertically integrated business model, which ensures control at every stage, from seeds to soil cultivation, growth, harvest, production, all the way to the final product, gives us greater competitiveness, enabling us to supply unique products rooted in nature, ranging from processed foods and fresh vegetables to seedlings, in Japan and around the world.

2 Ability to create sustainable products:

Our standardization of product development processes and expertise allows us to actively hire young employees to develop human resources and create sustainable, appealing products.

3 Brand power backed by product safety and security:

In a brand strategy survey (by Nikkei Research Inc.), Kagome ranked highly, coming in at 16th in the overall ranking*, in recognition of “product safety and reliability” and “product quality.”

*2017 Survey

Kagome's Vision and Growth Strategies

Kagome considers its brand statement "True to Nature, the Flavor of Kagome" to be a promise to customers and contributes to the realization of people's healthy diets through the development and delivery of products that benefit from the value of nature's bounty. We established two long-term visions, "transform from a 'tomato company' to a 'vegetable company'" and "50% of the workforce consisting of women—from employees to executive officers," and we have been working to increase Kagome's corporate value while creating a cycle of sustainable growth and solving social issues.

First Mid-Term Management Plan 2016-2018

Earnings structure reform × Work style reform

- Raising the value of existing products
- Innovating new products
- Narrowing down existing and new products
- Reducing slow-moving products, disposal and inventory
- Reducing fixed costs
- Prohibiting overtime after 8:00 p.m.
- Introducing a telecommuting system
- Introducing a staggered working hour system

	Initial plan	FY2018 (Results)
Net sales	220.0 billion yen	209.9 billion yen
Operating income	11.0 billion yen	12.0 billion yen
Operating margin	5.0%	5.7%

Domestic Processed Food Business

Aiming to address the low vegetable intake of Japanese people

	Initial plan	FY2018 (Results)
Net sales	150.0 billion yen	158.8 billion yen
Operating income	7.0 billion yen	11.8 billion yen

Domestic Agri-Business

Turning Japanese agriculture into a growth industry

	Initial plan	FY2018 (Results)
Net sales	15.0 billion yen	11.5 billion yen
Operating income	1.0 billion yen	-0.1 billion yen

International Business

Aiming to become the top global tomato supplier

	Initial plan	FY2018 (Results)
Net sales	55.0 billion yen	39.5 billion yen
Operating income	3.0 billion yen	0.3 billion yen

Second Mid-Term Management Plan 2019-2021

Growth by continuing to improve earning power, starting new businesses and taking on new domains

- Complete earnings structure reforms in domestic agri-business and international business in fiscal year 2019
- Start new businesses and take on new domains, aiming for growth by 2020-2021
- Go from reforming work styles to reforming lifestyles

*Transition to IFRS from FY2019 (FY2018 results are results on an IFRS basis)

	FY2018 (Results)	FY2021 (Plan)
Revenue	184.6 billion yen	212.0 billion yen
Core operating income	12.4 billion yen	16.2 billion yen
Core operating income margin	6.7%	7.6%

Domestic Processed Food Business

Strengthening proposals to the home meal replacement and restaurant markets through vegetable solutions

	FY2018 (Results)	FY2021 (Plan)
Revenue	134.0 billion yen	148.0 billion yen
Core operating income	11.9 billion yen	12.4 billion yen

Domestic Agri-Business

Promoting earnings structural reforms and rebuilding product lineup

	FY2018 (Results)	FY2021 (Plan)
Revenue	11.2 billion yen	14.0 billion yen
Core operating income	-0.1 billion yen	0.8 billion yen

International Business

Strengthening business for food service industry and expanding vegetable beverages in Asia

	FY2018 (Results)	FY2021 (Plan)
Revenue	39.4 billion yen	50.0 billion yen
Core operating income	0.6 billion yen	3.0 billion yen

Kagome's Long-term Vision Looking Ahead to 2025 and Beyond

Two Long-term Visions

Kagome has adopted the two long-term visions described below to become a "strong company"

Transform from a "tomato company" to a "vegetable company" by 2025

We will become a company that provides a variety of vegetables in a variety of forms to a variety of markets, and we aim to raise the daily vegetable consumption of Japanese people to 350 g and raise our percentage of green and yellow vegetables supplied by Kagome to 20%.

	2016	2025	
Japan	Daily vegetable intake per person	277 g	350 g
	Total vegetable consumption	13.71 million tons	17.04 million tons
	Of which, green and yellow vegetables	3.29 million tons	4.09 million tons
Kagome	Vegetables supplied/Percentage	582,000 tons/4.2%	845,000 tons/5.0%
	Of which, green and yellow vegetables	567,000 tons/17.2%	823,000 tons/20.1%

50% of the workforce consisting of women—from employees to executive officers by around 2040

Kagome is making progress towards achieving "corporate openness," which is part of its corporate philosophy, and we are actively pursuing diversity, which we see as a management strategy for becoming "a strong company." Our long-term vision "50% of the workforce consisting of women—from employees to executive officers" is also intended to create innovation through diversity. To promote the empowerment of women, we are focusing on "hiring more women," "work style reforms to encourage more women to continue working even after life events" and the "development of female managers." By realizing "the right person in the right place" and a "results-oriented approach" regardless of gender through such activities to promote diversity, we aim to increase organizational productivity and improve Kagome's corporate value.

Issues to Be Addressed to Achieve What Kagome Strives for by 2025 and Contributing Measures

Longer, healthier lives

- Expand the range of vegetable types that we provide by strengthening business in the domain of fresh vegetables such as baby leaf lettuce and packed salads
- Grow consumption of vegetable-based dishes through "vegetable solutions"
- Boost vegetable intake through health promotion services that change customer behavior
- Promote health in communities through collaboration with area distributors and local governments with whom we have concluded comprehensive agreements
- Reveal relationships between vegetable intake and health promotion through joint research with Hirosaki University

Agricultural development and regional revitalization

- Grow the vegetable processing business in Japan
- Produce tomatoes for processing and vegetables on abandoned farmland, and take measures to counter aging and insufficient labor among producers
- Discover producers who are dynamic and support their sales activities at "farm support" direct marketing
- Expand the "locally grown, nationally consumed" model for processed foods
- Grow consumption of the agriculture, fishery, and livestock products of the local governments with whom we have concluded comprehensive agreements

World food shortages

- Develop production areas for tomatoes for processing and help improve productivity in emerging countries
- Utilize cutting-edge technology to contribute to sustainable, highly efficient agriculture

Earnings structure reform

Growth in new businesses and new domains

Kagome's strategy of creating a cycle of

sustainable growth and solving social issues

Review of First Mid-Term Management Plan 2016-2018

Under the three-year First Mid-Term Management Plan that began in 2016, we focused on priority issues to realize what Kagome strives for by 2025, targeting net sales of 220 billion yen, operating income of 11 billion yen, an operating margin of 5.0% and ROE of 5.0%.

Changes in Management Indicators

Compared to fiscal year 2015, net sales increased by 14.2 billion yen and operating income increased by 5.3 billion yen. We are now able to maintain an operating margin in the 5% range and our profitability has improved significantly. Compared to our revised targets, although ROE was on target, other management indicators fell short of the target level and this is an issue that still needs to be addressed in the future.

Changes in Consolidated Management Indicators

Indicator	Mid-Term Management Plan period				Initial target	Revised target	Increase under the Mid-Term Management Plan (2018-2015)
	FY2015	FY2016	FY2017	FY2018			
Net sales	195.6	202.5	214.2	209.9	220.0	215.0	+14.2
Operating income	6.7	10.9	12.0	12.0	11.0	13.0	+5.3
Operating margin (%)	3.4	5.4	5.6	5.7	5.0	6.0	+2.3 pt
ROE (%)	2.9	6.4	10.4	11.3	5.0	8.0	+8.4 pt

(Unit: billion yen)

Summary by Priority Issue

The priority issues under the Mid-Term Management Plan, which consist of seven themes, are summed up as follows. While we made progress with the development of foundations for issue management, there are still many areas for improvement in terms of implementation of PDCA.

	Seven Themes	Three-year Summary
1	Improvement of value in existing businesses and categories	<ul style="list-style-type: none"> Earnings from tomato juice improved significantly, reflecting improvement in value due to added functional claims. We are currently conducting activities to add functional claims to many products besides tomato juice.
2	Creation of new categories and business models and generation of earnings from them	<ul style="list-style-type: none"> We did not achieve our initial targets in any new business in which we sought to contribute to earnings, including GREENS and packed salads. Yasai Seikatsu 100 Smoothie gained top market share after the concentration of resources on this category.
3	Promotion of globalization and generation of earnings from international business	<ul style="list-style-type: none"> Profitability of the international business improved following a review of the consumer business in Asia. The earnings of overseas subsidiaries are unstable and although performance is improving in terms of quality, there are still many issues to be addressed.
4	Promotion of solutions business	<ul style="list-style-type: none"> In fiscal year 2018, our ability to meet customer needs definitely increased due to the establishment of the Solution Sales Division, despite slow growth in collaborative development with CVS.
5	"Work style reform" and "earnings structure reform"	<ul style="list-style-type: none"> We made significant progress with work style reforms. We established Kagome Axis as a shared services organization. In terms of earnings structure reform, marginal income ratio and ratio of break-even point to sales improved considerably.
6	Initiatives to improve corporate value	<ul style="list-style-type: none"> We implemented various measures to improve corporate value, including transitioning to a corporate structure with an audit and supervisory committee, evaluating the effectiveness of the Board of Directors, preparing to transition to IFRS, and issuing an integrated report, and we improved our governance capacity.
7	Optimization of resource allocation	<ul style="list-style-type: none"> Resource allocation improved due to stronger governance. However, this did not lead to the introduction of a framework for raising the level of investment projects.

Results of Two Reforms

"Earnings structure reform"

Although reforms produced results in the domestic processed food business, reforms are behind schedule in the domestic agri-business and international business.

In the domestic processed food business, alongside growth in beverages, we made progress in areas such as reducing the cost of sales ratio by reviewing raw material procurement policies and improving production efficiency, reducing the ratio of sales promotion costs through management of earnings based on marginal income and reducing unprofitable products, and this led to expansion of sales and profits. However, in the domestic agri-business and international business, improvement of earnings was behind schedule, causing consolidated

business results to depend more heavily on the beverage business. To move away from a beverage-dependent earnings structure, it is essential to diversify sources of earnings in the domestic processed food business and strengthen earning capacity in the agri-business and international business.

In the domestic agri-business business, we were slow in adapting to oversupply in the market and our earning potential worsened. The creation of an earnings structure immune to price fluctuations remains a challenge.

In the international business, net sales decreased due to the sale of US-based PBI, but income edged up mainly due to our withdrawal from unprofitable business in Asia. Our global food service business, which is a pillar of business growth, is steady but we still have a long way to go with initiatives to strengthen the earning power of our overseas subsidiaries.

Changes in Business Results by Segment (after elimination and adjustment between segments; JGAAP)

	FY2015				FY2018			
	Net sales	Component ratio	Operating income	Component ratio	Net sales	Component ratio	Operating income	Component ratio
Domestic Processed Food Business	142.0	72%	5.8	87%	158.8	76%	11.8	98%
Of which, beverages	74.4	38%	2.3	34%	89.1	42%	5.8	48%
Domestic Agri-Business	11.0	6%	0.7	10%	11.5	5%	-0.1	—
International Business	42.6	22%	0.2	3%	39.5	19%	0.3	2%

(Unit: billion yen)

"Work style reform"

Improving the efficiency of business operations and promoting work-life balance

Under the First Mid-Term Management Plan, we established a new company responsible for shared services to consolidate and improve the efficiency of business operations, and we also introduced a staggered working hour system and a telecommuting system to improve the productivity of employees and support work-life balance. In addition, we made headway toward creating a comfortable working environment, including introducing a "regional card system" to support workers who find it difficult to continue with their careers after life events.

Monthly overtime hours per Kagome employee were reduced by 20%, from 17 hours to 14 hours, and the average paid leave usage rate also improved sharply from 55% to 83%.

Meanwhile, we put effort into promoting diversity, and awareness among Kagome employees has also been changing. Women are now actively participating in a range of workplaces, with the percentage of women in management positions growing from 2.2% to 5.4%, and women accounting for more than 50% of all newly hired graduates in fiscal years 2017 and 2018. Kagome was also selected by the Ministry of Economy, Trade and Industry as a winner of the New Diversity Management Selection 100 program in recognition of its activities to promote workplaces in which diverse perspectives and values are utilized.

Results of work style reform (FY2015 → FY2018)

Introduction of various types of system including a staggered working hour system and a telecommuting system

20% reduction in average monthly overtime hours worked per Kagome employee (17 hours → 14 hours)

28 pt improvement in average paid leave usage rate: (55% → 83%)

Promoting Diversity

3.0 pt increase in percentage of women in managerial positions (2.2% → 5.4%)

23 pt increase in percentage of newly hired female graduates (37% → 60%)

Selected by the Ministry of Economy, Trade and Industry as a winner of the New Diversity Management Selection 100 program

As of December 31, 2018

Outline of the Second Mid-Term Management Plan 2019-2021

The Second Mid-Term Management Plan, which began in fiscal year 2019, is an important milestone for Kagome's achievement of its long-term vision. Kagome will start new businesses and take on new domains and will focus on further improving its social value and economic value.

Basic Strategy and Four Priorities

Kagome's basic strategy is "growth by continuing to improve earning power, starting new businesses and taking on new domains. We will complete earnings structure reforms in the domestic agri-business and international business during fiscal year 2019 and will transition to growth from fiscal year 2020 by starting new businesses and taking on new domains. We also have four priorities and will apply these to each business.

Basic Strategy

Growth by continuing to improve earning power, starting new businesses and taking on new domains

Priorities

1. Continue to boost value and reduce "unreasonableness, waste and inconsistency"
2. Start new businesses and take on new domains
3. Go from reforming work styles to reforming lifestyles -Be a company that is enjoyable and meaningful to work for, even with strict accountability
4. Develop the mechanisms to be a strong company

Consolidated Quantitative Targets (IFRS Basis)

With the application of international financial reporting standards (IFRS) starting from fiscal year 2019, we have adopted core operating income as a unique reference indicator. In fiscal year 2021, which is the final fiscal year of the plan, we aim to achieve revenue of 212.0 billion yen, core operating income of 16.2 billion yen and a core operating margin of 7.6%.

*Revenue minus cost of sales and selling, general and administrative expenses, plus share of profit (loss) of entities accounted for using the equity method

Unit: billion yen

	Actual Result for FY2018*	FY2021 Target	Increase/Decrease (2021-2018)	FY2025 Target
Revenue	184.6	212.0	+27.4	250.0
Core operating income	12.4	16.2	+3.8	20.0
Core operating margin	6.7%	7.6%	+0.9 pt	8.0%

*Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

Continued Earnings Structure Reform

In the domestic processed food business, we will continue to reduce slow-moving inventory and inventory disposal costs and we will also diversify sources of earnings and expand "food products and food service use." In the domestic agri-business, we will strengthen our earning capacity on the assumption of weak market prices for fresh tomatoes. In the international business, we will put in place a profit-making business structure through earnings structure reform and will then aim to achieve net sales on a scale of 50 billion yen, mainly through the expansion of high added value products.

Quantitative Targets by Business Segment

(after elimination and adjustment between segments; IFRS basis)

Unit: billion yen

	Actual Result for FY2018*		FY2021 Target	
	Revenue	Core operating income	Revenue	Core operating income
Domestic Processed Food Business	134.0	11.9	148.0	12.4
Domestic Agri-Business	11.2	-0.1	14.0	0.8
International Business	39.4	0.6	50.0	3.0

*Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

Initiatives in Line with Four Priorities

Continue to boost value and reduce "unreasonableness, waste and inconsistency"

Meet needs by enhancing value in terms of functionality, convenience and flavor

● Boosting value

We will focus on boosting value in terms of "improving the convenience of containers" for tomato sauce and other products, and "enhancing the flavor" of fresh tomatoes as well as "strengthening products with functional claims." In vegetable beverages, we will step up the search for ingredients and development of products that meet growing demand for sugar-free products among all generations. Meanwhile, we will focus on raising the prices of products that offer more value to a level commensurate with the value they offer. Using the same kind of thinking, we will also strive for higher sales of existing high added value products at a price level at which reasonable earnings can be expected.

● Reducing the cost of goods sold and slow-moving inventory and inventory disposal, and increasing logistical efficiency

Besides ensuring stable procurement of raw materials and narrowing down unprofitable products, we plan to reduce the cost of goods sold by improving production line efficiency. We will also focus on reducing slow-moving inventory and inventory disposal, which remains an issue, and on improving logistical efficiency.



Go from reforming work styles to reforming lifestyles -Be a company that is enjoyable and meaningful to work for, even with strict accountability

Aiming to achieve total annual working hours of 1,800 by 2020

● Work style reform

"Work style reform" will enter a second phase. We will promote improvement in the efficiency of business operations through standardization and systemization, ensuring that all employees grasp that "work style reform" means "reforming their own lifestyles" and are able to produce results at work in 8 hours per day for the achievement of total annual working hours of 1,800. We will also focus on making it even easier for employees to work, including letting employees have secondary jobs and introducing a flextime system, and we are aiming for an average percentage of paid leave of 80%.

● Promoting diversity

Aspiring for the ideal "scenario where all employees experience self-realization and job satisfaction through their proactive work at Kagome, increasing the sense of unity and strength of its organizations," Kagome will further promote the development of structures that enable it to fully demonstrate the effectiveness of diversity management. Besides aiming to achieve our vision of "50% of the workforce consisting of women—from employees to executive officers" by around 2040, we will also make a start on increasing work opportunities for LGBT, foreign workers and people with disabilities.



Starting new businesses and taking on new domains - For transformation to a "vegetable company"

Proposing "vegetable-based dishes" in the growing home meal replacement and restaurant markets

● Vegetable solutions

Commercial farms and vegetable processing plants are faced with many challenges including reducing the workloads and expanding sales networks in the agricultural industry, and consumers want food preparation and cooking to be simpler and less time-consuming. The business which consists in proposing solutions that leverage Kagome's expertise to meet these needs is called "vegetable solutions." Vegetable solutions is a top strategic priority for maximizing earnings and steadily making progress towards a "vegetable company" under the Second Mid-term Management Plan. Under our new structure without the boundaries between the consumer use, food service use and agri-business (fresh vegetables), we will expand the vegetable processing business as a new business and will propose convenient vegetable-based dishes using vegetable ingredients and condiments to the home meal replacement and restaurant markets.

● Initiatives for service business

We will lay the foundations for commercialization of the health promotion seminars tackled since 2017 and strengthen the related sales structure. We will also explore new business potential at facilities such as Kagome Yasai Seikatsu Farm Fujimi, which we opened as a sightseeing facility that embodies a "vegetable company."



Develop the mechanisms to be a "strong company"

Mechanisms to increase the probability of success of equipment and business investments

● Initiatives to improve quality

Aiming for zero quality failures, we will pursue more sophisticated quality management. At the same time, we will adopt an integrated approach to environmental management, which takes into consideration issues such as prevention of global warming, water preservation on a global scale, and protection of biodiversity.

● Optimization of resource allocation

For the achievement of its long-term vision, Kagome will promote the "optimization of resource allocation." More specifically, we will thoroughly manage the allocation of resources by creating a business portfolio in business units, and we will focus on the innovation of business models and divestment.

● Investment decision criteria and monitoring of investment effect

Kagome will seek to improve the probability of success of investment projects by reviewing investment criteria and setting new criteria. We will also introduce mechanisms for monitoring and evaluating important projects after investment.



Domestic Processed Food Business

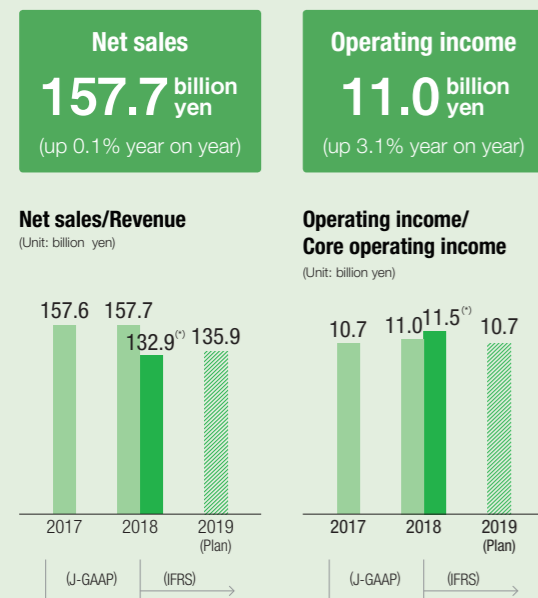


Masanori Miyachi
Executive Officer
Marketing Division Director

We will contribute to longer, healthier lives in Japan by increasing the supply of vegetables through beverages, food products and a range of other products.

Performance trends (FY2018)

*After elimination and adjustment of inter-segment transactions



*Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

Recognition of General Business Conditions

In Japan, with its super-aged society, how to extend healthy life expectancy has become an important social issue. In the domestic processed food business, we will contribute to longer, healthier lives by providing a range of products such as beverages and food products to all generations, from children to the elderly, increasing their vegetable intake and solving the issue of low vegetable intake among Japanese people.

Beverages

Kagome sells tomato juice, vegetable beverages, such as the Yasai Seikatsu 100 Series, and lactic acid bacteria beverages. We are seeking to increase the range of products meeting various health needs and suitable for various drinking scenarios and develop versatile and habitual drinking uses including increased functions under the catchphrase "To provide vegetables with ease and a delicious taste," aiming to offer "Lifelong Health Beverages" that meet consumers' expectations for good health.

Food and Other Products

Besides food products such as tomato ketchup, tomato-based condiments and sauces, Kagome sells products for food service use, for direct marketing sales and for gifts. Sales of condiments for home use are on a gradual downward trend as a result of consumers' growing inclination towards dining out. We are strengthening proposals of side dishes and menus using vegetables to the expanding home meal replacement and restaurant markets.



<p>Strength</p> <ul style="list-style-type: none"> ● Kagome's brand power built over its 120-year history ● Ability in product development to avoid additives as much as possible ● Ability in ingredient procurement to deliver the bounty of nature to products ● Ability in sales to tapping into many markets, including the ambient, chilled and fresh food markets and the markets for side dishes and gifts 	<p>Weakness</p> <ul style="list-style-type: none"> ● Constraints in product development due to reliance on natural farm ingredients ● Dispersion of marketing investment caused by diverse business composition ● Decline in the relative value of our products due to the emergence of competitors' high-quality private brands
<p>Opportunity</p> <ul style="list-style-type: none"> ● Increasingly diversified health orientation ● Demands of the elderly and dual-earner households for simple cooking ● Expansion of restaurant and cooked food due to an increase in dining out 	<p>Threat</p> <ul style="list-style-type: none"> ● Further intensifying competition in the health beverage market ● Steep rise in ingredient prices due to globally unseasonable weather ● Acceleration of decrease in total spending on food due to a decrease in the population and population aging

Results and Issues to Be Addressed

In fiscal year 2018, domestic processed food business achieved the targets under the First Mid-term Management Plan, with net sales reaching 157.7 billion yen, up 0.1% year on year, and operating income amounting to 11.0 billion yen, up 3.1% year on year.

Beverages

Kagome Tomato Juice was renewed and released as a product with two functional claims: "increase in good cholesterol" and "decrease in high blood pressure," and recorded strong sales. Yasai Seikatsu 100 Smoothie has been well received, especially among women in their 20s, 30s and 40s, reflecting recognition of the 330ml recappable container and its product value as a quick light meal as well as efforts to tap into new drinking scenarios with the launch of the Yasai Seikatsu 100 Smoothie Soy Potage, which also serves as a meal replacement. However, sales of the existing Yasai Seikatsu 100 Series and 200ml beverages such as Yasai Ichinichi Kore Ippon decreased due to competition with other beverages such as lactic acid bacteria beverages, soymilk and FOSHU (foods for specified health use) beverages. Given the increasing number of variations of rival health beverages, Kagome needs to remind customers of the health benefits of vegetable beverages.

Food and Other Products

Sales of tomato ketchup and tomato-based condiments were slightly down on the year-ago level. In fiscal year 2019, we will seek to create demand for tomato ketchup through promotional events such as the Kagome Rice Omelet Stadium. Sales of other products for gifts and products for direct marketing sales were strong, reflecting Kagome's focus on the sale of products which offer value in terms of health, flavor and availability for a limited time only that only Kagome can offer.



Specific Measures to Address Weaknesses and Threats

- Turn past product development failures and other important data into knowhow and create a knowledge database
- Put marketing investments in order of priority based on clarification of domains that require strengthening and marketing direction
- Differentiate Kagome beverages from own-brand beverages and health beverages of other companies through natural ingredients and additive-free manufacturing technologies
- Prepare for risks of climate change and price fluctuation through decentralized procurement, the adoption of efficient supply lines and activities to reduce costs
- Gain loyal customers through direct marketing sales amid the ongoing decline in total expenditures on food in Japan

Matters Requiring Focus in the Mid- to Long-term

Beverages

In the beverage category, we will strengthen three domains: foods with functional claims, the plant-based domain and target-specific beverages.

Foods with Functional Claims

Kagome plans to expand beverages that are classed as foods with functional claims. In February 2019, we launched Labre Alpha Plain with the functional claim that it "improves the intestinal environment."

Plant-based Domain

We plan to launch beverages incorporating not only the vitamins and minerals, which are nutrients contained in vegetables and fruit, but also nutrients from the plant-based domain such as soymilk and nuts. We will differentiate our beverages from existing vegetable beverages by strengthening their potential as meal replacement products.

Target-specific Beverages

Kagome plans to strengthen beverages for clearly defined targets. In April 2019, we launched a beverage for millennials in their 20s and 30s who purchase fewer vegetable beverages compared with other generations. We also plan to launch beverages to help maintain and improve health among elderly consumers. The existing Yasai Seikatsu 100 Series is clearly positioned as a beverage that parents want their children to drink and we renewed the series, introducing flavors that will be popular with children.

Food and Other Products

In the food business, we will strengthen proposals for the growing home meal replacement and restaurant market as well as the home cooking market, based on the theme of vegetable solutions. Kagome will solve the problems of the home meal replacement and restaurant markets by proposing seven strategic menus using processed vegetable products and condiments based on ingredients such as vegetable puree, sautéed onions and frozen grilled vegetables, which can eliminate vegetable prep amid labor shortages. We will also help increase vegetable consumption in Japan by satisfying the needs of consumers who want to consume great-tasting vegetables without any fuss.

Domestic Agri-Business

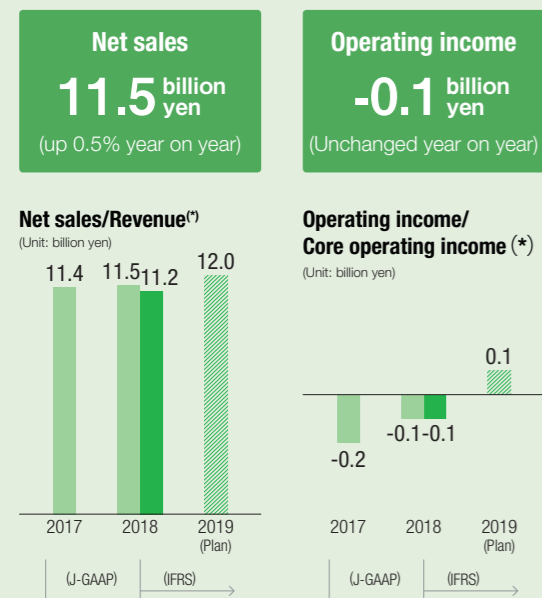


Satoshi Yamaguchi
Director & Managing Executive Officer
Vegetable Business Division Director
General Manager, Vegetable Solution
Department

We will reform the earnings structure of the fresh tomato business and aim to transform to “a vegetable company” by promoting “vegetable solutions.”

Performance trends (FY2018)

*After elimination and adjustment of inter-segment transactions



*Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

Recognition of General Business Conditions

In the domestic agri-business that commenced in 1998, we have been selling fresh tomatoes grown all year round at large greenhouse to mass retailers and other stores. Since 2014, we have produced and sold baby leaf lettuce and have been conducting business activities to transform from “a tomato company” to “a vegetable company.” While net sales have grown to a level exceeding 10 billion yen since fiscal year 2015, it has also become clear that, as our business operations have expanded, fluctuations in market conditions for fresh tomatoes caused by the weather and other factors have a major impact on the business results of the agri-business. We are currently focusing on increasing the accuracy of yield predictions to mitigate the impact of such fluctuations.

Vegetable Business Division

Under the Second Mid-term Management Plan, which began in 2019, we established the “Vegetable Business Division” to accelerate growth into “a vegetable company.” In addition to the “Agricultural Production Department,” which is responsible for the business of producing and selling fresh tomatoes and baby leaf lettuce, we set up the “Vegetable Solution Department,” which develops production areas and processing sites and builds a network between processing sites and customers, with the aim of utilizing tomatoes for processing, carrots, new vegetables, surplus vegetables and vegetable scraps. By creating new business models and strengthening our procurement foundations, we aim to expand our earnings and help develop Japan’s agricultural industry.



<p>Strength</p> <ul style="list-style-type: none"> ● Kagome brand established in the fresh tomato market ● Advanced ability to develop varieties of vegetables, and processing technologies ● Capacity for all-year-round supply based on own sales force and distribution networks providing stable shipments and nationwide 100,000 stores 	<p>Weakness</p> <ul style="list-style-type: none"> ● A lack of accuracy in forecasting fluctuations in the fresh tomato market and a lack of ability to adjust demand and supply ● A lack of consumer recognition of new fresh vegetables such as baby leaf lettuce ● A lack of varieties and production areas for vegetables other than tomatoes and baby leaf lettuce
<p>Opportunity</p> <ul style="list-style-type: none"> ● The government’s activities to turn agriculture into a growth sector and revitalize agriculture ● A shortage of farm successors and an increase in abandoned farmland ● Growing demand for processed vegetable products amid labor shortages 	<p>Threat</p> <ul style="list-style-type: none"> ● Intensifying competition in the vegetable processing business ● Fewer farmers due to acceleration of the super-aged society ● A decrease in farm land due to climate change such as global warming and the emergence of new diseases and pests

Results and Issues to Be Addressed

In 2018, the domestic agri-business secured higher sales but posted an operating loss for the second consecutive year, with net sales amounting to 11.5 billion yen, up 0.5% year on year, and the operating loss coming in at 0.1 billion yen. Although the loss was smaller than a year ago, reflecting progress in improving costs, further earnings structure reform is required in the future.

Fresh tomatoes

Kagome’s fresh tomatoes are high in added value, containing higher levels of specified ingredients such as lycopene and beta-carotene than regular tomatoes. In December 2018, we launched GABA Select as a tomato product with functional claims. The shipping volume of fresh tomatoes has been increasing thanks to the improved productivity of large-scale greenhouse farming and contract farms. However, competitors’ shipping volumes to the fresh tomato market has also increased sharply. Assuming that 2019 will continue to see the current low market price of fresh tomatoes, we will focus on the development and procurement of new high added value varieties as well as the development of industrial and institutional sales channels. We will also institute earnings structure reforms that will enable us to secure profit even under challenging business conditions, including strengthening our capacity to control yields to avoid selling at cut-rate prices.

Baby leaf lettuce

The market for baby leaf lettuce is expected to expand in the future. Sales of washed baby leaf lettuce are strong because it can be eaten right out of the package without washing, providing value that meets consumer demand for time-saving, simple and healthy products. We have also increased our production bases for the Tokyo metropolitan area from only one to three. While our sales of baby leaf lettuce are still small, this is a product which is expected to grow in the future.



Matters Requiring Focus in the Mid- to Long-term

Vegetable Solutions

Our vegetable farms and processing bases face a range of problems such as workloads and expansion of their sales networks. Meanwhile, customers and consumers have a strong preference for appealing production areas and attractive vegetables, and want time-saving, simple products to avoid prepping vegetables altogether due to a shortage of labor. Kagome’s “vegetable solutions” address these problems and meet these needs by integrating the knowledge and human capital Kagome has built up in its agri-business and utilizing our existing domestic sales network. We plan to diversify the varieties of vegetables we offer and our production areas (both in Japan and overseas) to meet the diverse needs of our customers.

Our sales bases in Japan will establish systems to quickly develop and supply local vegetables as domestic processed vegetables and, by selling these products both locally and nationally, we will aim for expansion of locally grown, locally consumed products and locally grown, nationally consumed products. To realize this idea, we have assigned Vegetable Solution Engineers (VSEs) to our Hokkaido and Kyushu branches, which are close to the main production areas in Japan. We will collaborate with sales activities integrating the consumer use, food service use, and agri-business (fresh vegetables) to meet the needs of local customers and create a network of vegetable production areas and processing businesses. We also plan to carefully select appealing ingredients made from various types of vegetable scraps and imperfect vegetables that arise in the sorting process throughout Japan and to commercialize these ingredients.

As for our efforts to develop new highly functional vegetables in cooperation with our research and development department, we also plan to examine the possibility of developing all kinds of products, including fresh food, processed food and supplements.

Specific Measures to Address Weaknesses and Threats

- Improve the accuracy of yield forecasting through use of the latest technologies, and conduct research and development on harvesting robots, etc.
- Strengthen our ability to control yields to avoid selling at cut-rate prices
- Offer “vegetable solutions” by integrating the knowledge and human capital Kagome has built up in its agri-business and utilizing Kagome’s existing domestic sales network in Japan
- Collaborate with sales activities integrating consumer use, food service use, and agri-business (fresh vegetables) to create a network of vegetable production areas and processing businesses
- Develop new highly functional vegetables in cooperation with our research and development department

International Business

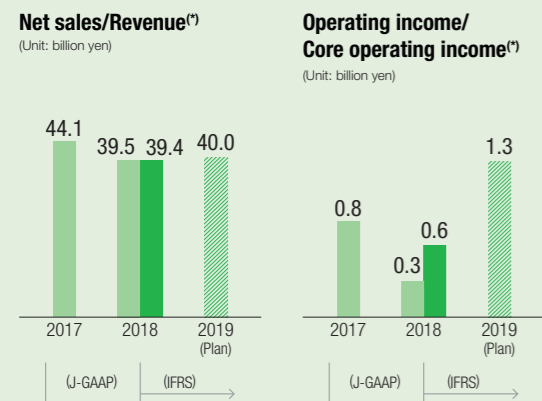


Norito Ebata
Executive Officer, Director of International Business Division, General Manager, Global Tomato Business Department

We will contribute to solving global food shortages by making the great taste and value of tomatoes and vegetables available to people all over the world.

Performance trends (FY2018)

*After elimination and adjustment of inter-segment transactions



*Results based on Japanese accounting standards have been rewritten and displayed in accordance with the IFRS standard.

Recognition of General Business Conditions

The world population is projected to reach 9.8 billion by 2050 and, amid concerns over food shortages due to population growth, demand for tomato, the most consumed vegetable in the world, is expected to increase. In this environment, the international business conducts business based on a vertically integrated business model encompassing the entire supply chain from the development of tomato seeds to agricultural production, product development, processing and sales.

B-to-B business

U.S.-based Kagome Inc. and Kagome's other overseas subsidiaries supply culinary sauces such as pizza sauce to global food service providers. The culinary sauces business has been growing alongside the development of its customers and now comprises nearly half of Kagome's overall overseas sales. In the tomato paste business, Portugal-based HIT, Kagome Australia and U.S.-based Ingomar, all of which have bases in areas that produce tomatoes for processing, supply the tomato paste that results from primary tomato processing to large food manufacturers, including Kagome. Meanwhile, U.S.-based UG, which develops seeds and raises seedlings, improves crop varieties and exports seeds that meet country-specific farming conditions to more than 80 countries.

B-to-C business

Kagome Nissin Foods (H.K.) started selling vegetable beverages in Hong Kong.

Business Operations of International Business Division by Region

Category	Products	Americas	Europe	Australia	Asia	Other
B-to-B	Seeds	●	●		●	●
	Primary processing (products such as tomato paste)	●	●	●		
	Secondary processing (products such as pizza sauce)	●	●	●	●	
	Other		●	●	●	
B-to-C	Vegetable beverages, etc.				●	

Strength

- Reliable quality unique to Kagome, which handles every step in tomato production, from seed to table
- Solution capacity to propose dishes to food service chains in North America, Asia and Europe
- Global primary processing network of tomatoes that is one of the largest in the world

Weakness

- Weakness in terms of total cost competitiveness including logistics
- High reliance on specific customers with large purchase amounts
- Lack of brand recognition in the general consumer market (B-to-C)

Opportunity

- Further globalization of food through the global expansion of pizza and fast food chains, etc.
- Growing demand for simple cooking and takeout food due to women's social advancement and the declining birthrate and aging population
- Population growth and economic development in large tomato consumption regions such as India, the Middle East, North Africa and West Africa

Threat

- Increase in damage to the growth of raw materials in various production regions caused by global climate change
- Structural market slowdown due to growing competition in the expansion of primary-processed tomatoes
- Damage to tomato production regions caused by serious water shortages in California, which is the world's largest production region.

Results and Issues to Be Addressed

In 2018, the international business posted declines in sales and profits, with net sales amounting to 39.5 billion yen, down 10.4% year on year, and operating income totaling 0.3 billion yen, down 59.9% year on year. The segment failed to reach the targets set under the First Mid-term Management Plan. The challenge facing the international business in 2019 is to complete earnings structure reform, albeit behind schedule, and to translate this into growth from 2020.

Performance of main subsidiaries

Kagome Inc. posted higher sales but lower profits. While sales grew due to a strong performance in business for the food service sector and changes in the timing of shipments to Kagome Group companies, profits fell due to deterioration in production efficiency as a result of problems with newly introduced manufacturing equipment and higher logistics expenses reflecting higher oil prices. Kagome Inc. has now resumed normal production but plans to establish a more stable production system and maximize production efficiency to ensure greater earning power.

HIT increased its production capacity in 2016 to expand processing volumes but posted declines in sales and profits because deterioration of market conditions due to a global oversupply of tomato paste led to excess inventories, causing selling prices to slump. To increase its earning power, HIT plans to strengthen customer profitability management and focus on inventory control by ensuring appropriate tomato processing volumes. It will also aim for expansion in areas such as added value products with high profit margins and condiments for the food service industry.

Kagome Australia succeeded in expanding sales and moving into profit by implementing structural reform, shortening the harvesting season to avoid the risk of bad weather and improving productivity. By continuing to focus on other vegetable business besides tomatoes, including expanding sales of processed carrot products and developing the garlic business as a new business, Kagome Australia aims to further expand and stabilize its earnings.

UG reported higher sales but lower profits. Although sales of seeds to the Middle East and Latin America increased, sales of tomato seeds for tomatoes for processing fell due to the stagnation of global demand. To increase its earning power, UG is implementing initiatives to expand sales in the U.S. and Asia and to reduce costs.

Matters Requiring Focus in the Mid- to Long-term

Food service business

The global food service market is seeing the same home meal replacement and dining out trends as Japan, and North America, Europe and Asia account for 80% of this market growth. To meet demand in each of these regions, Kagome has started to focus on collaboration and development with leading food service companies. At the same time, by further strengthening cooperation between Kagome Group companies and combining their knowhow and resources, we aim to improve our ability to make proposals and tap into growing demand.

Creation of business through the development of tomato cultivation infrastructure

Kagome has launched initiatives in Senegal and India, where economic growth is expected in the future, with the aim of contributing to local communities through agriculture. Kagome Senegal is building the infrastructure for growing tomatoes for processing using advanced cultivation technologies in the country and is working with local processing businesses to develop processing technologies. Meanwhile, KF India began manufacturing and selling processed tomato products. By helping each of these businesses to grow, Kagome aims to contribute to local communities, improving convenience through stable prices and high-quality products and contributing to economic development by creating jobs for local people.

Vegetable beverage business in Asia

Under its thorough localization strategy, Kagome will work to expand the vegetable beverage business, focusing on Hong Kong. With Yasai Seikatsu 100 Original as our core product, we will develop and launch products exclusively for Hong Kong, and we will seek to create demand and build our brand through activities to convey the value of vegetables via diverse sales channels. We are also using our business in Hong Kong as a foothold for starting to expand into mainland China.



Specific Measures to Address Weaknesses and Threats

- Food service business: Develop added value products, strengthen ability to provide solutions and cooperation between Kagome Group companies, and develop new customers
- Tomato paste manufacturing business: Decentralize sources of raw materials, maintain processing volumes at a reasonable level, strengthen cost competitiveness, and establish cutting-edge tomato cultivation technologies based on analysis of meteorological data
- Vegetable beverage business in Asia: Build brand power by strengthening sales promotions in cooperation with NISSIN FOODS (H.K.) CO., LTD.

Innovation (Research)



Hiroyuki Ueda
Director of Innovation Division

We will contribute to the sustainable growth of the Kagome Group by focusing on research issues for the “resolution of social issues using the power of vegetables” and translating these research findings into business.

Recent research findings

Apr. 2018 We confirmed that the indicator for reducing salt intake (urinary sodium-to-potassium ratio) improves significantly as a result of consumption of a tomato low-salt diet (joint research with Kagawa Nutrition University; Journal of Japanese Society of Shokuiiku, Volume 12, Issue 2)

We confirmed that the structure of lycopene, which is found in tomatoes, changes when lycopene is heated with garlic, onion and oil, improving lycopene bioavailability (joint research with Nagoya University; announced at the 83rd annual meeting of The Society of Chemical Engineers, Japan)

May 2018 We announced new research findings relating to rises in blood glucose levels in a human study
(1) Drinking mixed vegetable and fruit juice before a meal is effective in inhibiting a postprandial blood glucose level rise
(2) The sugar contained in vegetable juice is absorbed into the blood more slowly than regular sugar
(Announced at the 6th Academic Conference of the Japanese Society of Shokuiiku)

Nov. 2018 We developed high precision technology for the detection of contaminants in processed tomato products utilizing artificial intelligence (AI) (joint research with Kagawa Nutrition University; Journal of Japanese Society of Shokuiiku, Volume 12, Issue 2)

Mar. 2019 We developed a device that can determine a person's vegetable intake simply by placing the palm of his or her hand on the device
- Proposal of health promotion support tool for businesses practicing health and productivity management and local governments -
(Device that determines vegetable intake by optically measuring the skin's carotenoid level, etc.; jointly developed with German company biozoom services)

Policy of Innovation Division

In an age of rapid technological advancements and dramatic market changes, we will create sustainable value and differentiate ourselves from our competitors by more actively promoting open innovation research, incorporating the technologies of other industries and cutting-edge technologies rather than simply relying on our own technologies. The value we offer is also shifting away from the provision of products (goods) toward the systemized provision of value through experiences that span all Kagome's operations (services), and the Innovation Division will contribute to business growth by promoting the “creation of value through the combination of goods and services.”

Descriptions of each research project

(1) Research into variety and agricultural technologies

We are accumulating tomato genetic resources, developing new varieties and researching cultivation technologies. In fiscal year 2018, we applied to the Plant Variety Registration for a total of four varieties, including a great-tasting fresh tomato variety. We are also expanding and promoting research in the area of vegetables for transforming to a “vegetable company.”

(2) Research into ingredient and processing technologies

We are conducting activities to enhance product value by developing new ingredients that maximize the original flavors, properties, nutritional value and functions of tomatoes and vegetables and developing more sophisticated processing technologies. Especially in this field, we are actively pursuing technical cooperation with other companies instead of confining ourselves to technologies developed in-house.

(3) Functionality research

We are conducting functionality research, primarily into green and yellow vegetables, registering foods with functional claims and disseminating health-related information. In fiscal year 2018, we demonstrated the effect of developed tomato varieties in controlling the contraction of blood vessels and lowering high blood pressure and this led to the release of “GABA Select,” a food with functional claims for “a person who suffers with high blood pressure.”

(4) Assessment of product quality and safety

To deliver safe, reliable products to our customers, we are strengthening “basic technologies for assuring safety throughout the supply chain starting in the fields,” including conducting activities to predict risk, acquire analysis and evaluation technologies and assess the safety of raw materials.

(5) Protection and use of intellectual property

To maintain stable competitiveness, we are reinforcing the foundation for our intellectual property (acquisition, protection, and prevention of obstruction and litigation) through invention and discovery as a result of in-house research and development and periodical searches of other companies' patents.

Promotion of Open Innovation to Help Resolve Social Issues

Below are examples of open innovation that incorporates technologies used in other industries and cutting-edge technologies into our existing businesses and new businesses, and “creation of value through the combination of goods and services.”

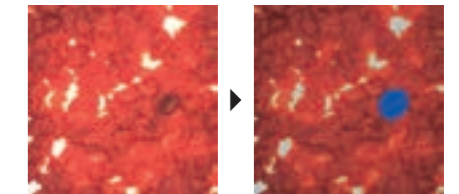
(1) Example of open innovation

Kagome and the National Institute of Advanced Industrial Science and Technology developed technology for detecting contaminants in processed tomato products with high accuracy by utilizing artificial intelligence (AI)

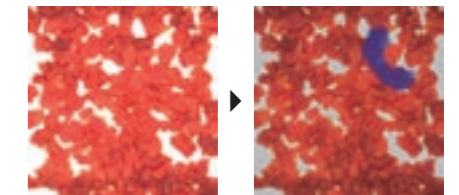
In October 2017, Kagome became the first food company to sign a comprehensive joint research agreement with the National Institute of Advanced Industrial Science and Technology (“AIST”) and dispatch researchers to AIST. In fiscal year 2018, Kagome and AIST succeeded in developing technology for detecting with high accuracy contaminants, tomato skin, traces of stems, and discoloration in processed tomato products through the utilization of an AI algorithm* developed by AIST. In a performance assessment of this technology, the technology successfully detected without omission all the detection targets contained in 500 sample images. Kagome aims to put this technology into practical use at all its production plants by fiscal year 2020.

*An AI algorithm is a set of rules given to an artificial intelligence program to help it process information. In this research, we enhance detection accuracy by conducting an experiment in which we use an AI algorithm developed by AIST to identify detection targets.

Detection of tomato fruit discoloration



Detection of hair



(2) Example of combining goods and services

To increase vegetable consumption, it is important to determine current vegetable intake. However, determining vegetable intake has previously been troublesome, costly and time-consuming, requiring collection of a blood sample to measure carotenoid concentrations in the blood. In 2017, Kagome teamed up with German firm biozoom services to jointly develop a measuring device that can determine the level of vegetable intake quickly and easily by optically measuring skin carotenoid levels, etc. From the summer of 2019, Kagome plans to sell and lease this measuring device and offer health services utilizing this device to companies practicing health and productivity management and local governments seeking to strengthen health promotion measures. By using this measuring device to make service users more aware of their vegetable intake and delivering seminars on creative ways to eat more vegetables, Kagome will help increase vegetable intake and support health promotion and the implementation of health and productivity management.

Measuring device for determining vegetable intake



Message from the Director of Innovation Division

The Innovation Division is increasing its focus on research themes that are meaningful for Kagome's transformation to a “vegetable company,” in anticipation of changes in social conditions and advances in technology 10 or 20 years from now. The division is committed to open innovation, searching far and wide, both inside and outside the company, for the resources it needs, and it develops researchers with a forward-looking attitude, who learn from mistakes and continue taking on new challenges. The Innovation Division will conduct its research activities based on an acute awareness of the need to link its research findings to the resolution of social issues and to Kagome's business.

Product Safety and Security Fulfilling our Brand Promise

Kagome has established a Quality and Environmental Policy based on the belief that quality and environment are two sides of the same coin, in accordance with Kagome's corporate philosophy and its brand statement "True to Nature, the Flavor of Kagome." In line with this policy, we are focusing on quality assurance and environmental preservation in every process of the supply chain.

(1) Approach to quality and the environment

Kagome has always conducted manufacturing that uses nature's bounty, beginning from the development of vegetable seeds and soil to procure high quality raw materials, based on the idea that "fields are the primary production plant." Achieving both the preservation of the global environment and nature-based manufacturing is vital for maintaining the growth of Kagome's business activities in the future.

Because of such commonality and activity relevance between quality (manufacturing) and the environmental philosophy, we combined our Quality Policy and Environment Policy, which had been separate in the past, into one and established the Quality and Environmental Policy in October 2017. This Quality and Environmental Policy represents the determination of Kagome's management team to aim to achieve a sustainable society by focusing on environmental protection with the same passion that Kagome has maintained in its manufacturing activities.

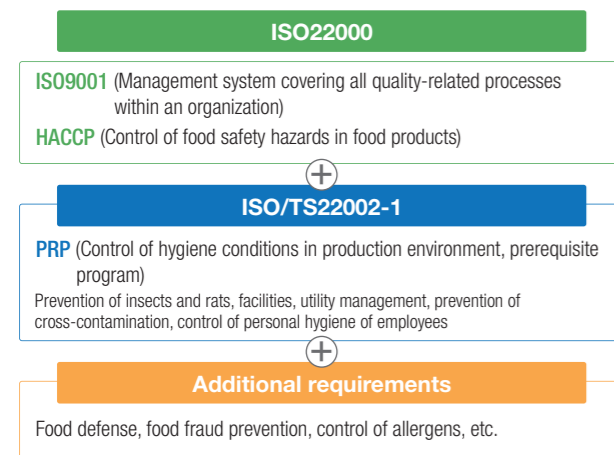
Quality and Environmental Policy

- 1 We contribute to the longevity and good health of people, which is important to us by providing the flavor and health value of vegetables.
- 2 We grow safe agricultural raw materials consistently from seeds and fields by collaborating with our partners in Japan and abroad.
- 3 We protect water, soil and air that nurture vegetables, maintain agriculture that fosters rich nature for the future, and effectively use the benefits acquired.
- 4 We deliver safe, environmentally-friendly products by complying with laws, regulations and in-house standards and continuing to improve our systems and activities.
- 5 We apply customers' feedback to our corporate activities while communicating the reliability of our products and services.

(2) Enhancement of quality assurance systems in Japan

Since 2003, we have been endeavoring to raise quality by applying a quality management system based on ISO 9001 across all our activities from design and development to procurement, production and sale. In addition to traditional quality management, we have also been working to acquire FSSC 22000 certification since fiscal year 2016. FSSC 22000 is an international standard for food safety that includes management methods for preventing hazards in manufacturing processes and outsourcing operations, food defense, and food fraud prevention. We are expecting to complete the certification of all six of our factories in Japan by fiscal year 2019. Kagome's major overseas subsidiaries overseas are also endeavoring to enhance their food safety management systems by acquiring FSSC 22000 certification or similar certification.

Structure of FSSC 22000 standard



Acquisition of FSSC 22000 certification

Timing	Plants and production lines subject to certification
Oct. 2017	Ueno Plant: kneader mixing to general-use filling line Kozakai Plant: 500 g tube line Fujimi Plant: PET line
Jun. 2018	Komaki Plant: all lines, Ibaraki Plant: film line
Sep. 2018	Nasu Plant: raw tomato processing to Tetra Pack® filling line
Oct. 2018	Ueno Plant, Kozakai Plant and Fujimi Plant: all lines
Sep. 2019 (Plan)	Ibaraki Plant and Nasu Plant: all lines

(3) Strengthening competitiveness of overseas Group companies by improving quality

Kagome is working to raise the level of quality assurance by establishing a unique quality assurance model for its overseas Group companies that embodies "Quality First, Profit Second."

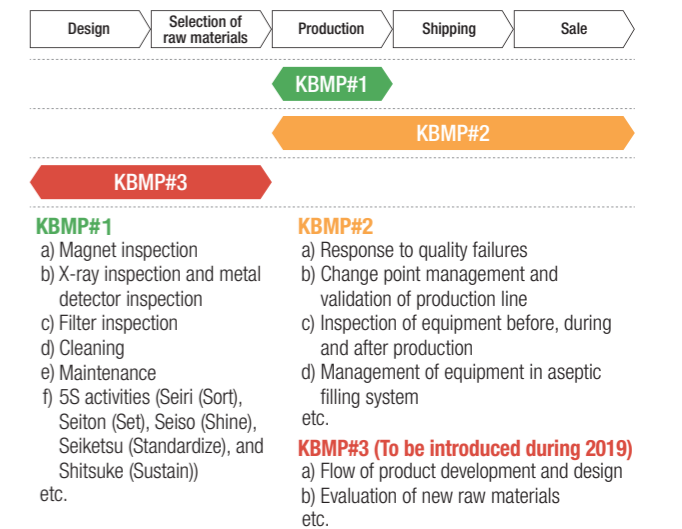
Global quality assurance system

In the past, there were discrepancies between the level of quality management at overseas Group companies depending on the laws and regulations, business practices and level of customer requirements in each country. To tackle this issue, we established the Global Quality Assurance Department in 2016 and, based on quality management expertise developed by Kagome in Japan, we have established a common global quality management standard known as Kagome Best Manufacturing Practice (KBMP), and are conducting quality assurance activities at each company using this standard. We are also focusing on making a cross-sectional assessment of information relating to quality, the environment and technology at overseas Group companies and sharing and utilizing this information to improve the level of quality assurance and productivity.

As Stage 1 of KBMP, the Global Quality Assurance Department has been sharing the KBMP approach to quality management in the production environment, such as the prevention of contamination, with Group companies. In Stage 2, we will establish common rules for responding quickly in the event of quality failures and, in Stage 3, we will conduct activities to prevent quality failures caused by product design by presenting steps for the design of new products and the selection of raw materials.

In this way, we will gradually broaden the scope of operations covered by the quality assurance system, from upstream to downstream processes, and endeavor to improve the level of quality assurance in every process.

Expansion of KBMP, Kagome's common global quality management standard



Activities to improve quality in production environment

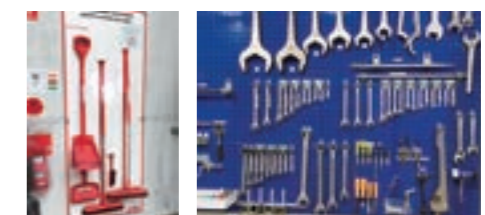
As a result of the activities of the Global Quality Assurance Department, each Group company's rate of compliance with KBMP has risen year by year, leading to a reduction in losses due to quality-related problems. Other activities to improve quality in production environment include regularly organizing Group joint meetings with the CEO and the managers of production, quality management and quality assurance of each company, highlighting examples of improvements in quality at each company and conducting observations of production environments. Through these activities, we point out strengths and weaknesses to each other and make improvements.

We have also strengthened promotion of 5S activities to develop a quality mindset in employees. Every company now understands the purpose of the 5S and voluntarily conducts 5S activities.

Fourth Production and QA Meeting held at Kagome Australia



Examples of improvement through 5S activities (Kagome Australia)



Approach to Environmental Preservation

Protecting water, soil and air that nurture vegetables

For Kagome, which has been contributing to people's health using nature's bounty, it is essential to maintain a sustainable agricultural business in a rich natural environment for continuing to enjoy the bounty of nature. Achieving both the preservation of the global environment and nature-based manufacturing is vital for maintaining the growth of Kagome's business activities into the future.

(1) Prevention of global warming

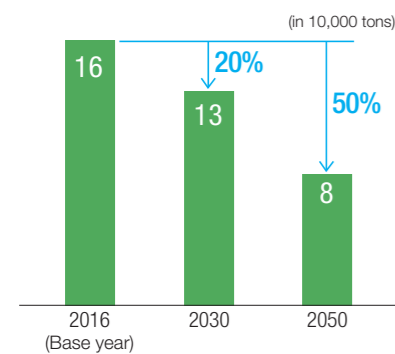
In fiscal year 2019, Kagome made a start on analysis of climate change scenarios as recommended by the Task Force on Climate-related Financial Disclosures (TCFD). We recognize that responding to climate change is a high-priority issue among the important issues (materiality) we identified based on our own internal examination and we have identified risks and opportunities based on the assumption of multiple scenarios for global warming and more frequent extreme weather events. The table below shows some of the identified risks and opportunities. We plan to continue examining countermeasures, taking the financial impacts of these risks and opportunities into consideration, and to reflect our analysis results in concrete business plans.

Business risks and opportunities

Category	Type	Details
Transition risks	Government policies, laws and regulations	<ul style="list-style-type: none"> Introduction of carbon tax Tightening of relevant laws and regulations regarding waste recycling, energy conservation and reduction of CO₂
	Market	<ul style="list-style-type: none"> Sales decline due to unseasonable weather in summer (extremely low or high temperatures, etc.)
Physical risks	Acute	<ul style="list-style-type: none"> Decreased procurement volumes and increased procurement cost of agricultural raw materials due to unseasonable weather in production areas Damage to production equipment and suspension of product supply due to extreme weather events (severe typhoon, flooding, inundation, weather that makes it difficult for employees to come to work)
Opportunities	Resource efficiency	<ul style="list-style-type: none"> Improvement in efficiency of distribution process through the establishment of logistics company F-LINE Development and sale of heat and disease resistant tomato varieties
	Products and services	<ul style="list-style-type: none"> Development of a tomato cultivation system with minimal water use Adaptation to abnormal weather events through the development of a global tomato procurement network Creation and expansion of market for vegetable-related products as emergency stockpile

Establishing mid- to long-term CO₂ reduction targets

- Scope 1 and Scope 2** In line with the Paris Agreement objective of keeping global warming below 2°C, Kagome has set goals of reducing the entire Group's CO₂ emissions by at least 20% by 2030 and at least 50% by 2050 (compared to emissions in 2016).
- Scope 3** The majority of Scope 3 CO₂ emissions relate to purchased raw materials and production, and therefore Kagome will set its suppliers reduction targets by 2021 and endeavor to reduce CO₂ emissions in collaboration with suppliers from 2022.



Plants

We will reach our mid- to long-term CO₂ reduction targets through energy-saving activities and the use of renewable energy. At our overseas factories, we are promoting solar power generation and we introduced solar power generation at Kagome Inc. in the U.S. in 2017. We also plan to introduce solar power generation at Kagome Australia in 2019.

Logistics

In April 2019, we made the full-scale transition from our own delivery system to joint delivery using F-LINE, a logistics company jointly established by five food companies including Kagome. This has improved our transport efficiency and is helping to reduce our CO₂ emissions.

Relationship between the content of this Integrated Report and the SDGs

Content of this Integrated Report	Target	No.	Details (Summary)
(1) Prevention of global warming (Establishing mid- to long-term reduction targets)	13	13.3	Climate change mitigation and adaptation
(2) Conservation of water (understanding water-related risks, taking action to address them, and reducing water usage)	6	6.4	Increase water-use efficiency and address water scarcity

Content of this Integrated Report	Target	No.	Details (Summary)
(3) Protection of biodiversity (agricultural development, protection of biodiversity, response to invasive alien species)	11	11.a	Support positive links between urban, peri-urban and rural areas
	15	15.5	Halt the loss of biodiversity
	15	15.8	Prevent the introduction of invasive alien species

(2) Preservation of water

As a company that uses large amounts of water in the cultivation and processing stages, Kagome is implementing measures tailored to each region to mitigate water-related risks.

Kagome Group Water Policy

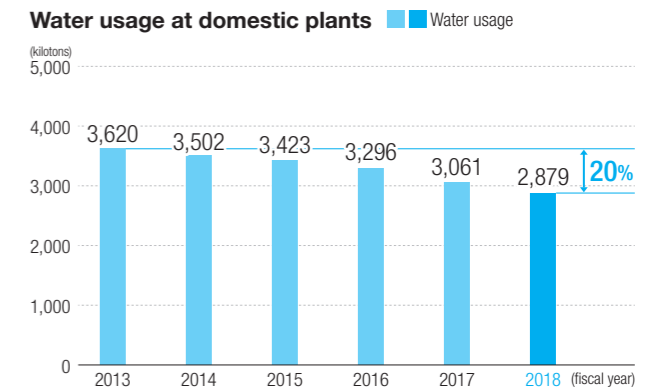
- The Kagome Group and its major suppliers understand water-related risks.
- The Kagome Group and its major suppliers strive to reduce water intake and use water efficiently to protect local water resources.
- The Kagome Group and its major suppliers clean used water before returning it to the local communities.
- Factories in areas where water-related risks are high take measures for water that are appropriate for the local areas.

Reducing water usage

The Kagome Group draws water from various sources. In the U.S. and Australia we use tap water supplies. In Portugal, Italy and Japan we use well water, and in Taiwan we use a combination of both. The Kagome Group is working to reduce water usage, and has set targets of reducing water usage per unit produce by 1% each year, and by 3% overall between 2019 and 2021. At our domestic plants, we have reduced water usage (total volume) by 20% over a five year period (2013 through 2018).

Identifying and combating water-related risks

In surveys of tomato and carrot processing locations at Kagome Group companies and major suppliers, we found risks at locations in Australia (drought and heavy rain risks), the U.S., Turkey, Chile and China (drought risks). In order to combat these risks, we have launched initiatives that include reducing drought risks by making use of water stored during rainy seasons in dry periods, and avoiding periods at high risk of heavy rainfall when cultivating crops.



(3) Protection of biodiversity

In order to continue to sustainably enjoy nature's bounty, Kagome aims to achieve a peaceful coexistence with a diverse array of living creatures, primarily by reducing impact on biodiversity in its agricultural practices.

Conservation activities in line with the Kagome Group Biodiversity Policy

Kagome is engaged in various activities in line with its biodiversity policy, which was established in fiscal year 2018, based on an assessment of the current situation with regard to biodiversity and the Group's business operations.

Details of activities

- Maintaining genetic resources (7,500 tomato varieties)
- Environmentally conscious use of agrichemicals and fertilizers for sustainable farming
- Biodiversity surveys of tomato fields and their surrounding areas
- Avoiding the use of nonindigenous species of bees for pollination in the cultivation of fresh tomatoes
- Promoting agricultural development in Japan (e.g. introducing examples of regional agricultural produce through direct marketing services such as Noen Oen (Local Obscure Farms Support))

Case studies

Biodiversity surveys of tomato fields

As a result of biodiversity surveys of open-air cultivation tomato fields operated by contracted farmers conducted in fiscal year 2012 regarding the actual state of biodiversity in those fields, we were able to confirm the presence of many living creatures; and found that assessment indicators for biological surveys—animal life such as frogs and spiders—were being maintained in an almost completely unaffected state. In July 2018, we also conducted biodiversity surveys of open-air cultivation tomato fields and their surrounding areas in Ibaraki prefecture. Moving forward, we will continue to conduct surveys to ascertain the risks and opportunities to biodiversity posed by tomato growing using different methods of cultivation in various regions, and work to achieve tomato cultivation that will help to enrich the natural environment.

Sustainable Procurement **Bolstering our foundation for manufacturing products, starting from the fields**

Kagome has built a global pool of human resources and management system to enable management of fields, as it seeks to avoid risks such as climate change and foreign exchange rate fluctuations and to optimize costs and suppliers. We also engage in procurement activities with respect for an equal and fair cooperation framework enabling us to grow together.

Thinking on Procurement Activities and Initiatives for Creating Opportunities

Contract farming of tomatoes for processing was started by our founder. It is a system by which we secure high-quality raw ingredients through collaborative partnerships between producers and processors, and is the starting point for our procurement activities. Procurement in Japan is almost exclusively through contract farming. Overseas, we engage in purchasing transactions with local suppliers, based on our basic policies of establishing long-term transactions, ensuring appropriate pricing, and conducting on-site checks. We are also bolstering our network of procurement locations for other ingredients aside from tomatoes, with a view to achieving our vision of transforming into a "vegetable company."

Supply Chain Management Initiatives

Selection of suppliers

Kagome's advantage in procurement lies in its knowledge and expertise in areas such as production, quality and cost structure, gained through the fact that Kagome engages in all aspects of its business, from growing to processing of raw ingredients into products. By clearly communicating its expectations in these areas to suppliers, Kagome is able to establish mid- to long-term transactions at appropriate prices, enabling selection of suppliers who can work together with Kagome to improve quality.

Sharing of information with suppliers

For products and raw materials procured from overseas producers and processors of agricultural produce, as a general rule, Kagome personnel visit the suppliers to check the status of quality management in their operations from growing to production processes. We also hold advance meetings with suppliers annually and prior to the production season with regard to their main products and raw ingredients for import. Together with suppliers, we consider issues in the overall supply chain process, from the fields to the factories. These considerations include not only production processes in which harvested agricultural produce is processed, but also aspects of growing methods used by contracted farmers, such as the number of agrichemicals applied and optimal use of fertilizers. In this way, we guarantee the production of better quality products and raw ingredients. After the end of each season, we conduct reviews of the season and identify issues for the next fiscal year, and set targets that will enable us to continue growing together.



A meeting with suppliers

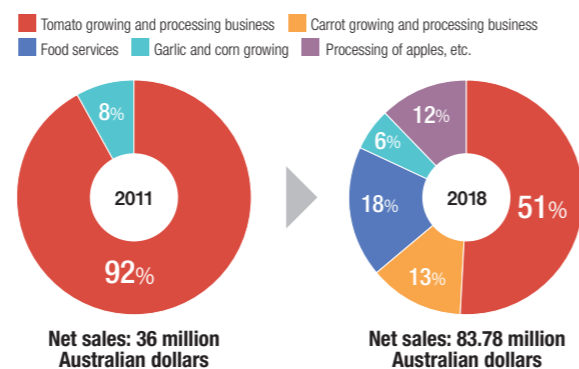


Conducting checks in a field

Case studies of initiatives for developing procurement locations with a view to transforming to a "vegetable company"

Kagome Australia was established in June 2010, through a transfer of business operations from a local company engaged in farm management and ingredient processing activities, primarily for producing tomatoes for processing. One of the objectives of its establishment was to stabilize procurement by dispersal of ingredient procurement locations across various latitudes from north to south. With increasing needs for carrots as a raw ingredient in Japan, in 2014, Kagome Australia commenced trials for the growing and processing of carrots for the Japanese market. Since then, the company has worked to improve quality and costs to match Japanese requirements. As of 2018, the operation shifted to full-scale transactions for carrots, providing a valuable procurement source for carrots as a raw ingredients. In 2011, 92% of Kagome Australia's sales were accounted for by tomato growing and processing business. In 2018, this percentage decreased to around 51%, with secondary processed tomato products for the food service market, as well as cultivation and sale of carrots, apples, garlic and other ingredients also contributing. In this way, Kagome Australia is growing steadily as a procurement location contributing towards Kagome's vision of transforming to a "vegetable company."

Kagome Australia's sales breakdown



Human Resources Underpinning the Creation of Value

Work Style Reforms and Diversity

In today's rapidly-changing world, Kagome believes that in order to achieve sustainable growth it is important to provide a working environment in which each and every individual employee can make maximum use of their diverse strengths and abilities, and feel a sense of job satisfaction.

Relationship between the content of this Integrated Report and the SDGs

Content of this Integrated Report	Target	No.	Details (Summary)
(2) Promoting Diversity	5	5.5	Ensuring participation and equal leadership opportunities for female employees

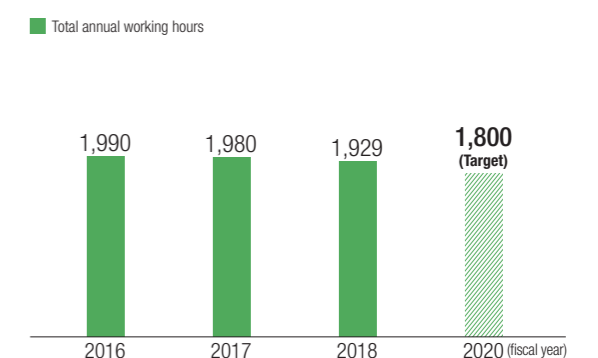
(1) Promoting Work Style Reforms

Since 2014, Kagome has worked to implement work style reforms with the aim of creating a company where it is easy to work, and where employees feel a sense of job satisfaction.

Efforts to achieve total annual working hours of 1,800

We launched our program of work style reforms in fiscal year 2014, and have advanced to the second phase of these reforms from fiscal year 2018. We have launched initiatives towards achieving our target of total annual working hours of 1,800 by 2020, and are investing efforts into building a culture for increasing job performance with eight-hour days. As a measure for reducing the constraints of working hours and locations, in April 2018 we introduced a staggered working hour system and a regional card system that enables employees to choose where they work. From April 2019, we have been testing a flextime system, and have also introduced a telecommuting system. By increasing the level of freedom for employees with regard to work styles, and by enabling them to devise their own ways of working, we aim to improve productivity with greater autonomy.

Change in total annual working hours



Secondary job scheme: hopes for creating greater motivation for employees' main job at Kagome

Kagome's work style reforms have also promoted lifestyle reforms. In April 2019, we introduced a secondary job scheme, hoping to support the formation of employees' careers and having a positive impact on their work at Kagome. Although only several employees had made use of this scheme as of June 2019, some of the employees are utilizing the scheme to make use of their own qualifications in activities outside of their work at Kagome. Examples of such qualifications include Small and Medium Enterprise Management Consultant, Labor and Social Security Attorney, and Registered Dietitian.

(2) Promoting Diversity

Understanding of the importance of promoting diversity within the company has improved, and disparities in ease of working for male and female employees have been almost completely eliminated.

Promoting active roles for women

Over the past three years, Kagome has made mostly steady progress in tackling issues such as recruitment, continuous employment, and employee development and promotion, working under its long-term vision of achieving a state where 50% of its workforce consists of women. Over the next three years, in addition to continuing to tackle these issues, we will also work to enhance our systems for mutual learning and development, and initiatives aimed at younger employees, as we seek to further increase the pace of our efforts in promoting active participation and advancement for women in the workplace.

Act on Promotion of Women's Participation and Advancement in the Workplace: Kagome's Action Plan figures

Target 1	To hire new employees, of whom 50% or more are female employees	60% (Actual result for FY2018)
Target 2	To maintain the continuous employment percentage of female employees hired before the 2009-2011 fiscal years at least 80% of that of male employees	0.81 (Actual result for FY2018)
Target 3	To ensure that female employees make up at least 8% of managerial positions (Manager and above)	5.6% (As of April 1, 2019)

Establishment of Veggie Kids Nursery, which teaches children to love vegetables

In April 2019, Kagome established Veggie Kids Nursery, which teaches children to love vegetables, near its Tokyo head office in Chuo-ku, Tokyo. The objective of establishing this nursery was to help create an environment in which employees can work with peace of mind during their child raising years, without feeling anxious about balancing their career and work with raising their children. The idea for the nursery came from a Kagome employee who was also a working mother herself, in response to an open call for new project ideas.



(3) Promoting health and productivity management

At Kagome, we believe that in order to maintain a sound and healthy company, it is important to ensure that each individual employee is also healthy, both physically and mentally. We are therefore working proactively to manage the health of our employees. In 2017, we established Kagome's 7 Points for Good Health, and made the Kagome Health and Productivity Management Pledge. We have been recognized externally, for three consecutive years since 2017, under the Certified Health and Productivity Management Organization (White 500) program operated by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi. In November 2017, we were also given the highest rank by the Development Bank of Japan (DBJ) under its DBJ Employees' Health Management Rated Loan Program.

Framework for promoting health and productivity management

In 2016, we established the General Health Services Department of Kagome Axis Co., Ltd. We have appointed industrial doctors to all business locations, and are promoting health management together with public health nurses and industrial counselors. In fiscal year 2018 we launched a Health Promotion Committee, and are engaging in health improvement activities with a focus on independent initiatives driven by each business location. We are also working to identify issues relating to employee health, and implement health-related measures and initiatives, such as by holding regular Collaborative Health Promotion Meetings together with the Kagome Health Insurance Union. We also hold Kagome Health Meetings, at which industrial doctors from major business locations, other industrial health staff, Kagome corporate officers responsible for health issues, and members of the General Affairs and Health Services Department and Kagome Health Insurance Union assemble to share and discuss group-wide health-related initiatives.

Current situation with regard to health management

In addition to promoting and implementing initiatives based on Kagome's 7 Points for Good Health, Kagome also implements its own unique health checkups (Kagome Kenshin) in collaboration with the Kagome Health Insurance Union, and carries our regular dental checkups, influenza vaccinations and walking campaigns every year. We also encourage and support employees aged 30 or above, and their spouses, to undergo annual comprehensive medical examinations.

Situation regarding health checkups (as of March 31) (%)

	FY2016	FY2017	FY2018
Percentage of employees taking health checkups	100	100	100
Percentage of employees taking reexaminations	95.9	100	100
Percentage of employees receiving specific health guidance	2.2	50.3	58.2

Current situation with regard to mental health

Kagome has established contact desks for mental health issues at all of its business locations in Japan. Industrial counselors and other professionals collaborate with these contact desks and travel around the country visiting all business locations every year. During these tours, professionals engage in monitoring and ascertaining the current situation, share information with the health management desk at head office, offer support and follow-up for employees returning to work after periods of absence, work to identify employees with poor mental health at an early stage, and help to create an environment where employees feel that they can easily consult with someone regarding their mental health. Additionally, Kagome also runs annual mental health training seminars for new employees and management personnel.

Current situation with regard to stress checks (%)

	FY2016	FY2017	FY2018
Examination rate	94.4	96.6	92.0

*The method used for performing checks was changed in FY2018.

Improving employees' health literacy

In order to maintain the physical and mental health of each of our employees, we consider it necessary to visualize and share employees' state of health, and to help them to acquire correct health-related knowledge. In fiscal year 2017, we began publishing the Kagome Health Report, and holding health seminars for employees run by registered dietitians and public health nurses. In fiscal year 2018, we also started e-learning study programs (physical health edition and mental health edition) for all employees.

Kagome Health and Productivity Management Pledge

The health of employees links directly to feelings of job satisfaction, through improving their sense of pride and engagement at Kagome.

Kagome contributes to the health of its customers through food, while at the same time promoting health and productivity management based around the core of Kagome's 7 Points for Good Health.

Kagome's 7 Points for Good Health

1. Nutritional balance, eat 350g of vegetables a day
2. Feel fresh and cleansed every day, drink Labre
3. Sleep well, greet people, and enjoy a fun lifestyle
4. Take appropriate exercise, walk 8,000 steps a day
5. Develop habits of brushing teeth, gargling and washing hands
6. Don't drink too much alcohol, and avoid smoking
7. Take regular health checkups and manage your own health



Collaborating with Communities

Resolving social issues through food

Kagome aims to grow by creating a sustainable society through working to resolve social issues in collaboration with local communities, with a view to achieving its vision ("What Kagome Strives For").

Relationship between the content of this Integrated Report and the SDGs

Content of this Integrated Report	Target	No.	Details (Summary)
(2) Initiatives Aimed at Agricultural Development and Regional Revitalization	4 Quality Education	4.4	Increase in the percentage of young people and adults with technical and vocational skills
	8 Sustainable Communities	8.9	Tourism business leading to creation of jobs, promotion of regional culture and sales of regional produce

(1) Initiatives to Enable Longer, Healthier Lives

In addition to its products, Kagome is working to enable people to live longer, healthier lives through the simultaneous provision of information and services, such as guidance for improving dietary lifestyles, and dietary education for children.

Proposing dietary lifestyle improvements in the health service business

Kagome proposed its Kagome Good Health Support Program for the "lively and active workplace support program" segment of the Longevity and Good Health Fukushima Promotion Project, run by Fukushima Prefecture in fiscal years 2017 and 2018. The proposal was successfully adopted. Kagome's team of registered dietitians (Vegetables and Lifestyle: Dietitians' Labo) supported efforts to improve the health of employees at companies in Fukushima Prefecture by running dietary lifestyle improvement seminars and other activities.



Activities to eradicate children's dislike of vegetables

The collaborative child-raising project Oishii ("Delicious") Vegetable Challenge Program was launched in April 2018 in collaboration with Houkago NPO After School, with the aim of overcoming children's dislike of vegetables. As of December 31, 2018, the program was implemented at 20 schools in the Kanto region, with 854 children participating. In the program, hands-on dietary education lessons were conducted in which children used their senses to engage in various experiences, based on the theme of "the sense of accomplishment of being able to eat vegetables." In fiscal year 2019, the program will be expanded to a nationwide scale, with 50 locations across Japan.



(2) Initiatives Aimed at Agricultural Development and Regional Revitalization

Strengthening ties with local regions through agriculture is essential to the growth of Kagome's business.

Kagome Yasai Seikatsu Farm Fujimi opened

In April 2019, Kagome opened the Kagome Yasai Seikatsu Farm Fujimi vegetable theme park at Fujimi, in the Suwa District of Nagano Prefecture. With the majestic natural scenery of Yatsugatake as a backdrop, the facility enables visitors to experience harvesting and cooking vegetables, to enjoy meals prepared using fresh seasonal vegetables in the restaurant, and to observe manufacturing processes for vegetable juices produced at the neighboring Fujimi Plant. As a flagship facility for visitors to experience the "vegetable company" vision that Kagome aims to achieve, Kagome Yasai Seikatsu Farm Fujimi is drawing attention as a tourist attraction that carries the hopes of both Fujimi and Nagano Prefecture as a whole. At Yatsugatake Mirai Farm, a location within the facility for growing fresh tomatoes, Kagome actively promotes the employment of people with disabilities, and seeks to achieve a collaborative link between agriculture and welfare.



Agri-support business utilizing expertise in growing fresh tomatoes

In April 2017, Kagome launched an agri-support business offering guidance on starting up and operating farms and technical advice on tomato cultivation, aimed at tomato producers. This business leverages the know-how accumulated through Kagome's experience over 20 years in the fresh tomato business.





1 Naoyuki Terada (Born February 5, 1955)

President & Representative Director

Remuneration and Nomination Advisory Committee Member

- 1978 Joined the Company
- 2004 General Manager, Sales Promotion Department
- 2005 Director & Executive Officer
- 2006 General Manager, Tokyo Sales Office
- 2008 Director & Managing Executive Officer
- 2008 Director, Consumer Business Division
- 2010 Director & Senior Managing Executive Officer
- 2010 Sales Division Director
- 2013 Representative Director & Senior Managing Executive Officer
- 2014 President & Representative Director (to present)

He has extensive experience in marketing and sales departments, etc., and is leading the Kagome Group's business through his strong leadership toward the achievement of the Mid-Term Management Plan.

2 Yoshihide Watanabe (Born March 4, 1958)

Director & Senior Managing Executive Officer

- 1982 Joined The Nippon Credit Bank, Ltd. (now Aozora Bank, Ltd.)
- 1998 Joined Cerberus Japan K.K.
- 2003 Joined Industrial Revitalization Corporation of Japan
- 2007 Joined the Company; Special Adviser
- 2008 Executive Officer
- 2009 Director, Corporate Planning Division Director & Executive Officer
- 2016 Director & Senior Managing Executive Officer (to present)
- 2017 Assistant to President and Responsible for Special Assignment Projects (to present)
- 2018 Responsible for Global Industrial and Institutional Business (to present)

He has extensive experience in a financial institution and the corporate planning department, etc. of Kagome, and oversees all operational standards and the quantification of results and promotes the optimization of management resource allocation and work style reforms.

3 Katsuyuki Miwa (Born August 5, 1955)

Director & Senior Managing Executive Officer

- 1979 Joined the Company
- 2005 President & Representative Director of Kagome Labio Co., Ltd. 2010
- Executive Officer of the Company
- 2010 General Manager, Production Department, Production & Purchasing Division
- 2013 Managing Executive Officer
- 2013 Director, Production & Purchasing Division
- 2013 Director & Managing Executive Officer
- 2016 Director & Senior Managing Executive Officer (to present)
- 2017 Assistant to President and Responsible for Special Assignment Projects (to present)

He has extensive experience in the production and purchasing department, the management of subsidiaries, etc., and oversees Kagome's vegetable processing business projects and promotes business development for the realization of the company's long-term vision.

4 Hirohisa Kobayashi (Born July 16, 1961)

Director & Managing Executive Officer
Director, Sales Division

- 1984 Joined the Company
- 2005 General Manager, Taiwan Kagome Co., Ltd.
- 2006 General Manager, Probiotics Business Unit (responsible for marketing)
- 2009 General Manager, Consumer Sales Department, Osaka Branch
- 2014 Executive Officer
- 2014 Director, Consumer Business Division
- 2015 Managing Executive Officer
- 2015 Director, Marketing Division
- 2018 Director, Sales Division (to present)
- 2019 Director & Managing Executive Officer (to present)

He has extensive experience in marketing and sales departments, etc., and oversees Kagome's sales departments and promotes raising the value of sales activities, etc.

5 Satoshi Yamaguchi (Born December 29, 1960)

Director & Managing Executive Officer
Director, Vegetable Business Division and General Manager, Vegetable Solution Department

- 1983 Joined the Company
- 2003 General Manager, Institutional & Industrial Business Unit
- 2010 Executive Officer
- 2010 Director, Institutional & Industrial Business Division
- 2015 Director, Innovation Division
- 2018 Director, Vegetable Business Division and General Manager, Vegetable Solution Department (to present)
- 2019 Director & Managing Executive Officer (to present)

He has extensive experience in institutional & industrial business and research departments, and oversees Kagome's vegetable business and promotes the development of business models for the vegetable processing business, etc.

6 Seiichi Kondo (Born March 24, 1946)

Independent

External Director

Remuneration and Nomination Advisory Committee Member

- 1972 Joined the Ministry of Foreign Affairs of Japan
- 1999 Deputy Secretary-General, Organization for Economic Co-operation and Development
- 2006 Ambassador Extraordinary and Plenipotentiary to Permanent Delegation of Japan to the United Nations Educational, Scientific and Cultural Organization
- 2008 Ambassador of Japan to the Kingdom of Denmark
- 2010 Commissioner for Cultural Affairs
- 2014 External Director of the Company (to present)

[Significant concurrent positions]
Outside Director of IHI Corporation
Outside Member of the Board, Mitsubishi Chemical Holdings Corporation
Outside Director, CHUBU Electric Power Co., Inc.

He has extensive experience in overseas assignments of central government ministries and agencies and knowledge of the economy, as exemplified by his participation in the formulation of the OECD Principles of Corporate Governance.

7 Takayuki Hashimoto (Born July 9, 1954)

Independent

External Director

Remuneration and Nomination Advisory Committee Member

- 1978 Joined IBM Japan, Ltd.
 - 2008 Director & Senior Executive Officer
General Manager, Sales, IBM Japan
 - 2009 General Manager, IBM Japan
 - 2014 External Director of the Company (to present)
- [Significant concurrent positions]
Honorary Advisor, IBM Japan
Outside Auditor, IHI Corporation
Outside Member of the Board, Mitsubishi Chemical Holdings Corporation
Outside Director, CHUBU Electric Power Co., Inc.

He has extensive knowledge of diversity promotion and risk management in business as a manager of a highly diversified global company.

8 Hidemi Sato (Born February 17, 1959)

Independent

External Director

- 1981 Joined Mitsubishi Electric Corporation
- 1996 Completed the Doctoral Program at Graduate School of Ochanomizu University, obtained a doctorate (Doctor of Philosophy in Food Science)
- 1997 Part-time lecturer at Fukushima University, The Open University of Japan, Nippon Veterinary and Animal Science University (now Nippon Veterinary and Life Science University)
- 1999 Part-time lecturer at Meiji University College
- 2015 Visiting professor at Nippon Veterinary and Life Science University (to present)
- 2017 External Director of the Company (to present)

[Significant concurrent positions]
Visiting professor at Nippon Veterinary and Life Science University

She has extensive knowledge of food science and food education through numerous research activities related to food science and many years of educational activities on food and nutrition.

9 Hirohito Kodama (Born March 22, 1959)

Director, Standing Audit and Supervisory Committee Member

Audit and Supervisory Committee Member

- 1981 Joined the Company
- 2003 General Manager, Corporate Planning Department
- 2006 Executive Officer
- 2008 Director & Executive Officer
- 2008 General Manager, Research & Development Division
- 2011 Director & Managing Executive Officer
- 2013 CEO, Asia Business Company
- 2016 Responsible for Business Process Redesign and President & Representative Director of Kagome Axis Co., Ltd.
- 2017 Responsible for Risk Management
- 2018 Director & Standing Audit and Supervisory Committee Member (to present)

He has extensive experience in corporate planning, R&D departments, management of subsidiaries, etc., and properly supervises the execution of Kagome's business as an Audit and Supervisory Committee Member.

10 Morihiro Murata (Born July 20, 1946)

Independent

External Director, Audit and Supervisory Committee Member

Audit and Supervisory Committee Member

Remuneration and Nomination Advisory Committee Member

- 1970 Joined Arthur Young & Co. Tokyo Office
- 1974 Registered as Certified Public Accountant
- 2002 Representative of Asahi KPMG Tax Corporation
- 2006 Representative of Murata Morihiro Accounting Firm (to present)
- 2011 External Auditor of the Company
- 2016 External Director, Audit and Supervisory Committee Member of the Company (to present)[Significant concurrent positions]

[Significant concurrent positions]
Representative of Murata Morihiro Accounting Firm
Outside Audit & Supervisory Board Member of Kokuyo Co., Ltd.
Outside Auditor of Sumitomo Rubber Industries, Ltd.

He is proficient in corporate accounting as a certified public accountant and tax accountant, and has extensive insight for overseeing corporate management based on his experience in corporate management, etc.

11 Hiroshi Mori (Born February 21, 1965)

Independent

External Director, Audit and Supervisory Committee Member

Audit and Supervisory Committee Member

- 1989 Joined Development Bank of Japan (now Development Bank of Japan, Inc.)
- 1993 Seconded to the Finance Bureau of the Ministry of Home Affairs (now the Ministry of Internal Affairs and Communications)
- 2003 Seconded to Tesac Corporation, a company under restructure, Trustee representative, Manager of Corporate Planning Department
- 2006 Registered as attorney-at-law, joined Nishimura & Asahi
- 2012 Partner at Nishimura & Asahi (to present)
- 2016 External Director, Audit and Supervisory Committee Member of the Company (to present)

[Significant concurrent positions]
Partner at Nishimura & Asahi, Outside Director and Audit & Supervisory Committee Member, Mitsubishi UFJ Securities Holdings Co., Ltd.

As a lawyer, he is well-versed in corporate legal affairs and risk management practices, and has extensive insight to oversee corporate management.

Suggestions from External Directors

Since fiscal year 2018, Kagome has been conducting an examination to identify important issues (materiality). In the process of the examination, we incorporate expert opinions of each of our External Directors into evaluating importance.

* The process of identification of important issues (materiality) is detailed on page 28.

Theme: For the identification of important issues (materiality)



Takayuki Hashimoto
External Director

Process matters in identifying important issues (materiality), and we should discuss thoroughly how each issue impacts on Kagome's business. In my opinion, all issues should not be treated equally. Instead, we need to evaluate positive and negative factors while taking changes with time and frequency of occurrence into account, and prioritize what to focus on to make management decisions.

From the viewpoint of Kagome's materiality, I believe that "diversity & inclusion" are keywords from the perspective of both product development and internal innovation. Inclusion is indeed essential inside Kagome, in terms of how we develop food products that help reduce the workload of working women and products for the elderly and people with disabilities.

A global perspective is also important. Along with Japan's crucial issue of a super-aged society, Kagome needs to work out how to address poverty and food security in developing countries. I believe this is something we need to consider, starting by discussing the positioning of the tomato processing business that Kagome is already conducting in India, for example.



Morihiro Murata
External Director & Audit and Supervisory Committee Member

Kagome is currently plotting issues with "importance for society" and "importance for Kagome" as the two coordinate axes, and it is important that the plotting reflect quantitative factors such as monetary value. Not all risks can be measured quantitatively, but I believe Kagome ought to adopt a quantitative approach to examining appropriateness of the plotting. In addition, we should consider materiality three-dimensionally by adding a frequency of occurrence axis to the plotted map. Revisions of laws and regulations, for example, might not be very important for society, but they could have a huge impact on Kagome and they sometimes take place repeatedly. More frequent revisions tend to require larger invested capital, which is why we should always be mindful of the frequency factor.

As for prioritization of the 19 types of materiality, I think the connection between "social issues" and "Kagome's long-term vision" should be highlighted more clearly on the plotted map. For instance, I believe that "seeking to solve the social issue of achieving 'longer, healthier lives'" and "developing products that can contribute to this" should both be handled as very important issues.



Hidemi Sato
External Director

I believe that the "impact of women's social advancement" will remain a priority issue for Kagome, which is working on achieving "longer, healthier lives."

Currently, many Japanese are malnourished. This appears to be partly attributable to needs for spending less time and effort on cooking at home associated with women's social advancement. The biggest issue facing Japan, as a super-aged society, is the good health of its elderly population, and an elderly person's health represents what he or she has eaten from an early age. Therefore, to extend healthy life expectancy, we need to turn our attention to the food consumed not only by the elderly but also by younger generations. Also, in view of the increase in single person households, the development of products that make it easy for anyone to have a high vegetable intake is also probably more important than ever before.

I believe that anticipating such social conditions and environmental changes associated with women's social advancement and markets arising from them and quickly taking appropriate action is crucial in order for Kagome to become a strong company that grows sustainably.



Seiichi Kondo
External Director

Environmental issues are becoming more and more significant in and outside Japan. In the food industry, plastic straws and food loss are typical issues of waste that Kagome should also address. However, I have the impression that these issues are not perfectly clear in Kagome's discussions for the identification of important issues (materiality). As regards consideration for the environment, I believe that the question matters most as to how Kagome will take action to solve environmental problems through its products, not least because this kind of issue tends to attract criticism.

In addition, risks concerning water resources are also attracting global attention and I recognize this as a problem that Kagome should tackle first and foremost, given its involvement in agriculture.



Hiroshi Mori
External Director & Audit and Supervisory Committee Member

I imagine that all companies that identify important issues (materiality) recognize that compliance is an extremely important issue that impacts on management. This is precisely why the way we foster compliance mindsets in our employees is important. Going a step further than having employees comply with rules, we need in essence to have as management the recognition that compliance runs in our very corporate culture and to inculcate the notion in our business.

I hope that Kagome is highly mindful of promoting compliance. Probably we as External Directors can also be of help to this process. I would like to be actively involved in developing this mindset through in-depth communication with employees, including visiting work sites and talking with young and middle-ranking employees.

Comments on suggestions of External Directors from editorial staff

In fiscal year 2019, Kagome evaluated issues both in terms of materiality for society and business from a wide perspective through dialogue with external stakeholders compared to fiscal year 2018 when materiality was examined internally. On this occasion, Kagome received suggestions from External Directors drawing on each of their specialist areas respectively. All the suggestions are thought provoking and Kagome will verify and consider the gap between these suggestions and its own evaluation and continue its examination for the identification of important issues (materiality).

Corporate Governance

Basic Policy of Corporate Governance

In accordance with our corporate philosophy of “appreciation,” “nature” and “corporate openness,” we aim to achieve sustainable growth and improve the medium- to long-term value of the company. We acknowledge that corporate governance is a critical management issue toward these objectives.

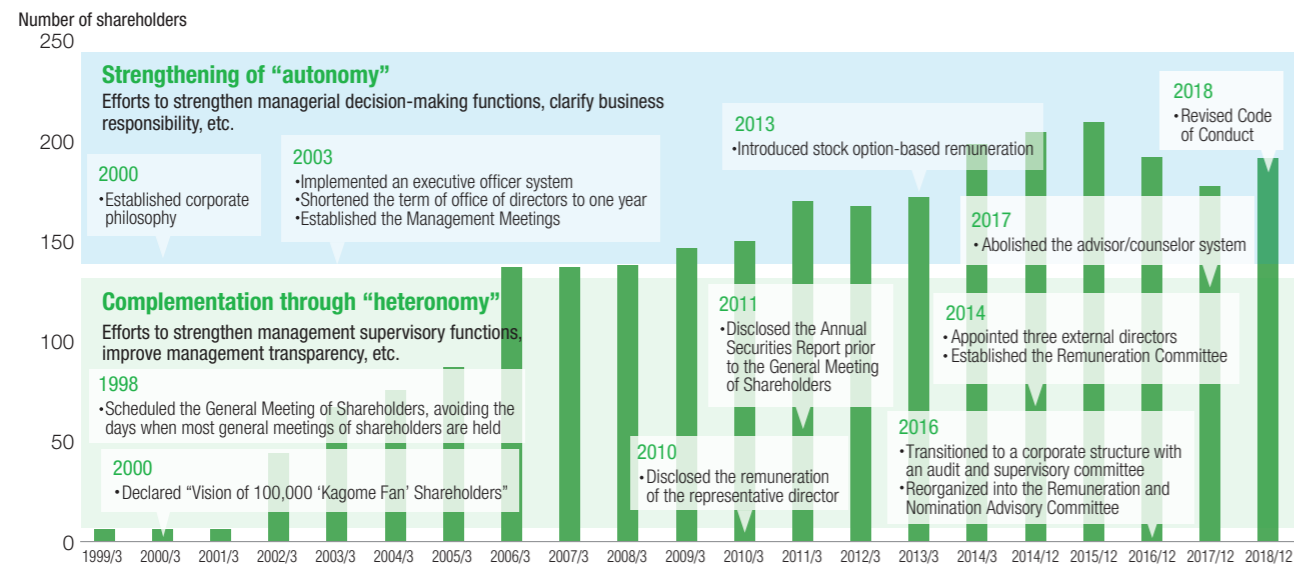
Our company considers the further strengthening of “autonomy” complemented by “heteronomy” to be the fundamentals of our corporate governance. We will ensure objectivity and transparency, forming a basis by designing

our own concept of corporate governance adapted to the present day, while incorporating diverse outside viewpoints by working to attract more “Kagome Fan Shareholders” and leveraging the functions of the external directors, among other things.

We aim to deliver a high degree of accountability and achieve true “corporate openness” in our interactions with stakeholders, while employing the unique attributes and originality of Kagome.

History of corporate governance and historical trends in the number of shareholders

The history of our corporate governance is a culmination of our efforts to achieve “corporate openness” as part of our corporate philosophy that can be traced back to the aspirations of our company’s founder. We have been continuously evolving up until the present through the public offering of our shares and the separation of capital from management, etc. in the past.



Corporate Governance System

We are separating executive functions from supervisory functions to accelerate managerial decision making and help clarify business responsibility. The Board of Directors has specified that determining the company’s management strategies and policies and monitoring the implementation of such strategies and policies are its primary duties. The Board enhances the advisory and supervisory functions and increases the effectiveness of such functions by electing one third or more external directors, who satisfy the Standards for Judging the Independence of Independent External Directors, as the members of the Board.

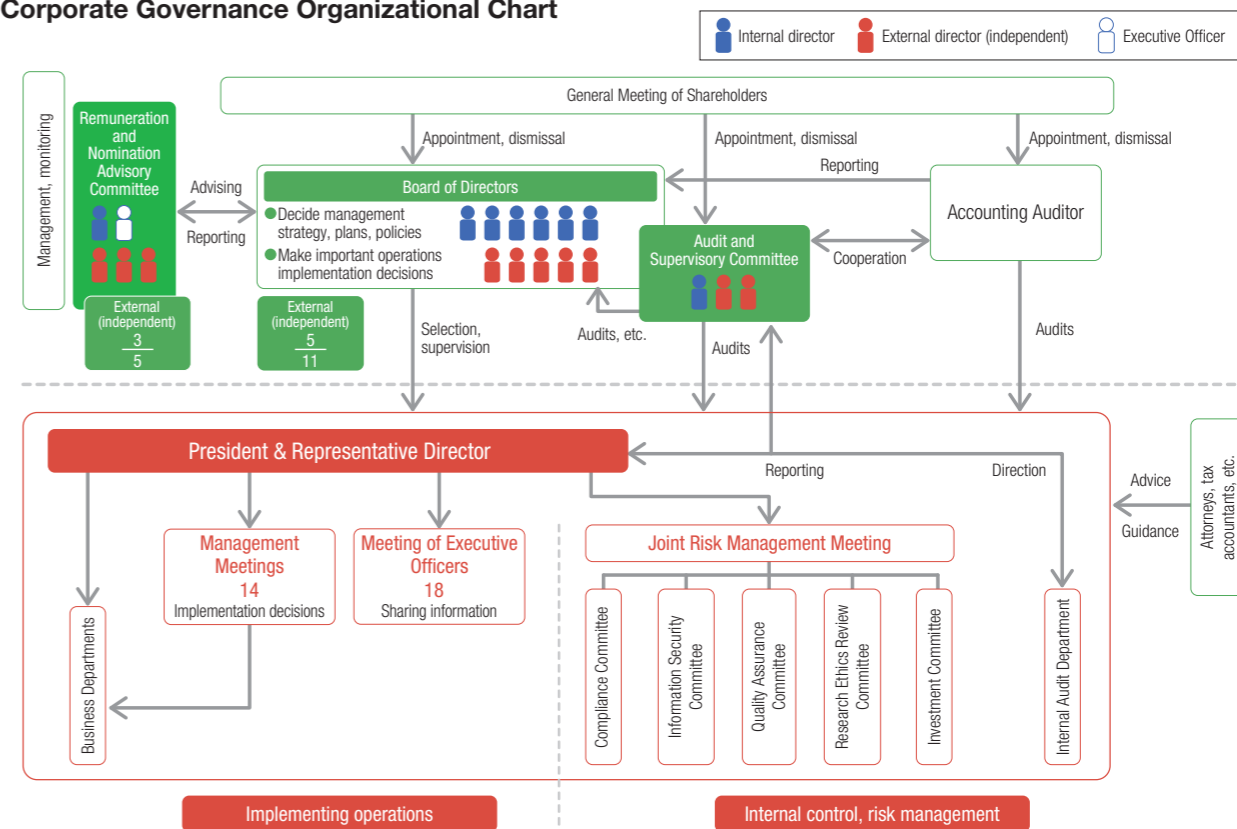
The audit and supervisory committee has set a policy of having one or more standing audit and supervisory committee members, and uses internal control systems to audit the legality and appropriateness of the operations implemented by the directors.

The nomination and remuneration of directors are deliberated by the Remuneration and Nomination Advisory

Committee, in which independent external directors account for one half or more of its members. The results of the deliberations are advised to the Board of Directors, which then determines the nomination and remuneration of the directors, thereby enhancing fairness and appropriateness.

Under our executive officer system, we are using set criteria to delegate implementation responsibilities and authority to our departments. In addition, we have established the Meeting of Executive Officers in order to convey and make known the Board of Directors’ resolutions and reported matters as well as to facilitate communication and coordination among the executive officers. Furthermore, the Management Meetings have been established under the leadership of the president to ensure that business is executed in an agile manner and through mutual coordination. Deliberations at the Management Meetings enable appropriate risk taking and also produce clear allocations of responsibilities, while enabling us to make decisions in an expedient manner.

Corporate Governance Organizational Chart



Kagome's Policy on Appointing Directors

We consider a size that is appropriate for holding high-quality discussions while ensuring diversity and balance in terms of knowledge, abilities and experience in the composition of the Board of Directors in order to achieve a medium- to long-term increase in corporate value by maximizing the advisory and monitoring functions of the Board of Directors. Additionally, the Board of Directors selects candidates, taking into account the internal and external compositions, independence, specific experiences, areas of expertise, genders, nationalities, etc. according to the business environment, after deliberations of the Remuneration and Nomination Advisory Committee. One third or more of the members of the Board of Directors elected are independent external directors.

The Board of Directors currently consists of 11 members, including eight directors (excluding Directors who are Audit and Supervisory Committee members) and three Directors who are Audit and Supervisory Committee members, of which five are independent external directors. Our external directors come from a variety of backgrounds and have extensive experience and knowledge that contribute to the diversity management and business globalization included in our medium- to long-term vision and the achievement of longer, healthier lives through food. As a long-term vision, we have set the goal of increasing the percentage of women in the workforce, including executives, to 50% by around 2040, and we will aim to achieve the same for the Board of Directors at an early stage.

Specialized areas of external directors

	Corporate management	Global	Society, economy	Finance, accounting	Law	Diversity	Food, nutrition
Seiichi Kondo		○	○				
Takayuki Hashimoto	○					○	
Hidemi Sato						○	○
Morihiro Murata		○		○			
Hiroshi Mori				○	○		

Standards for Judging the Independence of Independent External Directors of the Company

The Company deems an external director to have sufficient independence in the event that he/she meets the Standards for Judging Independence as described below:

<p>(1) A person who is not or was not in the past a director, audit & supervisory board member (excluding outside officer), executive officer or employee of the Kagome Group</p> <p>(2) A person who is not or has not been a major shareholder of the Kagome Group in the past five business years (pertains to a shareholder who holds 10% or more of the total voting rights of the shares of the Kagome Group), or a person who is not a director, corporate auditor, executive, executive officer or employee of an entity for which the Kagome Group is a major shareholder</p> <p>(3) A person who is not a director, corporate auditor (excluding outside officer), executive, executive officer or employee of a major business partner of the Kagome Group (pertains to a business partner whose transactions with the Kagome Group amount to 2% or more of the consolidated net sales of the Kagome Group in any of the past three business years)</p> <p>(4) A person who is not a director, corporate auditor (excluding outside officer), executive, executive officer or employee of an entity for which the Kagome Group is a major business partner (pertains to a business partner whose transactions with the Kagome Group amount to 2% or more of the consolidated net sales of the business partner in any of the past three business years)</p> <p>(5) A person who is not an officer or employee of corporations or organizations that receive a large amount of donations* from the Kagome Group</p>	<p>* An average of 10 million yen or more annually in the past three business years, or an amount that is 2% or more of the net sales or total revenue of the recipient</p> <p>(6) A person who is not a director, corporate auditor (excluding outside officer), executive, executive officer or employee of a corporation that mutually exchanges directors, corporate auditors or executive officers with the Kagome Group</p> <p>(7) A person who has not been a representative partner, partner or employee of the accounting auditor of the Kagome Group in any of the past five years</p> <p>(8) A person who is not an attorney-at-law, a certified public accountant, a certified tax accountant, a consultant or another professional who receives a large amount of remuneration* from the Kagome Group, other than compensation as an officer</p> <p>* On average in the past three business years, 10 million yen or more in the case of an individual and 2% or more of consolidated net sales in the case of a corporation</p> <p>(9) A person who is not the spouse, a relative within the second degree of kinship or a relative living together with any person described in (1) through (8) above</p> <p>(10) A person whose total term of tenure as an external director is at most eight years</p>
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Note: The Kagome Group refers to Kagome Co., Ltd. and its subsidiaries.

Directors' Remuneration

Our company's directors' remuneration comprises basic compensation and cash bonuses and stock options that are linked to business performance. The proportions of each of the above are determined based on the positions of the directors. Basic compensation is fixed compensation that is determined based on directors' positions and the scope of the role of each job grade. Cash bonuses and stock options are determined based on consolidated profit indicators as the company-wide business performance and contribution made by each individual director. Stock options serve as incentives for mid-term and multiple-year management and are designed to be exercisable based on consolidated profit indicators after a certain period of time from the time of allotment as exercise conditions. Accordingly, the exercisable number of these stock options is determined according to the degree of attainment.

Compensation for directors, audit and supervisory committee members and external directors each comprise basic compensation. Further details are provided in the Annual Securities Report for the 75th Period. (<https://www.kagome.co.jp/company/ir/data/statutory/2018/>)

In fiscal 2014, the Remuneration Committee, as an advisory body to the Board of Directors in which external directors account for one half or more of its members, was established in order to enhance transparency and objectivity in determining directors' compensation, etc. In fiscal 2016, the same committee was given functions as an advisory body concerning the nomination of directors, and was then reorganized to become the current Remuneration and Nomination Advisory Committee.

Remuneration and Nomination Advisory Committee: 4 or 5 meetings held/year

Fiscal year in which the committee was convened	Main matters deliberated	Fiscal year in which the committee was convened	Main matters deliberated
2018 The first committee	<ul style="list-style-type: none"> FY2017 executive bonus factor Personnel reshuffle of directors with effect from March 2018 	2019 The first committee	<ul style="list-style-type: none"> Directors' bonus for FY2018 Directors' compensation for FY2019 (first deliberation) Directors' performance-linked bonus indicators for FY2019 Proposal of exercise conditions of stock options Finalization of FY2016 stock options
The second committee	<ul style="list-style-type: none"> Directors' compensation for FY2018 Finalization of FY2015 stock options Process of determining overseas CEO remuneration FY2018 succession process 	The second committee	<ul style="list-style-type: none"> Directors' compensation for FY2019 (second deliberation) Evaluation and compensation of overseas CEOs FY2019 succession process
The third committee	<ul style="list-style-type: none"> Personnel reshuffle of directors with effect from October 2018 Review of stock compensation 		
The fourth committee	<ul style="list-style-type: none"> Market data on directors' compensation Estimates of variable compensation for FY2018 Progress of succession process 		
The fifth committee	<ul style="list-style-type: none"> Personnel reshuffle of directors with effect from March 2019 Business performance indicators concerning directors' compensation Proposal of introduction of stock compensation 		

Directors' compensation

Category of directors	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)			Number of eligible directors (persons)
		Basic remuneration	Stock options	Bonus	
Directors (excluding audit and supervisory committee members)*	298	133	45	120	6
Directors (audit and supervisory committee members)*	26	22	3	-	2
External directors	51	51	-	-	5

* Excluding external directors. Our company transitioned to a corporate structure with an audit and supervisory committee as of March 25, 2016.

Total amount of compensation, etc. of individual directors

Category of directors	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)		
		Basic remuneration	Stock options	Bonus
President & Representative Director Naoyuki Terada	114	43	21	49

* Only compensation, etc. of persons whose total amount of compensation, etc. is 100 million yen or more is stated.

Breakdown of compensation by position

Position	Fixed-amount compensation	Performance-linked compensation			Distribution of evaluation	
		Short-term cash bonus	Stock options	Total	Company-wide business performance	Individual performance
President & Representative Director	50%	33%	17%	50%	100%	0%
Director & Senior Managing Executive Officer	60%	28%	12%	40%	80%	20%
Director & Managing Executive Officer	65%	25%	10%	35%	80%	20%
Director & Audit and Supervisory Committee member	100%	0%	0%	0%	-	-
External Director	100%	0%	0%	0%	-	-

Amount of fixed compensation by position

(excluding Director & Audit and Supervisory Committee member and External Director)

Position	Fixed-amount compensation (Million yen)
President & Representative Director	43
Director & Senior Managing Executive Officer (set according to job grade)	25 - 27
Director & Managing Executive Officer (set according to job grade)	23 - 25

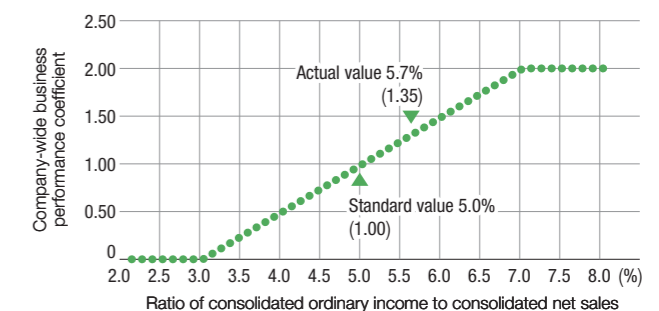
Calculation Method of Performance-linked Compensation

The performance-linked compensation of each director is calculated using the formula shown below:

- Basic bonus amount = Total basic compensation of each position/job grade × Total percentage of performance-linked compensation
- Total amount of performance-linked compensation = Company performance pay coefficient¹ × Company performance evaluation weight × Basic bonus amount + Individual performance pay coefficient² × Individual performance evaluation weight × Basic bonus amount

¹ The "company performance pay coefficient" is determined through a "company performance evaluation" which evaluates the rate of achievement of company performance indicators. For FY2015 to FY2018 (the First Mid-Term Management Plan period), our company set as a company performance indicator the "ratio of consolidated ordinary income to consolidated net sales" that it has defined as an important consolidated management indicator for the evaluation of company performance. The FY2018 standard value (1.00) was set at 5.0%, which is the target ratio of consolidated ordinary income to consolidated net sales under the First Mid-Term Management Plan. Against this target, the actual ratio of consolidated ordinary income to consolidated net sales for FY2018 was 5.7%. Accordingly, the company performance pay coefficient used in the calculation was 1.35, the value set in advance.

² The "individual performance pay coefficient" is determined through an "individual performance evaluation" which evaluates achievement and contribution against the individual performance indicators of each director. Individual performance indicators measure degree of contribution to solving company-wide issues and departmental issues and are set for each director in the form of KPIs (Key Performance Indicators).



Short-term performance-linked compensation: Cash bonus

The cash bonus for a single fiscal year, which is short-term performance-linked compensation, is calculated using the formula shown below:

$$\text{Cash bonus} = \text{Total amount of performance-linked compensation for single fiscal year} \times \text{Percentage of total amount of performance-linked compensation accounted for by cash bonus}$$

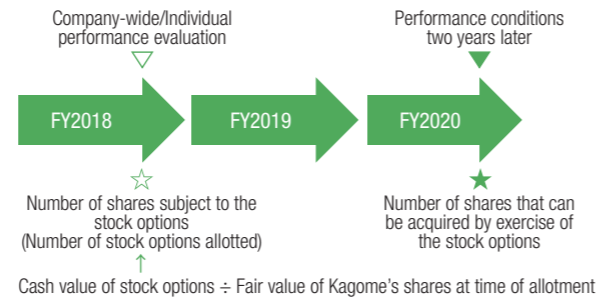
Medium- to long-term performance-linked compensation: Stock options

Our company adopts stock options as medium- to long-term performance-linked compensation for directors.

Our company's stock options are designed based on a scheme of stock options as compensation whereby the exercise price is 1 yen (the amount paid by the individual is one yen per share). The number of stock options allotted is determined by dividing the cash value of the stock options, which is decided based on the performance evaluation for a single fiscal year, by the fair value of Kagome's shares at the time of their allotment. The number of shares that can be acquired by exercise of the stock options will then be decided according to the degree of achievement of the company-wide performance indicator (ratio of consolidated ordinary income to consolidated net sales) in two years' time.

The cash value of stock options is calculated using the formula shown below:

$$\text{Cash value of stock options} = \text{Total amount of performance-linked compensation for single fiscal year} \times \text{Percentage of total amount of performance-linked compensation accounted for by stock options}$$



Results of Evaluation of the Effectiveness of the Board of Directors

Our company undertook an evaluation of the effectiveness of the Board of Directors in November 2018. An overview of the results is described below.

1. Methods of evaluation

Conducted surveys of directors (30 items within 6 categories) The survey categories are as follows.

- (1) Design of the Board of Directors
- (2) Operation of the Board of Directors' meetings
- (3) Proposals by the Board of Directors
- (4) Quality of Discussions by the Board of Directors
- (5) Corporate Governance System
- (6) General Assessment

Questionnaire undertaken by each committee/deliberations by the Board of Directors taking the above into account.

2. Overview of results of evaluation

As a result of discussions that took the above into account, the Board of Directors of the company concluded that the Board generally functioned in an appropriate manner in all categories and its effectiveness was positive.

Areas suggesting a need for further improvement in the evaluation of the effectiveness this time included "reporting the status of operations (setting agenda items systematically and in order of priority)," "improving the timing of discussions of important issues and following them up" and "improving the quality of deliberations and securing time for deliberations."

We are implementing initiatives in these areas in response to last fiscal year's results of evaluation of the effectiveness. In terms of "reporting the status of operations (setting agenda items systematically and in order of priority)," we will enhance effectiveness by increasing opportunities to share information with directors and by

developing an annual schedule for reporting operations.

In terms of "improving the timing of discussions of important issues and following them up," the comments that were made mainly concerned deliberations of investment projects and we will seek improvement by enhancing the functions of the Investment Committee to speed up opportunities for deliberations by the Board of Directors and to include agenda items on monitoring and reporting investment projects.

In terms of "improving the quality of deliberations and securing time for deliberations," we have sought to secure time for deliberations through efforts to shorten explanation time by restricting the number of forms/sheets of materials for meetings of the Board of Directors and always sending (explaining) materials ahead of meetings. To ensure more time for deliberations, we will introduce advance questioning to ensure that more substantive discussions take place at meetings of the Board of Directors.

Members of the Remuneration and Nomination Advisory Committee expressed opinions on the timely convocation of meetings and the progress of discussions on the succession plan, while members of the Audit and Supervisory Committee generally rated effectiveness highly but expressed the view that efforts should be made to further strengthen audit functions through stronger collaboration with relevant departments and others. Our Board of Directors also recognizes these as issues to address and will work to solve them.

Our company will seek to further improve the effectiveness of the Board of Directors in light of the results of the latest evaluation of the effectiveness of the Board of Directors.

Initiatives to Enhance the Effectiveness of the Board of Directors

- Revision of the rules for the submission of proposals to the Board of Directors (transition to the Management Meetings)
- Making an annual schedule of proposals to the Board of Directors
- Providing external directors with prior explanations of proposals to the Board of Directors
- ★ Organizing a study camp to examine the next Mid-Term Management Plan
- Holding meetings for external directors to share the matters deliberated in the Management Meetings
- Conducting site visits to the company's overseas subsidiaries by external directors
- Changing seats at the Board of Directors' meetings
- ★ Adding "deliberation" to proposal categories

The star marks (★) indicate new activities.

Response to the Corporate Governance Code

For details, please refer to our corporate governance report. (Kagome website: www.kagome.co.jp/company/ir/stock/governance)

Strengthening Group Governance

Our company voluntarily adopted International Financial Reporting Standards ("IFRS") in place of the existing Japanese accounting standards ("JGAAP") from fiscal year 2019. By using IFRS, we will seek to improve our business administration quality and enhance international comparability.

With the adoption of IFRS, we changed our accounting auditor to PricewaterhouseCoopers Aarata LLC. In our judgment, PricewaterhouseCoopers Aarata LLC is suitable for the job because it has the expertise, independence and quality control structure required of an accounting auditor and is also

a member of the global network of PricewaterhouseCoopers, which operates as an accounting auditor worldwide.

With the adoption of IFRS and the change of accounting auditor, Kagome has established and implemented Group accounting, tax and financial management policies as shown below. We are dispatching finance and accounting personnel directly from head office to major group companies and are working to improve Group governance including compliance with these policies.

Domain	Name	Main points
Accounting	Kagome Group Financial Reporting Standards (K-FRS)	● Conformity with IFRS
Tax	Kagome Group Tax Policy	● Compliance with laws and regulations of each country and each region ● Prohibition of tax evasion and excessive tax avoidance
Finance	Kagome Financial Management Basic Policy	● Reduction of risk assets; maximization of capital and asset efficiency ● Risk management and prohibition of speculative financial transactions
	Kagome (Subsidiaries) Financial Management Basic Policy	● Same as above ● No holdings of financial products such as derivatives, in principle

Cross-shareholdings

Our basic policy is to dispose of or reduce, as promptly as possible, the holding of shares considered insignificant. Each year, our company reviews the significance, economic rationality and other factors of cross-shareholding and determines whether or not to continue each holding and the number of shares to be held. The examination of economic rationality sets the value for each holding as of the end of the most recent fiscal year as the standard to calculate the percentage at which the holding contributed to the profit of the Company in such fiscal year. When such percentage is below a figure equivalent to approximately

twice the average ROA of the Company for the past five years on a non-consolidated basis, such shares are subject to review for sale. Also reviewed are shares whose market price has declined 30% or more from the book value and shares of a company with whom the Company has transactions amounting less than 100 million yen per year. Shares of the Company's suppliers and clients that fall below these standards are subject to deliberation at meetings of the Board of Directors every year as to whether or not to sell them. As a result of a review, the Company sold some of its cross-shareholdings in fiscal year 2018.

Compliance

Revision of Code of Conduct

The world is seeing more severe problems in all aspects of society while Japan has been experiencing a super-aged society and frequent natural disasters. In light of these, we revised our Code of Conduct last year with a view to realizing a sustainable society for our company's survival, looking to the environment that requires a "mutual support" spirit and framework.

The new Code of Conduct consists of three strands: "mutual support," "respect for human rights" and "fairness" and it is con-

Compliance Promotion System

The Kagome Group has established a Compliance Committee, under the supervision of the Joint Risk Management Meeting chaired by Kagome's President & Representative Director. The Compliance Committee, which is chaired by the Executive Officer with responsibility for overseeing compliance, undertakes the verification of compliance promotion and monitoring status. The results of the Compliance Committee's deliberations are reported to the members of the Management Meetings via the Joint Risk Management Meeting. The Legal Affairs Office, which functions as the secretariat of the Compliance Committee, plays the central role in day-to-day compliance operations. Kagome established the Kagome Compliance Hotline, which is accessible to all domestic Group employees, and through which reports can be made and guidance given with regard to illegal or suspicious activities in the workplace. This system incorporates an internal direct line to the Compliance Committee's secretariat, as well as an external hotline to an outside law firm. To encourage employees to use these contacts without hesitation, the identities of those making reports are kept strictly confidential.

Kagome takes steps to protect the privacy of employees who make reports to ensure that these employees do not suffer any adverse consequences. We quickly conduct investigations based on the information received and take appropriate counter-

Initiatives to Maintain Rigorous Compliance

Having formulated the Kagome Group Compliance Implementation Rules, Kagome Group implements thorough compliance throughout the Group. At domestic Group companies, the legal affairs department, which serves as the secretariat of the aforementioned Compliance Committee, leads these efforts.

Compliance implementation activities include not only the preliminary checks in compliance-related cases and the dissemination of compliance-related information, but also the conduct of group-training for new employees and new managers, and an ongoing program of in-house compliance seminars, etc. that make use of e-learning, case studies, and

Tax Compliance

In all the countries and regions where it conducts its business operations, the Kagome Group observes and adheres to tax laws, maintains good relationship with tax authorities, and contributes to society by paying the appropriate taxes. We also respond in a timely and appropriate manner with regard to annual revisions to taxation systems and changes in the international taxation rules, including tax treaties, conventions and OECD guidelines. Internally, we carry out regular e-learning and other training with regard to tax compliance, in order to

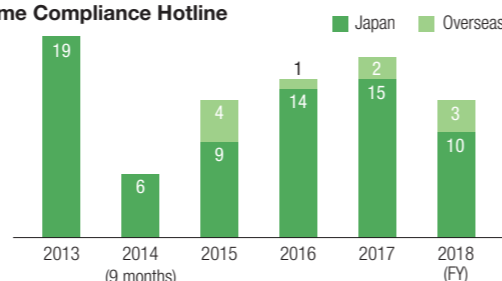
considered pivotal for the daily activities of Kagome Group employees, indicating how they should behave as corporate citizens as Kagome set its sights on becoming a "Strong company capable of sustainable growth, using food as a means of resolving social issues" by 2025. We will seek to raise awareness of the revised Code of Conduct and maintain high ethical standards as we fulfill our social responsibilities in compliance with laws, regulations, international rules and the spirit of our Code of Conduct.

measures. In such cases, respecting the principle that whistleblowers and other related parties cannot be identified, we share information internally so as to prevent similar incidents from occurring in the future. In fiscal year 2018, the Kagome Compliance Hotline was used 13 times, and each case was resolved.

Kagome fully recognizes the importance of compliance in relation to the Group companies located overseas. In 2014, an overseas internal reporting system has been introduced, and the scope of this system has been gradually expanded to include the Group companies located in the U.S. and Australia.

We will continue to strive to prevent and rapidly identify illegal activities through the appropriate operation of the Kagome Compliance Hotline.

Number of consultations and reports received by Kagome Compliance Hotline



group discussions. The in-house compliance seminars are integrated with the Skill Points program that forms part of the company's personnel management system, and participation in these seminars is a prerequisite for promotion.

In fiscal year 2018, we conducted an internal survey about harassment in light of social trends. We also formulated detailed rules of implementation for the eradication of harassment as a concrete example of creating a climate that does not foster or tolerate harassment, which is mentioned in the Code of Conduct. We also established a collection of harassment case studies with reference to the internal survey and sought to raise awareness among employees.

enlighten employees regarding observance of tax laws. With regard to transfer pricing taxation, we have established transfer pricing management regulations. For international transactions between companies belonging to the Group, we analyze the functions, assets and risks associated with each party in the transaction based on the arm's length price principle, and calculate appropriate profit allocations and transfer prices based on their respective contributions.

Initiatives to Strengthen Internal Control

Policies for Handling Risk

Kagome, as a "vegetable company" that makes maximum use of nature's bounty and aims to contribute to helping customers live longer, healthy lives, has been promoting activities to reduce various risks centering on food safety. We

Companywide Risk Management Structure

Our company strives to address operational risks in each department and "risks related to business" described in our Annual Securities Report. Also, in terms of company-wide risk management, we are seeking to create an enhanced risk management structure and have established five specialized committees which handle issues that are viewed as being particularly important for a food products company. We have also established a Joint Risk Management Meeting chaired by the President and Representative Director, as an overall risk management structure. The meeting is attended by the Director & Senior Managing Executive Officer(s), Director & Standing Audit and Supervisory Committee Member(s) and Managing Executive Officer & Chief Human Resource Officer, and also includes other Audit and Supervisory Committee Members who are external directors in its membership, enabling the meeting

● Compliance Committee

The Compliance Committee is a corporate body to promote compliance in the Kagome Group. This committee has set up a Compliance Hotline within its secretariat to receive reports from employees and others. In this way, we work to put in place preventive measures and to detect any anti-social or unethical actions as early as possible. Furthermore, this committee discusses measures in response to new public regulations, etc. as necessary.

● Information Security Committee

The Information Security Committee determines basic policies and audits the execution of these policies with regard to the protection of important information, such as personal information held throughout the Group, as well as the proper management framework and usage. The committee works to assure adherence to the law and prevent information leaks. The Information Security Committee conducts monitoring of any unauthorized access from the outside and examines measures to enhance operation of information system.

● Quality Assurance Committee

To ensure customers enjoy peace of mind when using our products which contribute to customers' longevity and good health through nature's bounty, maintaining quality is always the most important issue

are engaged in continuous risk management efforts in keeping with a company-wide approach to risk management (ERM: Enterprise Risk Management) to improve the efficiency of management decision-making with an eye on ESG.

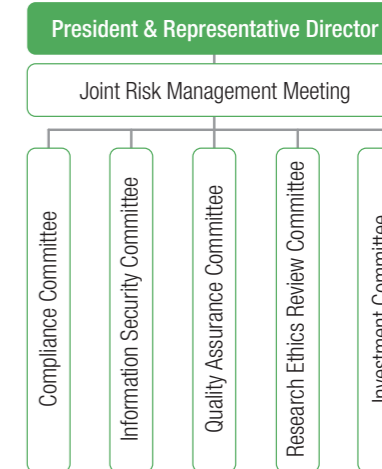
to obtain objective assessments from an outside perspective. The meeting endeavors to maintain a detailed grasp of the state of risk response activities across the entire Kagome Group and to make improvements that will enable swifter decision-making with regard to risk response policies and significant risk response issues. The Joint Risk Management Meeting meets on a regular basis to receive reports and suggestions from the each committee and relevant departments on day-to-day social issues, their impact on the Kagome Group and responses to such issues, and to discuss and instruct on necessary responses. In addition, in order to improve effectiveness of internal control, details of the instructions are utilized in monitoring by the Internal Audit Department, and the results of the monitoring are reported to the Board of Directors and the Audit and Supervisory Committee.

● Investment Committee

Our company is working on various business developments in order to be transformed from a "tomato company" to a "vegetable company." The Investment Committee is an independent committee which consists of members selected from in-house specialized departments. The committee was established for the purpose of assessing the profitability and risks of investments drafted by each department and monitoring investment returns. Proposals which are verified by this committee are submitted to the Board of Directors or the Management Meetings and deliberated officially.

● Research Ethics Review Committee

For the purpose of contributing to giving customers longer, healthy lives through provision of vegetables, our company is engaged in research activities toward unraveling of the mechanism behind the benefits of vegetables and acquisition of its evidence. The Research Ethics Review Committee was established to investigate possible risk of individual dignity or human rights being impinged on when product efficacy and safety verification testing on humans is being conducted at the R&D stage. This committee is comprised of employees who are not a part of our company's R&D operations, as well as external medical experts and lawyers, hence creating a framework with a neutral perspective, capable of judging ethical adequacy and scientific legitimacy of research objectives and methods.



Leveraging the “Three Lines of Defense” Model and the COSO Framework

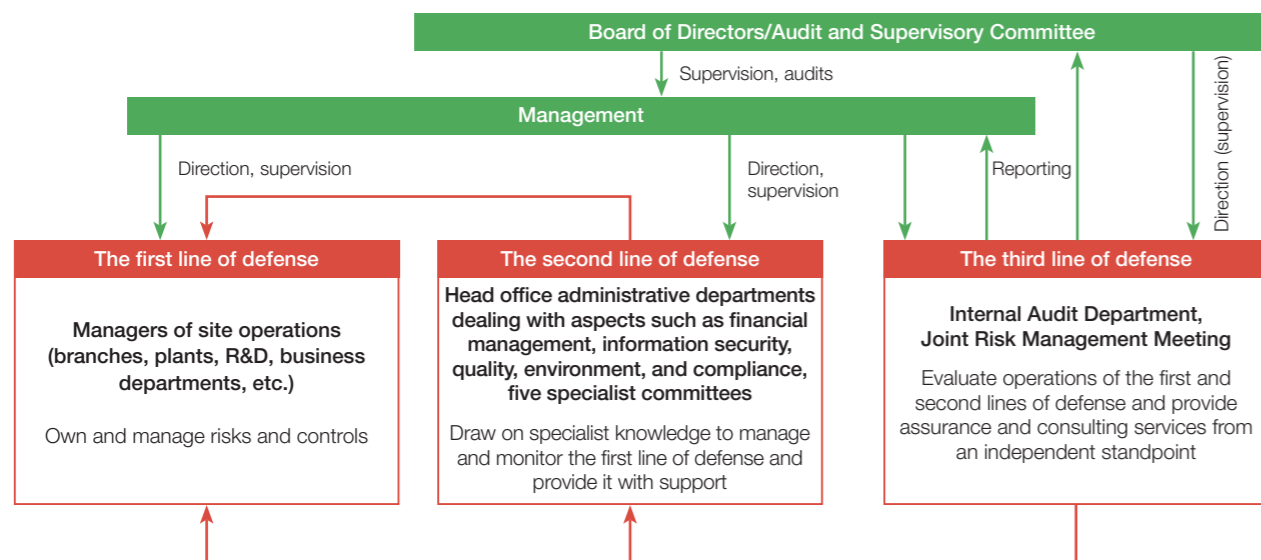
Since the Kagome Group is expanding its business domains and also broadening its areas of operation globally in order to achieve the targets of the Mid-Term Management Plan, the Group leverages the internationally recognized “Three Lines of Defense” model and COSO Framework for internal control and is systematically implementing initiatives accordingly.

Under the “Three Lines of Defense” model, management at business sites (branches, plants, etc.) and subsidiaries which conduct day-to-day business activities is positioned as the first line of defense and department managers at each business site introduce and implement controls (segregation of duties, rules, documentation, etc.) to address various risks related to business execution. The head office departments responsible for financial management, quality, environment and so forth which oversee these activities serve as the second line of defense and use their specialist knowledge to conduct supervision and regular monitoring of the first line of defense. In addition, the Internal Audit Department, which is an organization under the direct

supervision of the management, maintains its independence and objectivity as a third line of defense and provides assurance to the management by conducting regular internal audits of the first and second lines of defense. It also draws on its specialist knowledge to provide consulting services to the first and second lines of defense upon request.

Internal audit initiatives by the third line of defense are conducted in line with four objectives of the COSO Framework: We conduct J-SOX audits in collaboration with an external audit corporation concerning (i) reliability of financial reporting and (ii) safeguarding of assets, while we conduct operational audits with respect to (iii) compliance with applicable laws and regulations and (iv) effectiveness and efficiency of operations, based on our internal auditing standards. For overall improvement in (i) through (iv), it is important to encourage ethical behaviors on the part of all employees and we also carry out various internal awareness-raising campaigns (by such means as social media and surveys) throughout the year.

Kagome's “Three Lines of Defense” Model



Initiatives for Supply Chain with an Eye on BCP

Our company sustained significant damage from the Great East Japan Earthquake. As a result, like many other companies, we are working to strengthen the company-wide communication infrastructure in the event of large-scale disasters and such. At the same time, through activities to support disaster-stricken areas such as provision of our products to evacuation centers after the earthquakes, we listened to the opinions of many people about vegetable intake. This reminded us about the social significance of Kagome's existence and that our company is an integral part of a lifeline which involves food. Based on what was learned and experienced from the Great East Japan Earthquake, we set out “First Action Guidelines after Occurrence of Large-scale Disasters,” which state roles and first actions in accordance with management resources (people, products, facilities, information). With regard to initial actions from the time

of occurrence of large-scale disasters until the time of assembling the in-house Disaster Countermeasures Center headed by the president according to BCP¹, at the initiative of the management, a consensus is made among relevant departments to take actions without delay. In accordance with the guidelines, in the event of disasters, a distribution network is to be established under the leadership of SCM Division to achieve the quickest possible recovery of product supply. Development of BCM² on a global scale in cooperation with overseas locations will be our challenge for the future, where there may be difficulties due to the difference in laws and regulations by country and other issues.

¹ BCP: Business Continuity Plan
² BCM: Business Continuity Management

Our Responsibility to Shareholders and Investors

Information Disclosure

Our company discloses information to shareholders and investors in a fair, simple and timely manner. We attach great importance to opportunities for two-way communication with shareholders and investors through IR events such as the General Meeting of Shareholders, “Talks with the President,” “Production Plant Tours,” etc.

General Meeting of Shareholders

Our company encourages an ever-greater number of shareholders to participate in its General Meeting of Shareholders by enhancing the content of the “convocation notice” and “documents accompanying the convocation notice,” disclosing them on the company website and sending them as early as possible. These also feature messages from directors and suggestions from external directors. On the actual day of the General Meeting of Shareholders, we make efforts to provide reports in an easily understandable manner, such as through speaker explanations and visuals using videos. Furthermore, through displays in the lobby, we work to share information about our activities with shareholders in a more productive manner and encourage their direct feedback. For shareholders who are unable to attend meetings, we accept questions and provide answers via the Internet.



After the meeting, we promptly disclose details of the meeting on our website, including details of Q&A sessions and results of questionnaires completed by shareholders who attended the meeting.

Management Oversight

Based on the idea that management oversight is enhanced by feedback about a company's corporate activities and business performance from the perspective of numerous shareholders, in fiscal year 2001, we began working to attract 100,000 “Kagome Fan” shareholders. This initiative drove shareholder numbers past the 100,000 mark on September 30, 2005, and the number of shareholders currently stands at around 180,000. We will continue to appropriately reflect the valuable opinions and needs of our shareholders in all our corporate activities.

Dividends for Fiscal Years 2018 and 2019

Our company recognizes that returning profits to its shareholders is one of its most important management issues. For 2018, we decided to pay dividends of 40 yen per share, which comprises an ordinary dividend of 30 yen per share plus a commemorative dividend of 10 yen to mark the 120th anniversary of our founding. For 2019, we plan to pay dividends of 35 yen per share.

Special Shareholder Benefits

Under Kagome's Special Shareholder Benefits system, a selection of Kagome products is sent to shareholders throughout Japan. Rather than merely being a case of “giving something back to shareholders,” the main aim of the Special Shareholder Benefits system is to use Kagome products to give a better understanding of our company; every time, the products are accompanied by a questionnaire survey which helps our company to understand shareholders' views and expectations, information which can then be utilized effectively in our company's business activities. In 2019, we are launching a new scheme whereby we present commemorative gifts to shareholders who have kept their shares for 10 years or longer, with the aim of encouraging shareholders to maintain ownership of their shares in the long term.

Credit Ratings

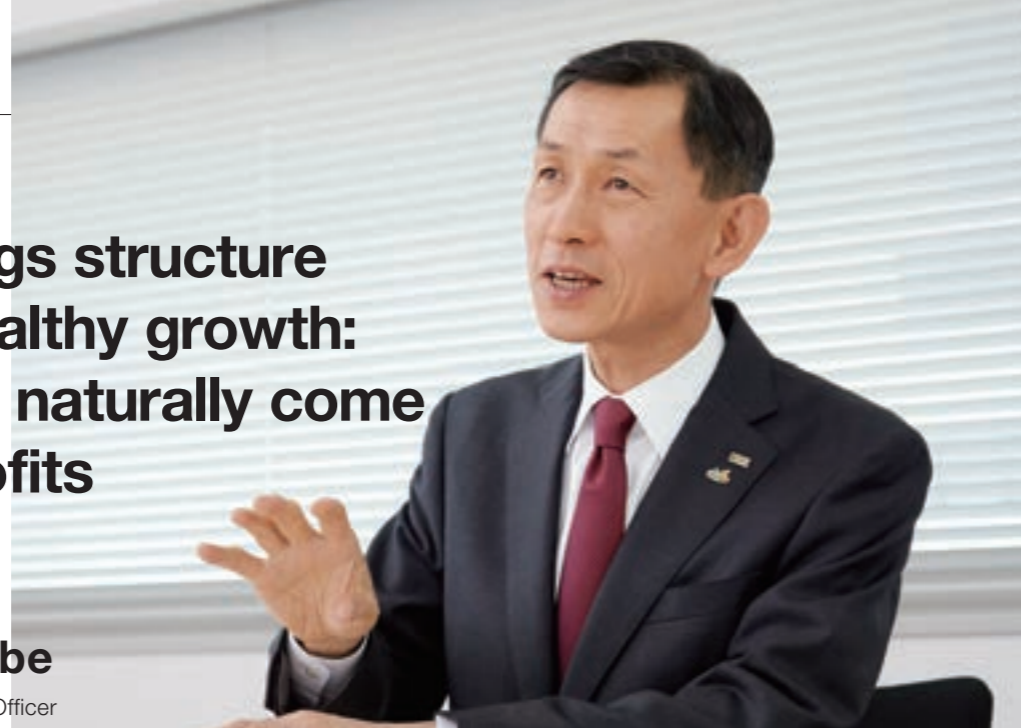
Our company's financial credibility is rated by Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR). The most recent ratings on Kagome by the two agencies are shown on the right.

R&I (Rating and Investment Information, Inc.)		JCR (Japan Credit Rating Agency, Ltd.)	
Long-term credit rating		Long-term credit rating	Short-term credit rating
A		A	J-1

Reform earnings structure and aim for healthy growth: Stronger sales naturally come with better profits

Yoshihide Watanabe

Director & Senior Managing Executive Officer



Review of the First Mid-Term Management Plan (2016-2018)

Overview

The domestic processed food business managed to produce great results thanks to earnings structure reforms. The biggest contributor to its sales growth was the Yasai Seikatsu 100 Smoothie. The product tapped into demand for “filling snacks” and created a new market. Its success was largely credited to the successful launch of the Green Smoothie first and foremost, then the popularity of the 330ml size carton with a cap, and the successful proposal of a new drinking scenario which tapped into demand among consumers who prefer to have their breakfast at their office desks.

An initiative that contributed significantly to profit growth was a review of unprofitable products based on a top-down approach. In-store consumer products require physical shelves, which means that products that do not sell inevitably end up being eliminated. However, institutional and industrial products are free from physical shelves that limit the number of items. Consequently, the number of items tended to increase regardless of sales trends. Roughly speaking, our revenue structure is such that consumer products account for around 20% of the total number of items and around 80% of total net sales and institutional and industrial products account for around 80% of the total number of items and around 20% of total net sales. Due to industrial and institutional products that made a relatively minor contribution in terms of net sales, our plant production system was sometimes overstretched. Inventories of these products then led to waste because they had to be destroyed if there were no orders before the shipping deadline and we used to have several products with negative marginal income.

To address this situation, we conducted a review of unprofitable products, coming up with various ideas such as consolidating similar products in consideration of customers. As a result, profitability improved significantly. Whilst always putting the customer first, we carefully examined our unprofitable operations. This led to a reduction in the volume of operations, which was also helpful for work style reforms.

Meanwhile, earnings structure reforms in the domestic agri-business and international business lagged behind. The agri-business performed fairly well in 2016. In hindsight, tomato prices remained high in that year, which drove up profits. We misjudged that higher profits were attributable to Kagome’s capability and that a larger supply of tomatoes would lead to better earnings. This is why we suffered from our lackluster performance in 2017 and 2018. When market conditions subsequently declined and tomato prices fell, the agri-business also fell into the red. We concluded that this slump was a cyclical problem in 2017. And honestly, in 2018, we had groundless optimism in our company, assuming that we should make some efforts to help ourselves but prices would turn around. The essence of the problem is that we were slow in preparing for the worst and when we should have been carrying out fundamental checks, including checking up on the state of our competitors, we neglected to do so.

Also, the agri-business performance had been driven by Kagome’s strong sales capability underpinned by the strength of our relationships with mass retailers all over Japan. We should have considered that the great

results in 2016 came as marketing activities leveraging the sales capability culminated in the year.

With this kind of approach, we will not be able to respond to future market trends. We have been constantly engaged in the development of fresh tomatoes for 20 years, but only recently have we recognized the necessity to tackle issues that should have been addressed in the past two decades, such as developing more tasty tomatoes and controlling supply and demand. When goods increase in volume, consumer needs become more sophisticated. We have been doing things right in front of us but have been underprepared in the longer term, failing to ask ourselves “what do we do next?”

In 2014, we launched an initiative to stabilize earnings by branching out into baby leaf lettuce in addition to our tomato business. The question of how to put the baby leaf lettuce business on track whilst preparing for the future poses a major challenge.

The international business is basically in a similar situation to the agri-business. The frameworks optimized in the domestic processed food business could not be applied to the international business without modification and there were also issues with the decision-making framework. In particular, there is room for improvement in terms of the management structure, i.e., the management exercised by Kagome’s head office in Japan. We should sincerely reflect on the fact that we ended up showing too much respect for local autonomy and created a situation that prevented head office from providing sufficient guidance. Our overseas subsidiaries carry out preliminary processing of agricultural raw materials locally but we failed to give local businesses sufficient guidance and advice in areas such as financial considerations, including profitability, and quality assurance, i.e., food safety and security.

To address these issues, we need to strengthen collaboration between overseas subsidiaries and the head office, gain a real time understanding of their situation and instruct them to adopt a multifaceted approach. One such measure is our initiative where we are dispatching finance and accounting personnel from the head office and ensuring compliance with global quality management standards to strengthen monitoring and control by head office. If we successfully manufacture high quality products through these initiatives, our sales and profits are sure to grow.

For the future development of the international business, it is important to ensure quality that meets customer requirements. In our manufacturing activities, we will pursue quality products tailored to various needs of consumers in regions around the world.

Strategies for improving profit in the domestic processed food business

Progress is being made as planned in terms of the management of marginal income and the breakeven point ratio, which was a focus of our efforts in our earnings structure reforms. We are focusing on the efficient use of sales promotion costs and advertising expenses and on the reduction of logistics costs by expanding the joint delivery framework at five domestic food companies as part of our review of freight charges. Logistics needs are becoming more and more sophisticated, and while the “logistics style reform” including two-day delivery and regular delivery is necessary, we are cutting back on the logistics costs of individual companies through the joint delivery system. In our review of unprofitable products, we decide on the number of product items to be discontinued at the beginning of the year, and fewer unprofitable products set the bar higher year after year. We are, therefore, taking action to improve total productivity, in other words, we are not simply reducing products with negative marginal income but also improving the operational level and operating rate of our plants.

Balance Sheet Changes

ROE stood at 11.3% for the fiscal year ended December 31, 2018. A breakdown of the figure shows that the income ratio was 5.49%, the total asset turnover ratio was 1.08, and the financial leverage ratio was 1.91. The total asset turnover ratio has exceeded 1.0 for the last three years and the financial leverage ratio has improved compared with the previous level of over 2.0.

In terms of asset efficiency, in-house manufacturing and outsourced manufacturing affect the balance sheet in different ways. Given that in-house manufacturing is also necessary because of its advantages in terms of profitability, etc., we intend to proceed systematically with a certain level of capital investment. This may cause the total asset turnover ratio to fall temporarily but our intention is to increase ROE by improving profitability.

As for inventory, there is still room to improve efficiency. Due to our business structure, tomatoes to sell the following year pile up from August through October and we tend to have too much inventory at the end of the fiscal year. There are two types of tomato inventory: inventory for use as raw materials in Japan and inventory for sale overseas. We are in the process of strengthening our sales capabilities to sell out inventory at overseas bases and are examining introducing Vendor-Managed Inventory in Japan. The way we stock inventory can be improved in terms of types of contracts with customers.

Investment securities decreased significantly from 22.4 billion yen at the end of the fiscal year 2017 to 10.4 billion yen at the end of the fiscal year 2018. As specified in our Corporate Governance Report, we

have established clear standards. The clear standards get rid of unnecessary discussions and lead us to a conclusion automatically, which also benefits the work style reform.

Financial Strategies under the Second Mid-Term Management Plan (2019-2021)

Our Goal

Based on the policies of “reforming our earnings structure” and “taking on the challenge of entering new businesses and domains,” we are acutely aware of “healthy sales growth.” Over the past few years, our sales have been treading water at around 200 billion yen. To achieve sales of 250 billion yen, developing the ability to sell out all our products is essential, and it is important to translate capital investment and research and development expenses into sales. Our net sales target for fiscal year 2019 is conservative. For fiscal year 2020 and fiscal year 2021, we have strategically set ourselves a target compound annual growth rate of 5% or more. Given that the compound annual growth rate of our net sales over the past five years is 1.7%, this 5% target is extremely ambitious.

Whilst our profit target for fiscal year 2021 in our domestic processed food business is modest, I believe that there is still room for improvement through marginal income-based management. As the marginal income-based management of individual customers is being implemented, the number of success stories is also increasing, and we are also sharing best practices internally. Meanwhile, we plan to pass along higher logistics expenses, raw materials prices and other costs to selling prices where necessary and we have already decided to raise prices of certain products from July 1. However, this alone will not be enough. To persuade customers to continue choosing Kagome products out of many products available, we will continue focusing on enhancement of product value and product development.

On the other hand, our profit targets for the agri-business and international business are aggressive but, in my view, achievable provided we succeed in realizing our intrinsic capabilities. It is also true, though, that I am still slightly unsure about achieving the targets, judging from the past progress. I intend to ensure the targets are met through increased monitoring granularity in precision and frequency as well as

through meticulous and bold business execution.

Our Approach on Investment

Our current Mid-Term Management Plan will see expanded capital investment. However, this investment is mainly to upgrade outdated facilities in Japan and is necessary for better production efficiency. Our target for return on investment is set at a payback period of four years for capital investment and IRR exceeding the hurdle rate for business investment. The hurdle rate is set at 10%, a combination of our WACC calculated at 4 to 5% and a risk premium. The hurdle rate also takes country risk into consideration. Whilst exceeding the rate is one standard, at the same time we also attach importance to the potential of business plans, and striking a balance is important.

We are also considering adopting a policy on the allocation and prioritization of investments in property, plant and equipment, and intangible assets as well as adopting KPIs for measuring their impact and progress. Vital for this are management's views on important issues (materiality). We are in the process of identifying important issues (materiality) and our Mid-Term Management Plan is being reviewed on a rolling basis every year. In the meantime, we will continue with the identification of important issues (materiality) toward 2020 and also organize our views on the allocation of investments to intangible assets.

Uses of Free Cash Flow and Shareholder Returns

We are currently reviewing the way in which we use free cash flow and our views on shareholder returns. Over the three years of the Mid-Term Management Plan (2019-2021), we will make available for dividend the cash flows from operating activities less capital investment. While maintaining stable dividends, we will also examine shifting to an approach that shows greater awareness of the total return ratio, including examining share buybacks if we have surplus free cash flow.

Kagome values are autonomy and upfront characteristics.

Since we have never been a company where employees just do as they are told, we will continue moving forward as an “open company,” both internally and externally.



Issues to Be Addressed and Measures in Fiscal Year 2019

One of the main factors that push down profits in the domestic processed food business is the negative effect of currency fluctuations. We import a great deal of raw materials from overseas and have traditionally hedged long-term currency exposures in some transactions in order to stabilize management and make forecasts. This fiscal year, hedges implemented when the yen weakened dramatically in the past will expire and this is expected to negatively impact on our performance compared with the previous fiscal year. We must also take such cost increases into consideration, but more significant than this issue is healthy sales growth. What matters is how we grow sales from those in 2019, and after

we complete our earnings structure reform that lags one year behind in the agri-business and international business, sales will grow and profits will follow suit. Accomplishing this is one of the issues that needs to be addressed in the current fiscal year.

Importantly, the agri-business needs to make up for the first quarter and regain lost ground. We will do everything we can, including buying and selling tomatoes on the market, for example. In the international business, we are taking action to ensure that we attain the budget for the current fiscal year so as to turn overseas subsidiaries to profitability, while always preparing backup plans to take second and third steps just in case.

Financial Strategies for Achievement of the 2025 Targets

We now have all the pieces necessary to achieve our long-term vision. Likened to a jigsaw puzzle, the question of where we should start completing the puzzle is important. Kagome has only fit pieces into places next to already completed parts. This approach only allows for slow progress toward completing the puzzle. If we find a shiny piece, we should fit the piece even though it does not border the places already completed. This forms the core of highly profitable businesses. I believe that if we link the businesses we have now with these highly profitable businesses, everything will work out fine.

In our view, future M&A is just one of the means, not a premise, for growth, considering growth until 2025. If there is a brilliant company that fits our jigsaw, we will flexibly respond, examining whether

we partner with the company in the form of M&A or alliance and how the partnership will benefit each other.

In addition, we have realized the importance of engagement through our IR activities. Listening to home truths from outside stops management from becoming complacent and enables us to see our true reflection in the mirror. The same holds true to engagement with External Directors. We have boosted our engagement activities out of a desire to share Kagome's appeal with institutional investors as well as individual investors, who already rate us highly. One manifestation of the autonomy which Kagome values is that we are upfront. In the future, we intend to continue moving forward as an “open company” both externally and internally.

We now have all the pieces needed to complete the puzzle of “achievement of the long-term vision.”

What matters for Kagome's future management is where to start fitting these pieces into the puzzle.

Operating Results and Financial Analysis (Fiscal Year 2018)

Conditions of Earnings and Profits

Net sales

Net sales decreased by 4,344 million yen (a decrease of 2.0%), to 209,865 million yen, compared with 214,210 million yen for the previous consolidated fiscal year. Net sales for the previous consolidated fiscal year included net sales of 5,951 million yen of Preferred Brands International, Inc., which was sold in the previous consolidated fiscal year, and we failed to achieve sufficient revenue growth to offset the net decrease in the net sales of Preferred Brands International, Inc.

The domestic processed food business posted a sales increase of 83 million yen (an increase of 1.0%) year on year, reflecting strong sales in our core beverage business, including Yasai Seikatsu 100 Smoothie and tomato juice, and in our direct marketing business, which offset decreased sales of institutional and industrial consigned products.

Meanwhile, our domestic agri-business and international business saw lower-than-expected growth due to the delayed response to environmental changes.

Cost of sales and gross profit

The cost of sales for the consolidated fiscal year under review decreased by 2,521 million yen (a decrease of 2.1%), to 115,216 million yen, compared with 117,738 million yen for the previous consolidated fiscal year. The cost of sales ratio improved by 0.1 points, from 55.0% in the previous consolidated fiscal year to 54.9%. The cost of sales ratio worsened owing to a variety of factors: defects with manufacturing equipment newly introduced at Kagome Inc. (in the U.S.), a major subsidiary in the international business; a decline in the selling price of tomato paste at Holding da Industria Transformadora do Tomate, SGPS S.A. (in Portugal) due to sluggish market conditions; and detractors in the domestic agri-business such as weaker market prices throughout the first half, the peak period for our mainstay fresh tomatoes, than in the previous consolidated fiscal year as well as a slow response to market oversupply. However, the deteriorated cost of sales ratio was offset by the significant contribution of lower costs in the domestic processed food business,

and consequently the cost of sales ratio improved from the previous consolidated fiscal year.

As a result, gross profit for the consolidated fiscal year under review was 94,649 million yen, decreasing 1,823 million yen (a decrease of 1.9%) compared with 96,472 million yen for the previous consolidated fiscal year.

Selling, general and administrative expenses and operating income

Selling, general and administrative expenses for the consolidated fiscal year under review decreased by 1,854 million yen (a decrease of 2.2%), to 82,648 million yen, compared with 84,503 million yen for the previous consolidated fiscal year. The ratio of selling, general and administrative expenses to net sales was 39.4%, unchanged from the previous consolidated fiscal year, reflecting the effective use of sales promotion costs, against a backdrop of strategic investment in advertising expenses and continued increase in freight costs and storage charges in Japan.

As a result, operating income for the consolidated fiscal year under review increased by 31 million yen (an increase of 0.3%), to 12,000 million yen, compared with 11,968 million yen for the previous consolidated fiscal year, achieving a record high for third consecutive year.

The ratio of operating income to net sales was 5.7%, improved by 0.1 points from 5.6% in the previous consolidated fiscal year.

Other income or loss and ordinary income

Other income for the consolidated year under review decreased by 505 million yen, to 1,053 million yen, compared with 1,559 million yen for the previous consolidated fiscal year. This was mainly because, in the previous consolidated fiscal year, we recorded a valuation gain of 391 million yen due to fluctuation in the market value of company-owned derivatives (compared with a valuation loss of 28 million yen in the consolidated fiscal year under review).

Other expenses for the consolidated fiscal year under review increased by 92 million yen, to 1,002 million yen, compared with 910 million yen for the previous consolidated fiscal year.

As a result, ordinary income for the consolidated fiscal year under review decreased by 566 million yen (a decrease of 4.5%), to 12,051 million yen, compared with 12,618 million yen for the previous consolidated fiscal year.

The ratio of ordinary income to net sales was 5.7%, a deterioration of 0.2 points from 5.9% for the previous consolidated fiscal year.

Extraordinary gain or loss

Extraordinary gain for the consolidated fiscal year under review increased by 1,466 million yen, to 6,056 million yen, compared with 4,590 million yen for the previous consolidated fiscal year. We recorded a gain on sales of fixed assets of 1,482 million yen because, in the consolidated fiscal year under review, we sold the site of our Shizuoka plant and the site of our Komaki warehouse as part of efforts to improve corporate governance including asset efficiency. We also recorded a gain on sales of investment securities of 4,574 million yen as a result of the sale of shares including shares of Asahi Group Holdings, Ltd. and shares of Nissin Foods Holdings Co., Ltd. in line with our basic policy to dispose of and reduce cross-shareholdings of little significance.

Extraordinary loss for the consolidated fiscal year under review increased by 581 million yen, to 2,179 million yen, compared with 1,598 million yen for the previous consolidated fiscal year.

Our subsidiary Kada Greenfarm Co., Ltd. severely suffered from Typhoons No. 20 and No. 21 in August and September 2018 and was dissolved with effect on November 30, 2018 based on the judgment that any resumption of its business in the future was impossible. As a result, we recorded a loss on disaster of 1,271 million yen in the consolidated fiscal year under review. Additionally, in our international business, a laggard in responding to environmental changes, we made a start on structural reforms, focusing on the seed business, and recorded business structure improvement expenses of 471 million yen, including the closure of unprofitable sales bases and the disposal of inventories based on a review of sales strategies.

Income taxes and profit attributable to shareholders of parent

Total income taxes for the consolidated fiscal year under review decreased by 311 million yen, to 4,921 million yen compared with 5,232 million yen for the previous consolidated fiscal year. The actual effective tax rate after application of deferred tax accounting was 30.9%, which edges the effective statutory tax rate in Japan, 30.7%, reflecting the impact of amortization of goodwill, among other factors.

Profit attributable to shareholders of parent for the consolidated fiscal year under review after deducting profit attributable to non-controlling interests from net income increased by 1,426 million yen, to 11,527 million yen, compared with 10,100 million yen for the previous consolidated fiscal year.

Accordingly, for the consolidated fiscal year under review, net sales were 209,865 million yen, down 2.0% year on year, operating income was 12,000 million yen, up 0.3% year on year, ordinary income was 12,051 million yen, down 4.5% year on year, and profit attributable to shareholders of parent was 11,527 million yen, up 14.1% year on year.

Analysis of Financial Condition

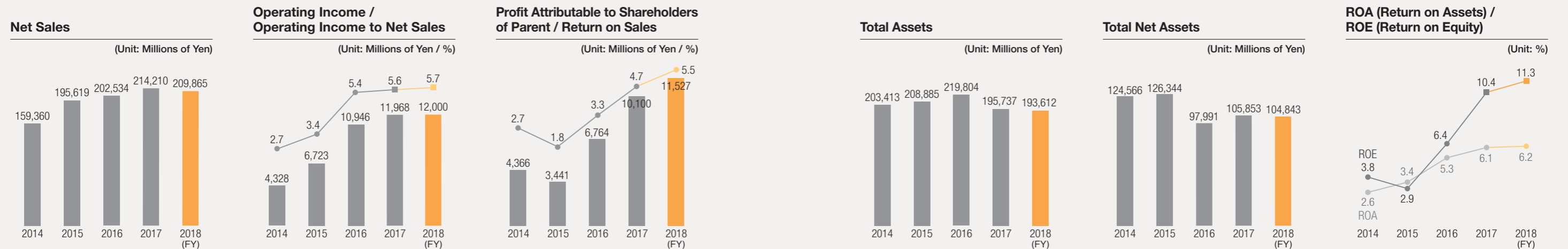
Assets

Kagome's total assets at the end of the consolidated fiscal year under review decreased by 2,124 million yen from the end of the previous consolidated fiscal year.

Current assets increased by 7,653 million yen from the end of the previous consolidated fiscal year. This was due to an increase of 8,441 million yen in "cash and deposits" due mainly to the sale of investment securities.

Fixed assets decreased by 9,778 million yen from the end of the previous consolidated fiscal year.

"Property, plant and equipment" increased by 3,351 million yen from the end of the previous consolidated fiscal year.



One major source of increase was 11,366 million yen in fixed investments due mainly to the renewal of Kagome's manufacturing equipment.

Main decreases were depreciation and amortization of 4,775 million yen, sale of real estate of 1,032 million yen, and impairment loss of 844 million yen.

"Investments and other assets" decreased by 13,125 million yen from the end of the previous consolidated fiscal year due mainly to the sale of investment securities.

Liabilities

Liabilities decreased by 1,114 million yen from the end of the previous consolidated fiscal year.

This resulted from a 2,802 million yen decrease in deferred tax liabilities due mainly to the sale of investment securities, offsetting a 1,514 million yen increase in "Other payable" (including long-term accounts payable).

Net assets decreased by 1,009 million yen from the end of the previous consolidated fiscal year.

This was attributable to a decrease of 9,321 million yen in "Accumulated other comprehensive income," reflecting the sale and market value decline of investment securities and yen appreciation, which offset an increase of 9,105 million yen in shareholder's equity resulting from an increase of 11,527 million yen in "Retained earnings" due to "Profit attributable to shareholders of parent" and a decrease of 2,668 million yen due to distribution of surplus money.

As a result, the shareholder equity ratio was 52.5% and net assets per share was 1,146.85 yen.

Analysis of Status of Consolidated Cash Flows

Cash and cash equivalents as of December 31, 2018 amounted to 30,112 million yen, an increase of 8,562 million yen compared to December 31, 2017.

The status of respective cash flows is as follows:

Net cash provided by operating activities was 10,130 million yen (compared to net cash provided of 16,598 million yen for the previous fiscal year). This mainly reflects profit before income taxes of 15,928 million yen, depreciation and amortization of 5,194 million yen (the above were net cash inflows), gain on sales of investment securities of 4,517 million yen, gain on sales and disposal of fixed assets of 1,254 million yen, and income taxes paid of 5,500 million yen (the above were net cash outflows).

Net cash used in investing activities was 299 million yen (compared to net cash provided of 17,271 million yen for the previous fiscal year).

This was mainly attributable to inflows of 8,962 million yen due to sales of investment securities and 2,331 million yen due to the sales of fixed assets and outflows of 10,718 million yen due to the acquisition of fixed assets and 801 million yen due to purchases of investment securities.

Net cash used in financing activities was 1,083 million yen (compared to net cash used of 40,761 million yen for the previous fiscal year).

Major factors were inflows of 7,726 million yen due to long-term borrowings and 2,301 million yen due to

increase (decrease) in short-term borrowings and outflows of 8,497 million yen due to repayments of long-term borrowings and 2,668 million yen due to dividends paid.

Capital Resources and Capital Liquidity

The Kagome Group's basic policy is to ensure the capital liquidity and capital resources needed for its business operations. The Group's main capital resources are cash flows from operating activities and loans from financial institutions.

Long-term funding demand for capital investment, etc. is met mainly through the Group's own funds and long-term borrowings from financial institutions whilst short-term funding needs for working capital, etc. are met mainly through the Group's own funds.

As of December 31, 2018, cash and cash equivalents amounted to 30,112 million yen and interest-bearing debt amounted to 37,302 million yen.

Outlook for the Fiscal Year Ending December 31, 2019

Conditions in the domestic food industry are expected to remain uncertain in 2019, with contraction of the market due to population decline, higher consumption tax, rising prices for imported raw materials and increased logistics expenses, and changes in the global situation. In this environment, Kagome launched a three-year Mid-term Management Plan starting from the fiscal year ending December 31, 2019, aiming to "become a strong company capable of sustainable growth, using food as a means of resolving social issues" and to realize its long-term vision of transforming from a "tomato company" to a "vegetable company."

	Revenue (million yen) Note 2	Core operating income (million yen) Note 3	Operating income (million yen)	Profit attributable to owners of parent (million yen)	Basic earnings per share (yen)
Fiscal year ending December 31, 2019 (Forecast)	189,000	12,600	13,600	9,500	107.10

Note 1. The above consolidated financial results forecast has been prepared in accordance with International Financial Reporting Standards (IFRS) because Kagome decided to voluntarily adopt IFRS starting from the fiscal year ending December 31, 2019.

Note 2. Revenue is presented net of sales rebates and discounts, which were previously presented in selling, general and administrative expenses.

Note 3. Core operating income is a profit index that measures constant business performance by deducting cost of sales and selling, general and administrative expenses from revenue plus share of loss (profit) of entities accounted for using equity method.

Consolidated Financial Statements

Consolidated Balance Sheets

	Millions of Yen			Thousands of U.S. dollars		
	As of Dec. 31, 2017	As of Dec. 31, 2018	As of Dec. 31, 2018	As of Dec. 31, 2017	As of Dec. 31, 2018	As of Dec. 31, 2018
Assets						
Current assets:						
Cash and deposits	22,150	30,591	275,595			
Notes and accounts receivable	36,042	35,893	323,360			
Merchandise and finished goods	21,143	19,705	177,523			
Work in process	919	896	8,072			
Raw material and supplies	19,636	20,674	186,252			
Deferred tax assets	506	1,014	9,135			
Derivatives	2,568	195	1,757			
Other current assets	7,051	8,631	77,757			
Allowance for doubtful accounts	(351)	(281)	(2,532)			
Total current assets	109,667	117,321	1,056,946			
Fixed assets:						
Property, plant and equipment:						
Buildings and structures	43,867	44,482				
Accumulated depreciation	(25,042)	(24,984)				
Buildings and structures, net	18,824	19,497	175,649			
Machinery, equipment and vehicles	70,864	73,364				
Accumulated depreciation	(53,042)	(53,627)				
Machinery, equipment and vehicles, net	17,821	19,736	177,802			
Tools and furniture	6,276	6,190				
Accumulated depreciation	(5,334)	(5,109)				
Tools and furniture, net	942	1,081	9,739			
Land	12,874	11,532	103,892			
Lease assets	3,369	3,384				
Accumulated depreciation	(2,518)	(2,567)				
Lease assets, net	851	817	7,360			
Construction in progress	1,935	3,937	35,468			
Property, plant and equipment, net	53,250	56,602	509,928			
Intangible assets:						
Goodwill	503	55	495			
Software	1,426	1,872	16,865			
Other intangible assets	266	264	2,378			
Total intangible assets	2,196	2,192	19,748			
Investments and other assets:						
Investment securities	22,364	10,413	93,811			
Long-term loans receivable	1,581	1,238	11,153			
Deferred tax assets	95	132	1,189			
Other assets	6,663	5,783	52,099			
Allowance for doubtful accounts	(82)	(71)	(640)			
Total investments and other assets	30,621	17,496	157,622			
Total fixed assets	86,069	76,291	687,306			
Total assets	195,737	193,612	1,744,252			
Liabilities						
Current liabilities:						
Notes and accounts payable	16,554	16,472	148,396			
Short-term borrowings	21,218	22,306	200,955			
Current portion of long-term borrowings	1,447	1,719	15,486			
Other payable	12,039	13,166	118,613			
Income taxes payable	3,918	3,620	32,613			
Deferred tax liabilities	14	13	117			
Accrued bonuses for employees	1,251	1,316	11,856			
Accrued bonuses for directors	105	79	712			
Derivatives liabilities	2	4	36			
Other current liabilities	3,158	3,862	34,793			
Total current liabilities	59,710	62,563	563,631			
Long-term liabilities:						
Long-term borrowings	14,154	12,910	116,306			
Deferred tax liabilities	3,882	1,079	9,721			
Net defined benefit liability	5,045	5,454	49,135			
Provision for loss on guarantees	190	185	1,667			
Other	6,900	6,576	59,243			
Total long-term liabilities	30,173	26,206	236,090			
Total liabilities	89,883	88,769	799,721			
Net Assets						
Shareholder's equity:						
Common stock	19,985	19,985	180,045			
Capital surplus	22,362	22,362	201,459			
Retained earnings	74,303	83,162	749,207			
Treasury stock	(26,985)	(26,739)	(240,892)			
Total shareholder's equity	89,665	98,771	889,829			
Accumulated other comprehensive income:						
Unrealized gain on available-for-sale securities	8,971	2,892	26,054			
Deferred gains or losses on derivatives under hedge accounting	2,420	457	4,117			
Foreign currency translation adjustments	1,754	606	5,459			
Remeasurements of defined benefit plans	(864)	(995)	(8,964)			
Total accumulated other comprehensive income	12,283	2,961	26,676			
Subscription rights to shares	106	202	1,820			
Non-controlling interests	3,798	2,908	26,198			
Total net assets	105,853	104,843	944,532			
Total liabilities and net assets	195,737	193,612	1,744,252			

Consolidated Statements of Income

Millions of Yen Thousands of U.S. dollars

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2018
Net sales	214,210	209,865	1,890,676
Cost of sales	117,738	115,216	1,037,982
Gross profit	96,472	94,649	852,694
Selling, general and administrative expenses	84,503	82,648	744,577
Operating income	11,968	12,000	108,108
Other income			
Interest income	409	258	2,324
Dividend income	341	360	3,243
Gain on valuation of derivatives	391	-	-
Other	417	434	3,910
Total other income	1,559	1,053	9,486
Other expenses			
Interest expense	477	410	3,694
Share of loss of entities accounted for using equity method	44	72	649
Foreign exchange losses	41	88	793
Other	346	430	3,874
Total other expenses	910	1,002	9,027
Ordinary income	12,618	12,051	108,568
Extraordinary gain			
Gain on sales of fixed assets	354	1,482	13,351
Gain on sales of investment securities	1,721	4,574	41,207
Gain on sales of shares of subsidiaries and associates	2,171	-	-
Gain on transfer of business	330	-	-
Compensation income for expropriation	11	-	-
Total extraordinary gain	4,590	6,056	54,559
Extraordinary loss			
Loss on disposal of non-current assets	195	228	2,054
Impairment loss	1,337	136	1,225
Loss on disaster	-	1,271	11,450
Business structure improvement expenses	-	471	4,243
Other	64	71	640
Total extraordinary loss	1,598	2,179	19,631
Profit before income taxes	15,610	15,928	143,495
Income taxes - current	4,688	4,990	44,955
Income taxes - deferred	544	(69)	(622)
Total income taxes	5,232	4,921	44,333
Net income	10,377	11,006	99,153
(Breakdown)			
Profit attributable to shareholders of parent	10,100	11,527	103,847
Profit (loss) attributable to non-controlling interests	276	(521)	(4,694)

Consolidated Statements of Comprehensive Income

Millions of Yen Thousands of U.S. dollars

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2018
Other comprehensive income			
Unrealized gain on available-for-sale securities	2,484	(6,079)	(54,766)
Deferred gains or losses on derivatives under hedge accounting	(1,850)	(1,975)	(17,793)
Foreign currency translation adjustments	656	(1,430)	(12,883)
Remeasurements of defined benefit plans	435	(131)	(1,180)
Share of other comprehensive income of an affiliate by the equity method	(2)	0	0
Total other comprehensive income	1,723	(9,617)	(86,640)
Comprehensive income	12,100	1,389	12,514
(Breakdown)			
Comprehensive income attributable to shareholders of parent	11,621	2,206	19,874
Comprehensive income attributable to non-controlling interests	479	(817)	(7,360)

Consolidated Statements of Cash Flows

Millions of Yen Thousands of U.S. dollars

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2018
Cash flows from operating activities:			
Profit before income taxes	15,610	15,928	143,495
Depreciation and amortization	5,813	5,194	46,793
Impairment loss	1,337	844	7,604
Amortization of goodwill	722	419	3,775
Interest and dividend income	(750)	(619)	(5,577)
Interest expense	477	410	3,694
Increase (decrease) in accrued bonuses	18	42	378
Increase (decrease) in other provisions	93	(71)	(640)
Increase (decrease) in net defined benefit liability	242	218	1,964
Share of loss (profit) of entities accounted for using equity method	44	96	865
Loss (gain) on sales of investment securities	(1,721)	(4,517)	(40,694)
Loss (gain) on sales of shares of subsidiaries and associates	(2,171)	-	-
Loss (gain) on sales and disposal of fixed assets-net	(158)	(1,254)	(11,297)
Loss (gain) on transfer of business	(330)	-	-
Compensation income for expropriation	(11)	-	-
Decrease (increase) in notes and accounts receivable	(2,993)	(192)	(1,730)
Decrease (increase) in inventories	(1,876)	(597)	(5,378)
Decrease (increase) in accounts receivable-other	(974)	(501)	(4,514)
Increase (decrease) in notes and accounts payable	3,113	(46)	(414)
Increase (decrease) in accounts payable-other	1,203	80	721
Proceeds from lease and guarantee deposits received	615	-	-
Decrease (increase) in other current assets	(260)	(269)	(2,423)
Increase (decrease) in other current liabilities	(255)	321	2,892
Other - Increase (decrease)-net	(51)	(9)	(81)
Subtotal	17,738	15,479	139,450
Cash received from interest and dividend income	772	555	5,000
Cash paid for interest expense	(449)	(404)	(3,640)
Income taxes paid	(1,474)	(5,500)	(49,550)
Proceeds from compensation for expropriation	11	-	-
Net cash provided by (used in) operating activities	16,598	10,130	91,261
Cash flows from investing activities:			
Disbursement for time deposits	(96)	(20)	(180)
Proceeds from withdrawal of time deposits	10,122	115	1,036
Purchases of marketable and investment securities	(682)	(801)	(7,216)
Proceeds from sales and redemption of securities	2,938	8,962	80,739
Acquisition of fixed assets	(9,202)	(10,718)	(96,559)
Proceeds from sales of fixed assets	1,830	2,331	21,000
Collection of loans receivable	263	65	586
Proceeds from transfer of business	868	-	-
Purchase of shares and capital of subsidiaries resulting in change in scope of consolidation	(90)	-	-
Purchase of shares of subsidiaries and associates	(48)	(121)	(1,090)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	11,246	-	-
Other - Increase (decrease)-net	122	(112)	(1,009)
Net cash provided by (used in) investing activities:	17,271	(299)	(2,694)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(17,918)	2,301	20,730
Proceeds from long-term borrowings	8,634	7,726	69,604
Repayments of long-term borrowings	(29,277)	(8,497)	(76,550)
Repayments of finance lease obligations	(123)	(117)	(1,054)
Dividends paid	(2,180)	(2,668)	(24,036)
Proceeds from share issuance to non-controlling shareholders	0	0	0
Dividends paid to non-controlling interests	(69)	(74)	(667)
Decrease (increase) in treasury shares	173	246	2,216
Other	0	-	-
Net cash provided by (used in) financing activities	(40,761)	(1,083)	(9,757)
Foreign translation adjustment on cash and cash equivalents	377	(185)	(1,667)
Net increase (decrease) in cash and cash equivalents	(6,513)	8,562	77,135
Cash and cash equivalents at beginning of period	28,313	21,550	194,144
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(249)	-	-
Cash and cash equivalents at end of period	21,550	30,112	271,279

Company Overview

Founded	1899
Established	1949
Head Office	3-14-15, Nishiki, Naka-ku, Nagoya, Aichi Phone: +81-52-951-3571 (Main) Fax: +81-52-968-2510
Tokyo Head Office	Nihonbashi-hamacho F-Tower, 3-21-1 Nihonbashi-hamacho, Chuo-ku, Tokyo Phone: +81-3-5623-8501 (Main) Fax: +81-3-5623-2331
Capital	19,985 million yen
Number of Employees	2,504 (consolidated)
Places of Business	Head Office, Tokyo Head Office, 1 division office, 8 branches, 6 plants, Innovation Division
Description of Business	Production and sales of food seasonings, preserved foods, beverages, and other food products; purchasing, production, and sales of seedlings, fruits, and vegetables



Head Office



Tokyo Head Office

Places of Business and Group Companies

Places of Business

Head Office	Business Office	Plants
Tokyo Head Office	<ul style="list-style-type: none"> Hokkaido Branch Tohoku Branch Kita-Tohoku Business Office Tokyo Branch Kanagawa Branch Kanto Branch Nagoya Branch Shizuoka Business Office 	<ul style="list-style-type: none"> Ueno Plant Kozakai Plant Fujimi Plant Nasu Plant Ibaraki Plant Komaki Plant
Innovation Division	<ul style="list-style-type: none"> Hokuriku Business Office Osaka Branch Chu-Shikoku Branch Okayama Business Office Shikoku Business Office Kyusyu Branch Okinawa Business Office 	
Tokyo Laboratory		

Main Group companies

Domestic Subsidiaries and Associates

Hibikinada Greenfarm Co., Ltd.	(Kitakyushu City, Fukuoka)
Iwaki Onahama Greenfarm Co., Ltd.	(Iwaki City, Fukushima)
Kagome Axis Co., Ltd.	(Nagoya City, Aichi)
F-LINE Corp.	(Chuo-ku, Tokyo)

Overseas Subsidiaries and Associates

Kagome Inc.	(California, U.S.A.)
Ingomar Packing Company, LLC	(California, U.S.A.)
United Genetics Holdings LLC	(California, U.S.A.)
Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT)	(Palmela City, Portugal)
Vegitalia S.p.A.	(Calabria, Italy)
Kagome Australia Pty Ltd.	(Victoria, Australia)
Taiwan Kagome Co., Ltd.	(Tainan City, Taiwan)

Status of Shares

Number of shares outstanding	99,616,944 shares
(Note) 1. Total number of authorized shares	279,150,000 shares
2. Number of shares per unit	100 shares
Number of shareholders	186,959

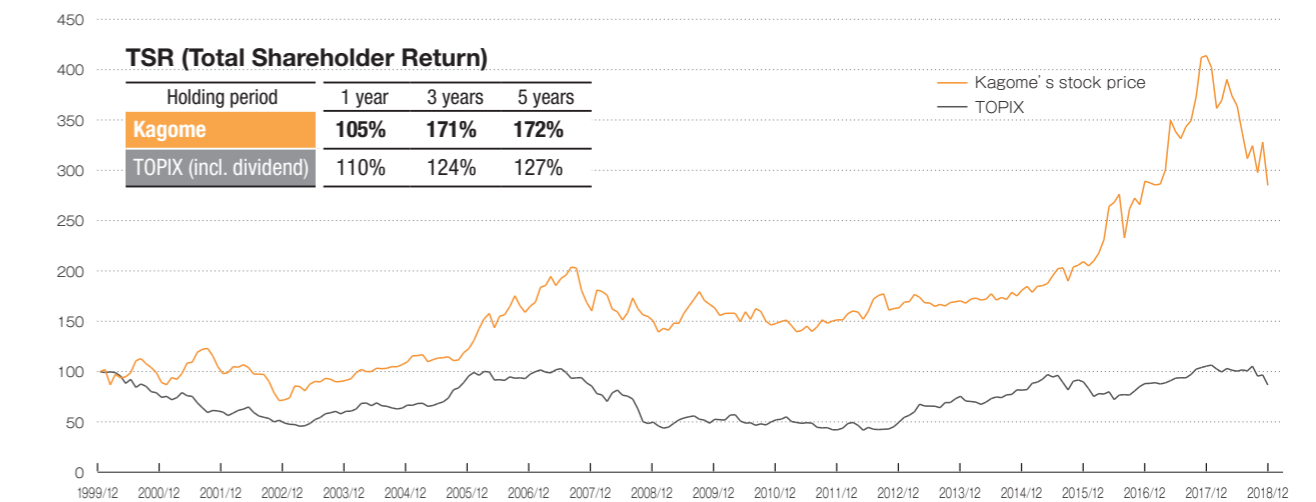
Major Shareholders

Names of Major Shareholders	Capital Contribution to the Company	
	Number of Shares Held (thousand shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (account in trust)	9,029	10.14
The Master Trust Bank of Japan, Ltd. (account in trust)	5,351	6.01
Dynapac Co., Ltd.	4,399	4.94
Nissin Foods Holdings Co., Ltd.	1,559	1.75
Toshichika Kanie	1,412	1.58
JP MORGAN CHASE BANK 385151	1,251	1.40
Eikichi Kanie	1,110	1.24
Kagome Business Association	975	1.09
STATE STREET BANK WEST CLIENT - TREATY 505234	962	1.08
Shinichi Sano	957	1.07

*The shareholding ratios were calculated without treasury shares (10,658 thousand shares). The treasury shares do not include 252 thousand shares of the Company owned by The Master Trust Bank of Japan, Ltd. (account in trust), which was established in the introduction of the employee incentive plan, "Employee Stock Ownership Plan (ESOP) Trust."

Stock Price Trend

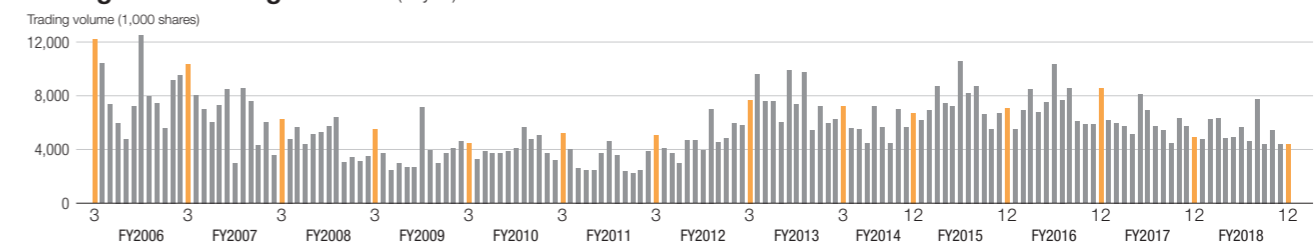
Trends of the Company's stock price and Tokyo Stock Price Index (TOPIX)



*Month-end stock prices relative to the stock price as of December 31, 1999, being 100.

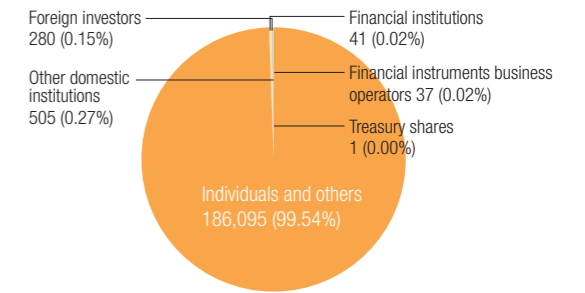
*TSR is a total return assuming that dividends are re-invested at the closing price as of March 31, 2014, which is the end of the fiscal year in question.

Changes in Trading Volume (in yen)

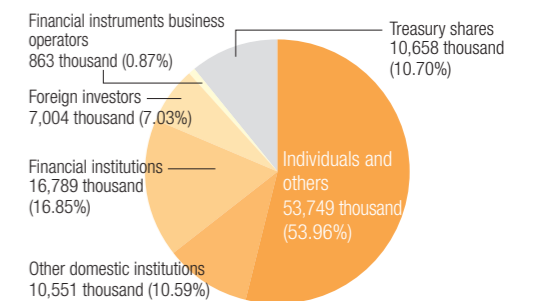


Status of Share Distribution

Distribution by Shareholder Type



Distribution by Number of Shares





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