

Integrated Report 2017



Long-term vision

Until 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 goods but services as well, by expanding its business concept from tomatoes to vegetables

Until about 2035 to 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 diversifying consumer needs
- To become a strong company where employees of any gender can work enthusiastically, thus bringing about high productivity

What Kagome Strives for

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

Social issues we seek to address

Longer, healthy lives

Agricultural development and regional revitalization

Food problems

Kagome’s initiatives

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

In the domestic agri-business, we support agricultural development and regional revitalization by increasing the number of contracted greenhouse farms, as well as expanding into new agricultural businesses.

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 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

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

True

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

Flavor

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 2017

Editorial Policy

Since the release of its Environmental Report for fiscal 1999, the Kagome Group has continuously reported to our stakeholders 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 room for discussion by informing our stakeholders, in particular stockholders and investors, about Kagome’s mid- to long-term efforts in enhancing corporate value. For details on financial data and CSR activities not included in this document, please refer to our website.

Website
<http://www.kagome.co.jp/company>

Target Period

This document covers the period from January 1, 2016 to December 31, 2016. 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). 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 assumptions and judgments based on information available at the time of publication, hence they may contain risks and uncertainties. Accordingly, please be advised that actual results may differ from such statements due to various changes.

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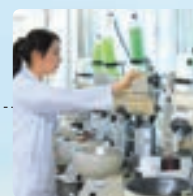


Seed to Table

Full-cycle value creation, from seed to table

Vertically Integrated Business

Kagome owns roughly 7,500 varieties of tomato genetic resources. From these seeds to soil cultivation, growth, harvest, production, all the way to the final product, our business model guarantees the values of safety and peace of mind. That is what Kagome has to offer, a vertically integrated business that is the only one of its kind in the world.



Research and development

Consistent research and development that maximizes the value of agricultural products which are nature's bounty, and contributes to longevity and good health.



Development of new varieties and seedling production

Producing and supplying seedlings that have a competitive edge, with useful new varieties created by cross-breeding our genetic resources of agricultural products.



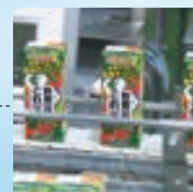
Farming

Contracted farming and agricultural guidance for specified varieties of plants, and growing fresh tomatoes in high-tech greenhouses.



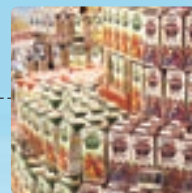
Primary processing and procurement

We only procure raw materials that meet our own standards for quality, and our primary stage of processing keeps the flavor intact.



Production

Production processes and quality control that maximize the value of raw materials with the optimal combination of good raw materials and technology.



Demand creation

Communicate the value of our products to our customers with value-communicative activities that generate demand.

Our Diverse Businesses

Bringing the value of vegetables to people in Japan and the world, under the theme of contribution to longevity and good health through food and agricultural development

The Kagome Group produces and sells unique, delicious products that are safe and reliable in Japan and the world, leveraging its vertically integrated business model. The domestic processed food business mainly deals in traditional processed tomato products, including tomato juice, for which we boast the largest market share, and tomato ketchup, and juice made from vegetables and fruits. The domestic agri-business is engaged in production of fresh tomatoes and baby leaf lettuce in large greenhouses and their sales, thus helping turn domestic agriculture into a growth sector. The international business is engaged in production and sales of tomato condiments for institutional and industrial use. It is also taking on the challenge of developing new production areas in developing countries, utilizing its strength in the seed and seedling business.

Domestic Processed Food Business

- Production and sales of beverages and food that use tomatoes and vegetables
- Procurement of high-quality raw materials, in the belief that "fields are the primary production plant"
- Research on varieties, cultivation, processing technology, ingredients and functionality of vegetables



Domestic Agri-Business

- Production and sales of tomatoes and vegetables
- Year-round cultivation mainly in large greenhouse farms
- Development of varieties of high value-added tomatoes, with an eye on functionality



International Business

- Production and sales of culinary sauces such as pizza sauce
- Production and sales of tomato paste
- Production and sales of ethnic foods
- Development of new varieties/seedlings and creation of new production areas in various countries of the world

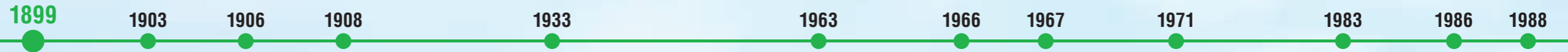




Founder Ichitaro Kanie

We have been creating value from soil and seed for the past 118 years

Kagome's journey began on a farm in 1899, when founder Ichitaro Kanie saw the first budding of the tomato seedlings. Kagome's history that spans over 100 years is a path of development along with agriculture for stable procurement of good raw materials,



Demand creation



1899 Began selling tomato sauce



1903 Began production of tomato ketchup and Worcestershire sauce



1906 Began selling tomato juice



1933 Renamed company "Kagome Co., Ltd." and created the tomato logo



1963 Began selling ketchup in a plastic bottle, the first of its kind in the world



1966 Began selling meat sauce packaged in retort pouches



1967 Changed the corporate brand mark



1971 Launched Fruits Mura

Production



1903 Began production of tomato sauce (now tomato puree)



1906 Built a production plant in Nishiyashiki, Araomachi, Tokai City in Aichi Prefecture, and entered full-scale production of tomato sauce



1919 Completed Ueno Plant



1952 Tomato juice production



1957 Completed Kosakai Plant for production of tomato ketchup

1961 Completed Tochigi Plant (current Nasu Plant)



1962 Completed Ibaraki Plant



1967 Established Taiwan Kagome Co., Ltd. The first business expansion overseas



1966 Completed Fujimi Plant



1983 Started International business for food services



1988 Established KAGOME U.S.A. INC., a U.S. corporation

Primary processing and procurement

1903 Began production of tomato sauce (now tomato puree)



Pot with a rim bent outward used in the early days of producing tomato sauce



1965 Continuous high capacity vacuum evaporator



1982 Practical application of world's first RO concentration technology for concentration of tomato juice

1983 Tat Tohumculuk A.S. (Turkey) Started importing tomato paste

Farming



1899 Founder Ichitaro Kanie saw the first budding of the tomato seedlings

1906 First contract farming: Ichitaro Kanie outsourced cultivation of tomatoes to his relatives



Taisho era Designated farm (Contract farming)



1952 "Handbook of Tomato Cultivation" distributed to contract farmers



1974 Completely shifted to the method of cultivation without supporting struts for tomatoes for processing



1987 Established Tat Tohumculuk A.S. (TAT Seeds) in Turkey

Development of new varieties and seedling production



1926 Developed a tomato variety, "Aichi tomato"



1963 Tochigi Experimental Farm

1970 Developed a tomato variety for making juice, "Kagome 70"



1977 Developed a tomato variety for making juice, "Kagome 77"

1988 Developed a tomato variety for making juice, "Kagome 88"

Research and development



1962 Established a laboratory for basic research and research on containers, manufacturing and processing



1979 Established the Kagome Research Institute

1989 Started research on functionalities of tomatoes



and will continue to do so going forward. True to nature, the flavor of KAGOME

as well as a history of "technological innovation" in which we have continued to develop products that never existed before in order to satisfy the needs of the times. We will continue to deliver a wide range of safe, reliable and innovative products without relying on unnatural additives and technologies.

1992 1995 1997 1998 2001 2003 2004 2005 2006 2008 2014 Present day

What Kagome aims for

Demand creation

Proposals on a variety of ways for vegetable consumption

Production

Development of processing methods to make use of flavor and nutrition of vegetables

Primary processing and procurement

Stable procurement of safe and reliable raw materials

Farming

Contribution to agricultural development both in Japan and abroad

Development of new varieties and seedling production

Development of safe tomato varieties that meet the demands of the times

Research and development

Establishing the relationship between vegetables/lactic acid and health; dissemination of useful information



Began selling Carrot 100 Series



Began selling Yasai Seikatsu 100



Began selling seasonal tomato juice, "Natsushibori"



Began selling Anna Mamma



Began selling fresh tomatoes (Kokumi Tomato)



Formulated the corporate brand statement



Began selling Yasai Ichinichi Kore Ippai (and the larger "Kore Ippai")



Began selling fresh tomatoes (high-lycopene tomatoes)



Began selling plant-based lactic acid Labre



Began selling "plant-based supplement" series



Began selling baby leaf lettuces



Began selling tomato juice with functional claims



1992 Fresh squeezer for carrot juice



1993 Invested in Tat Tohumculuk A.S. of Turkey Completed production lines for canned tomatoes

2002 Acquired Snow Brand Labio Co., Ltd.



2003 Established Vegetalia S.p.A. in Italy



2007 Established Portugal-based Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT)



2016 Entered into a business and capital tie up with Ingomar Packing Company, LLC in the U.S.

2010 Established holding company Kagome Australia Pty Ltd.



1999 First shipment from a large greenhouse farm for fresh tomatoes, Minori Farm, began



2001 Shipment from Sera Greenfarm began



2006 Shipment from Hibikinada Greenfarm began

2005 Shipment from Iwaki Onahama Greenfarm and Kada Greenfarm began



2015 Conducted test cultivation in West Africa



2016 Established Takane Baby Leaf Greenfarm Co., Ltd.



1992 Developed a thin-skinned variety for fresh tomato, "Kinukohime"



1993 Developed a tomato variety for making juice, "Kagome 931" Started full-scale introduction of jointless varieties



1995 Developed a tomato variety with high levels of lycopene for processing, "Kagome 952"



1999 Developed a tomato variety for making juice, "Kagome 993"

2002 Named tomatoes for making juice as "Lylyco" collectively

2013 Made United Genetics Holding LLC in the U.S. a subsidiary

Established Kagome Agri-Business Research and Development Center in Portugal



2016

2014 Uncovered the effect of sulforaphane on improving liver function on human subjects

1992 "Presentation of Research Results" held as a company-wide event

1993 Received a Technology Award from Japan Fruit Association for the fruit juice concentration technology using new reverse osmosis systems

1995 Received a Technology Award from the Japanese Society for Food Science and Technology for production of carrot juice by the fresh squeeze method

1998 Built Venlo greenhouses at the Research Institute

2004 Started research on plant-based lactic acid

2009 Uncovered the mechanism of bowel movement improvement by lactic acid bacteria on human subjects Received a Technology Award from the Japanese Society for Food Science and Technology for developing prepared foods comprising aseptic packaged foods

2012 Received a Technology Award from the Japanese Society for Food Science and Technology for developing a new vegetable beverage allowing you to enjoy the original flavor of vegetables

2015 Confirmed the effect of vegetable juice to suppress elevation of postprandial blood glucose levels after eating on human subjects



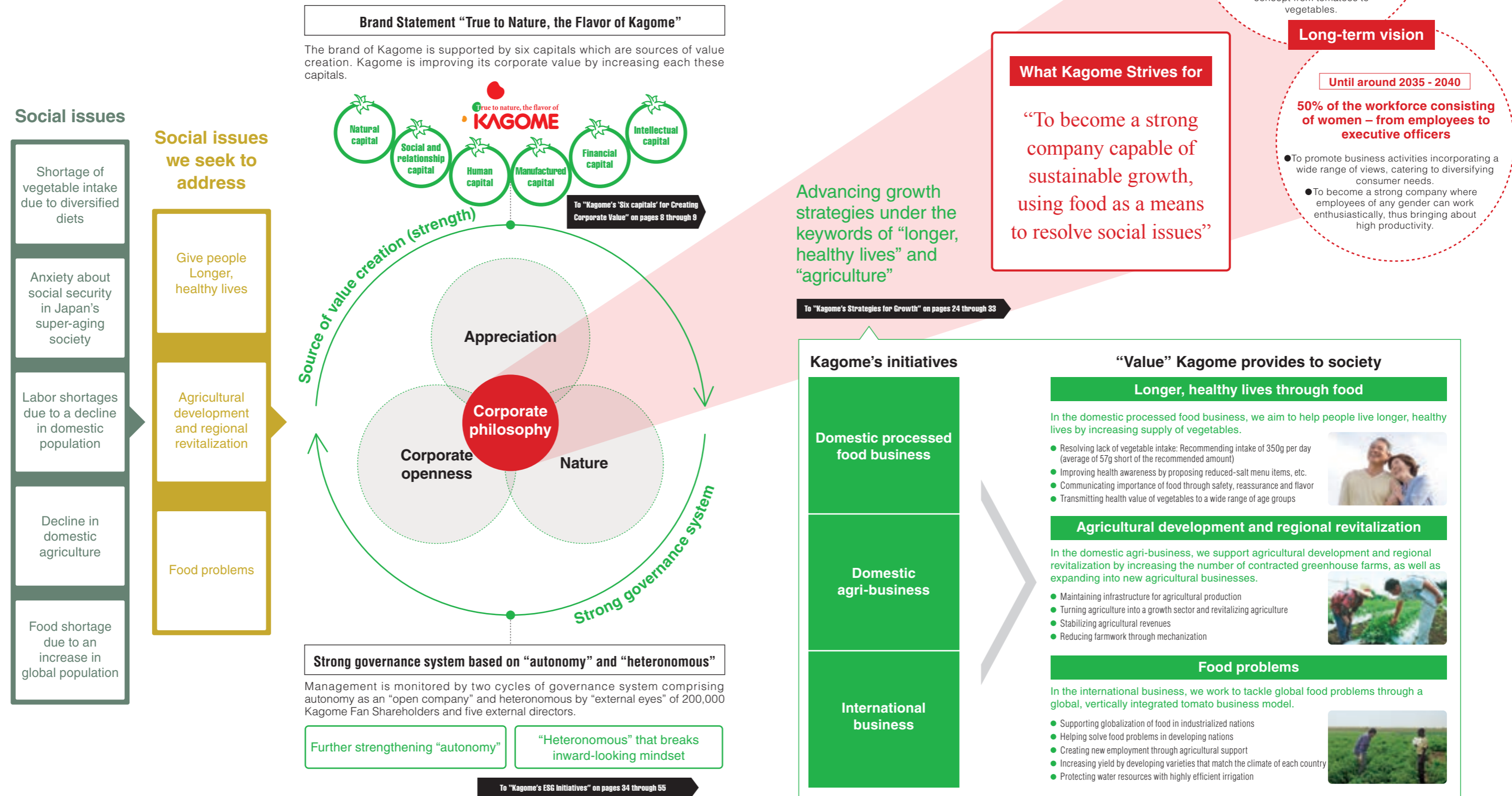
Kagome's "Six Capitals" for Creating Corporate Value

Kagome's businesses are hinged on leveraging the "value of agricultural products" which are part of nature's bounty. We procure safe and high-quality ingredients, process them in ways that will keep their flavor and nutrition intact and deliver them to consumers. Kagome-style philosophy dwells in each of the six capitals that support this value chain.



Kagome's Process of Creating Value

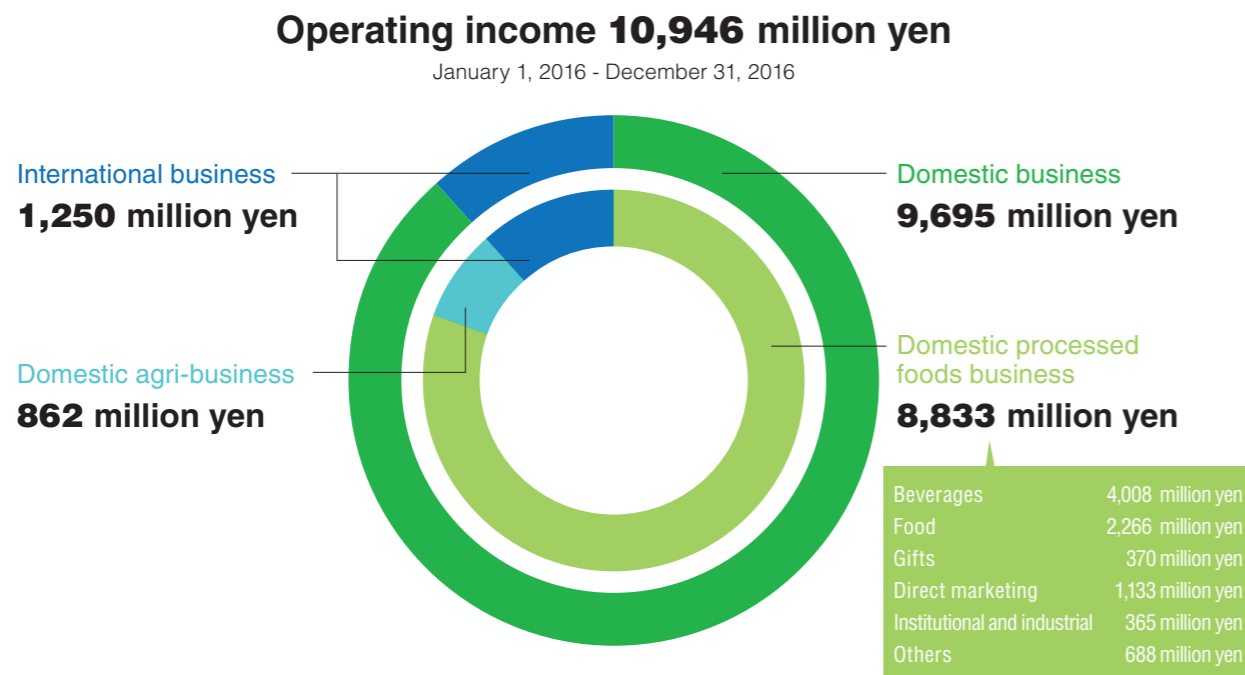
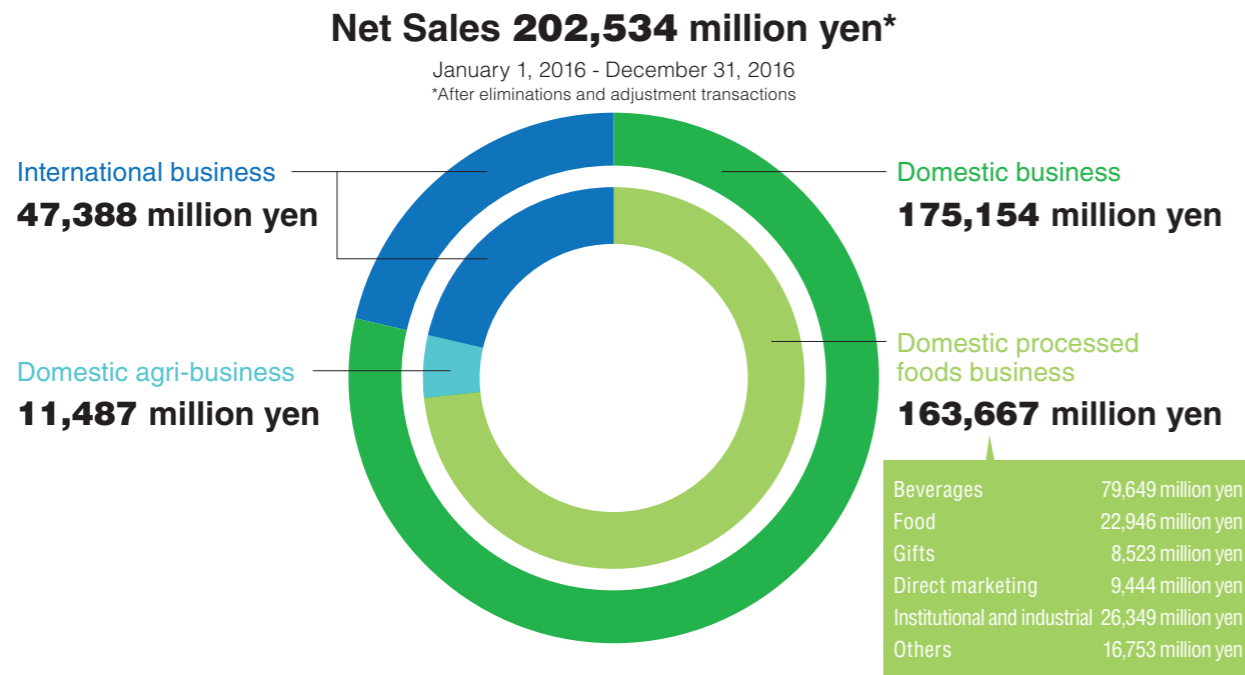
Kagome has contributed to people's health for over 100 years now with products made from nature's bounty. We have also been able to further build value of the Kagome brand, which is the core of our corporate strategies, along with the times, while remaining true to our corporate philosophy of "Appreciation," "Nature" and "Corporate Openness." Under a governance system with enhanced transparency, we will make the most of the sources of creating value unique to Kagome that we have cultivated thus far and proactively focus on solving various social problems facing Japan and the rest of the world for the goal of further sustainable growth and improvement of long-term corporate value under the keywords of "longer, healthy lives" and "agriculture".



Kagome Group's Businesses

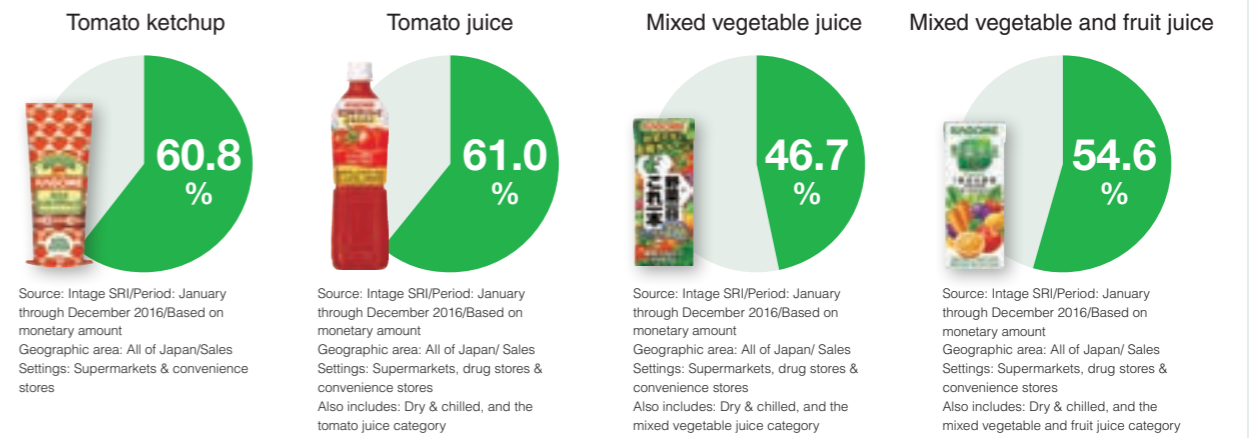
The Kagome Group's business consists of three segments. In the domestic processed foods business, we are engaged in production and sales of condiments, beverages, etc. In the domestic agricultural business, we handle production and sales of fresh tomatoes, baby leaf lettuces, packed salads and other products. In the international business, we produce and sell culinary sauces, tomato pastes, ethnic foods, as well as seeds and seedlings of vegetables. We are developing the Group's business into that of a vertically integrated business from the stages of seed development to agricultural production, product development, processing and sales.

Ratio by business segment

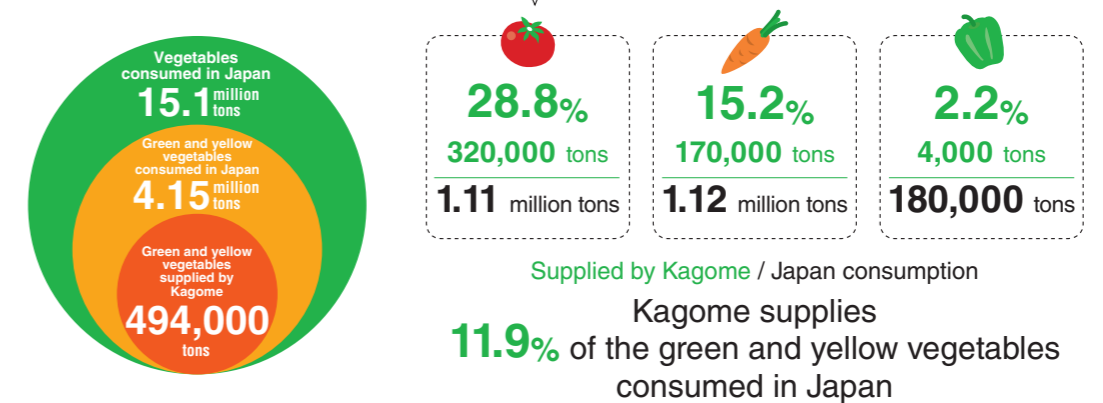


Kagome's Strengths

Our product lineup boasting the largest share in Japan



Overwhelming volume of the green and yellow vegetables in Japan supplied by Kagome



Food Balance Sheet (fiscal 2014 version) and Statistics on Production and Shipment of Vegetables (2014), Ministry of Agriculture, Forestry and Fisheries
Trade Statistics of Japan (2014), Ministry of Finance. Amounts supplied by Kagome are from 2014 results

3rd place in the world in sales of tomato ketchup and processed products

Sales of tomato ketchup 3rd place in the world

* Euromonitor 2016 WORLD Brand Ranking

Rank	Company name	USD million
1	Kraft Heinz Co	1,639.8
2	Unilever Group	445.9
3	Kagome Co Ltd	232.0
4	Del Monte Pacific Ltd	182.9
5	Nestlé SA	125.2

Sales of tomato-based products 3rd place in the world

* Euromonitor 2016 WORLD Brand Ranking

Rank	Company name	USD million
1	ConAgra Foods Inc	315.2
2	Del Monte Pacific Ltd	186.8
3	Kagome Co Ltd	104.8
4	Conserve Italia - Consorzio Cooperative Conserve Italia scarl	89.0
5	Desan Trading	70.6

Key Financial and Non-Financial Data

Millions of U.S. dollars

Accounting Term (Fiscal Year)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016
Status of Profit and Loss (Unit: million yen)												
Net sales	¥187,004	¥200,483	¥175,134	¥171,937	¥181,304	¥180,047	¥196,233	¥193,004	¥159,360	¥195,619	¥202,534	\$1,745,983
Research and development expenses	2,746	2,895	2,541	2,577	2,567	2,655	3,009	3,084	2,566	3,240	3,219	
Advertising expenses	7,958	7,376	6,784	5,326	6,312	6,122	7,053	6,918	5,319	4,671	5,086	
Operating income	9,586	8,786	4,447	6,397	7,978	8,466	9,278	6,775	4,328	6,723	10,946	94,362
Operating income to net sales (%)	5.1	4.4	2.5	3.7	4.4	4.7	4.7	3.5	2.7	3.4	5.4	-
Ordinary Income	8,296	8,366	4,249	7,304	8,389	9,213	10,025	7,529	4,969	7,015	11,315	97,543
Profit attributable to Shareholders of parent	4,086	4,167	2,000	2,981	2,473	4,217	6,480	5,105	4,366	3,441	6,764	58,310
Financial Status (Unit: million yen)												
Total assets	¥150,561	¥138,682	¥140,938	¥134,005	¥142,661	¥148,207	¥168,965	¥183,621	¥203,413	¥208,885	¥219,804	\$1,894,862
Total net assets	92,399	90,378	87,707	89,418	88,941	92,815	104,432	113,023	124,566	126,344	97,991	844,750
Interest-bearing debt	11,743	9,487	23,267	12,665	16,159	15,851	24,004	31,088	35,904	37,419	74,538	
Status of Cash Flows (Unit: million yen)												
Cash flows from operating activities	¥8,080	¥2,225	¥4,137	¥15,230	¥18,241	¥11,757	¥7,407	¥(1,073)	¥1,753	¥12,039	¥18,824	\$162,276
Cash flows from investing activities	(8,513)	(14,999)	(5,431)	(6,458)	(19,093)	(4,985)	(1,781)	(3,941)	(7,110)	(11,023)	(18,576)	(160,138)
Cash flows from financing activities	14,904	(4,091)	4,433	(12,544)	1,414	(1,861)	1,050	2,322	1,793	1,555	6,904	59,517
Free cash flow	(269)	(8,325)	(1,559)	13,902	8,757	7,866	(1,417)	(12,661)	(4,269)	(4,011)	10,442	
Per Share Information (Unit: yen)												
Net income per share	¥45.08	¥41.85	¥20.09	¥29.97	¥24.87	¥42.40	¥65.15	¥51.39	¥44.01	¥34.64	¥68.30	-
Net assets per share	908.07	887.26	866.10	885.16	880.13	920.81	1,020.86	1,094.07	1,204.77	1,201.96	1,043.89	-
Annual dividend per share	15.0	15.0	15.0	15.0	15.0	18.0	20.0	22.0	16.5	22.0	24.5	-
Key Management Indicators (Unit: %)												
Net assets to total assets	60.1	63.7	61.1	65.7	61.4	61.8	60.1	59.1	58.8	57.2	42.1	-
Return on equity (ROE)	5.1	4.7	2.3	3.4	2.8	4.7	6.7	4.9	3.8	2.9	6.4	-
Return on assets (ROA)	5.9	5.9	3.0	5.3	6.1	6.3	6.3	4.3	2.6	3.4	5.3	-
Dividend payout ratio	33.3	35.8	74.7	50.1	60.3	42.5	30.7	42.8	37.5	63.5	35.9	-
Dividend on net assets ratio	1.8	1.7	1.7	1.7	1.7	2.0	2.1	2.1	1.4	1.8	2.2	-
Non-Financial Information												
Number of employees *2 (persons)	2,002	1,951	2,038	2,031	2,045	2,101	2,209	2,349	2,368	2,569	2,621	-
Energy used *3 (thousands of gigajoules)	1,558	1,560	1,368	1,360	1,379	1,319	1,297	1,289	1,329	1,336	1,380	-
Water used *3 (thousands of tons)	4,331	4,260	3,583	3,440	3,484	3,452	3,627	3,945	3,850	3,828	3,628	-
CO2 emissions *3 *4 (tons)	81,952	81,701	70,682	69,875	69,908	66,379	65,454	62,777	64,693	63,968	66,499	-

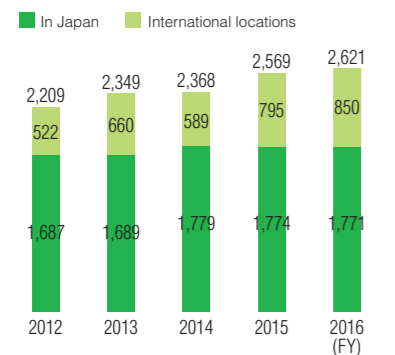
*1 The accounting period was changed in 2014, and fiscal 2014 only covers the 9-month period from April 1 until December 31, 2014.

*2 Scope: Kagome Group

*3 Scope: Kagome Co., Ltd. + group companies within Japan (Kagome Axis, Kagome Distribution Service, four greenhouse farms)

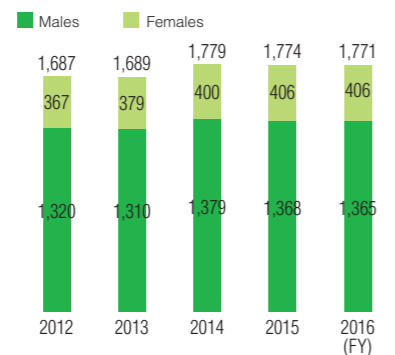
*4 Company management fixed coefficient of 0.421kg-CO₂/kWh was used as the electricity conversion factor for calculated values of CO₂

Number of employees (consolidated)
(Unit: persons)

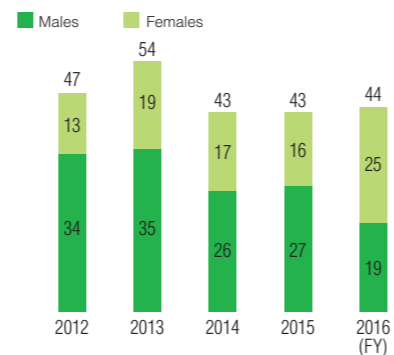


*Scope: Kagome Group

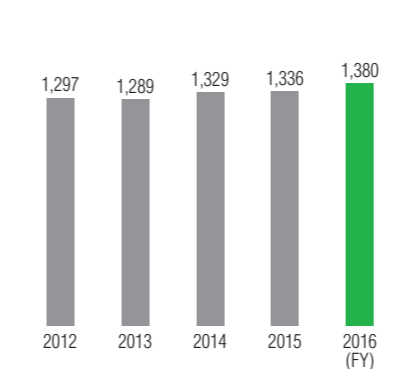
Number of employees (in Japan)
(Unit: employees)



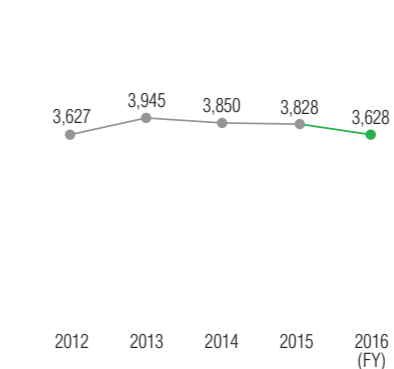
Number of newly hires
(Unit: employees)



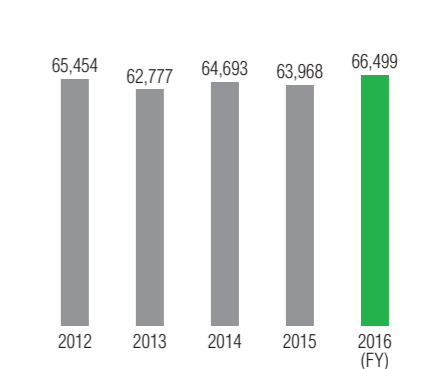
Energy used
(Unit: thousands of gigajoules)



Water used
(Unit: thousands of tons)



CO2 emissions
(Unit: tons)



Using food as a means to resolve social issues, we aim to be a “strong company” capable of sustainable growth.

Naoyuki Terada, President & Representative Director

Naoyuki Terada

Mid-Term Management Plan and Long-Term Vision

Kagome's origins lie in the company policy of “Japanese-style collaboration” that was formulated in 1962. Ever since establishing the company, Ichitaro Kanie, the founder, has continued to repeat these words to express the meaning of “everyone working in collaboration for the development of the company.” In 2000, as we were about to enter the 21st century, we redefined this policy and, drawing from many of Kagome genes including appreciation, harmony, creation, nature-orientedness, Kagome quality, and fairness and transparency, established “appreciation,” “nature” and “corporate openness” as the corporate philosophy that forms our management spirit. By making this corporate philosophy and our brand statement (our promise to society and consumers) of “True to Nature, the Flavor of Kagome” that we formulated in 2003 central to our management, we have contributed to people's healthy diets by developing and providing products using the value of tomatoes and more of nature's bounty.

However, 2014, the year I took office as president, was a critical year for our company. Our core domestic vegetable beverage business suffered sluggish sales, and external factors such as the depreciation of the yen caused a rise in the prices of raw materials. For our company, which relies on overseas countries for many of our raw materials, this situation resulted in a significant reduction in profit due to increased costs. Under these circumstances, we spread crisis awareness within the company and embarked on reforms to lower our break-even point, including improving marginal profits that were expected to decrease and reducing fixed costs, in order to overcome the crisis. These reforms were the company-wide measures to “reform our earnings structure” and “reform the way we work” that we commenced based on specific goals. In 2015, in order to further accelerate these reforms, we revamped our internal organizational structure

and formulated a new Mid-term Management Plan (2016-2018). The reason that Kagome found itself in a crisis situation, to put it simply, is that its structure was “fragile to change.” I believed that if this was the case, rather than responding to changes after they occurred, we should instead overcome our weaknesses by forecasting the environment after ten years and anticipating changes in advance. When formulating the Mid-term Management Plan, we undertook in-depth environmental forecasting, but what these forecasts revealed was the escalation of domestic social issues. The market in Japan will inevitably shrink due to the declining population and the aging society. However, we concluded that the resolution of social issues is the role of corporate entities, and that this in itself presents major business opportunities. In particular, the “extension of healthy life expectancy,” which is Kagome's biggest social issue and concern, is an issue that we must address first and foremost, while “turning agriculture into a growth sector,” “regional revitalization,” and “the global food shortage” are also recognized as issues closely connected to Kagome. We therefore decided that our Ten-Year Kagome Vision is “to become a strong company capable of sustainable growth, using food as a means to resolve social issues.” This vision is also the response to the question of what Kagome should do to become a company that survives as the domestic market continues to shrink. In our efforts to achieve this Ten-Year Kagome Vision, we formulated the three-year Mid-Term Management Plan, presented mid-term key issues from the executive level down, and enabled each Division to further break down these issues to continue a cycle of PDCA throughout the company. We believe that the steady achievement of mid-term issues is the means by which we will reach our mid-term quantitative targets. Our goals in this Mid-Term Management Plan are to press forward with a transition to a profit structure and internal reforms



aimed at becoming a company with a supportive and rewarding work environment. In addition, during fiscal 2016 we established the long-term vision of transforming from a “tomato company” to a “vegetable company” and also presented our aims beyond the Mid-Term Management Plan which lasts until 2018 within and outside of the company by announcing “net sales of ¥300 billion and operating income of ¥20 billion in fiscal 2025” as quantitative targets. Furthermore, in order to become a “vegetable company,” we also set “raising the daily level of vegetable intake per person in Japan from 293g (*) to the target level of 350g or more

recommended by the Ministry of Health, Labor and Welfare” and “increasing the ratio of green and yellow vegetables supplied by Kagome in Japan from approximately 12% to 15% or more” as quantitative targets other than financial targets to clarify the direction we should take. Further, we have set “50% of the workforce consisting of women – from employees to executive officers” as a future long-term vision, and have begun to transform into a company that creates new innovation by promoting diversity.

* From a Ministry of Health, Labor and Welfare National Nutrition Survey in fiscal 2015

Fiscal 2016 Results – Responding to Diversified Health Awareness

In fiscal 2016, as a result of our effective adoption of diversified health awareness and progress made with “reforming our earnings structure” and “reforming the way we work,” we were able to achieve record net sales and profits at all levels. In the domestic processed food business, sales were favorable for its mainstay beverages. The launch of Tomato Juice, the first product to focus on the diversified health needs in vegetable beverages, as Japan’s first “food with functional claims” that boosts high-density lipoprotein (HDL) or “good” cholesterol, gained the support of consumers in their 40s who are concerned about their cholesterol levels and led to a 30% increase in sales over the previous fiscal year. “Yasaiseikatsu 100 Peel & Herb” and “Yasaiseikatsu 100 Smoothie,” launched as beverages that offer a healthy refreshment and delay hunger while ensuring vegetable intake, expanded a new beverage concept aimed at working women in their 30s and 40s.

In the food business, although sales decreased and earnings increased due to a review of underperforming products, promotions of reduced-salt menu items that incorporate tomato ketchup and collaborative promotions of “Tomato Pazza,” a menu

item in which seafood items are braised in tomato sauce, in the institutional, industrial as well as consumer markets contributed to increased sales of “Tomato Sauce.”

In the domestic agri-business, sales of high-lycopene tomatoes, which meet the needs of consumers seeking the efficient absorption of vegetable nutrition, grew to account for 40% of fresh tomato sales.

Meanwhile, in the international business, despite higher earnings and profit in real terms excluding the impact of foreign exchange, earnings decreased and profit increased due to the depreciation of the yen. In line with the globalization of food, sales of culinary sauces for the global food service business benefited from the growth of its main customers such as pizza chains and Chinese fast food businesses, allowing Kagome Inc. to post increases in both earnings and profit. A subsidiary whose core business is the manufacture and sale of tomato paste also increased production volume as the result of greater harvests of tomatoes. The consumer business posted a net increase due to the 12-month consolidated results of Preferred Brands International, Inc., which became a consolidated subsidiary in



Mid-Term Management Plan 2016-2018

Reform our earnings structure

- Enhance the value of existing products
- New product innovation
- Focus on existing products and new products
- Reduce product retention, disposal and inventory
- Reduce fixed costs
- ⇒ KPI¹: Marginal income ratio / Ratio of break-even point to sales

Reform the way we work

- Ban overtime after 8 p.m.
- Introduce a telework system
- Introduce a stagger commuting hours system
- ⇒ Selected under the Certified Health and Productivity Management Organization (White 500) program²

Fiscal 2018 Quantitative targets

Net sales	¥220 billion
Operating income	¥13.2 billion
Operating income ratio	6%
ROE	8%

¹ KPI: Key Performance Indicator

² Selected under the Certified Health and Productivity Management Organization (White 500) program by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. We will contribute to the health of our customers by promoting health management measures according to these principles and by achieving improvements in the health and work motivation of our employees.

May 2015. Meanwhile, the deficit on business in Asia was reduced following the completed review of the business structure, and profit grew significantly.

We have upwardly revised quantitative targets for fiscal 2018 in some areas due to results which exceeded our goals for fiscal 2016.

Although we have not made any changes to the target of ¥220 billion in net sales, we have raised our targets to ¥13.2 billion operating income, 6% operating income ratio, and 8% ROE as we have become certain of our ability to secure profits.

Initiatives for fiscal 2017 – Reinforcing “reforms in our earnings structure” and “reforms in the way we work”

In fiscal 2017, we will introduce new products which proposes new “foods with functional claims” and the smoothies with new consumption concept for beverages within the domestic processed food business. With regard to the food business, while strengthening promotions for household recipes, we will work on initiatives to raise consumer interest and promote demand by proposing recipes that link items for consumer markets with items for institutional and industrial markets including pre-cooked menu items and restaurant items.

In the domestic agri-business, we will strengthen sales of our mainstay “High Lycopene Tomatoes” as well as tomato products that emphasize functionality, including “Beta Carotene Tomato” and “GABA Rich Tomato,” as part of our “super-vegetable series.” We will also increase the number of contracted greenhouses in order to achieve a stable supply throughout the year, and further expand our supply base. We will also upgrade and actively develop our supply base for baby leaf lettuce, which will lead to the realization of our becoming a “vegetable company.” We plan to expand our sales area for packed salads.

In the international business, we will make the most of our global network of group companies in our sales activities, and strengthen initiatives in the institutional and industrial market, particularly in Asia. Additionally, we will reinforce our partnership with Ingomar Packing Company LLC, with whom we formed a business and capital alliance in 2016, and pursue synergies by reinforcing a

streamlined, vertically integrated value chain of tomatoes in the United States, from seeds to processing and sales.

We still have much to do when it comes to reforming our earnings structure. In fiscal 2017, we will improve our cash flow by reducing inventory to cut storage expenses and disposal costs. We are also facing numerous issues in terms of food distribution, including a shortage of truck drivers, rising distribution costs, and environmental protection measures such as reductions in CO₂ emissions. For these reasons, F-LINE, a joint venture distribution business, was established this year among four food manufacturers, including Kagome. Our aim is to achieve an effective and stable distribution system by establishing our own food company distribution platform and continuing to reorganize our distribution bases.

We are also continuing to reform the way we work. To ensure diversification by promoting diversity, as well as to further eradicate unreasonableness, waste and inconsistency in work, over 50% of our new recruits from fiscal 2016 are women. We also introduced a telework in April 2017 and are trying out a stagger commuting hours system. As a result of these measures, we will increase productivity and at the same time set the companywide target of 70% paid holidays taken. Based on the idea that way of working reforms will lead to lifestyle reforms, we will move forward with reforms so that each and every individual can work in a meaningful way and achieve a high level of performance.

Kagome's Long-term Outlook and Strategies

Helping people live longer, healthy lives through food – transform from a “tomato company” to a “vegetable company”

In 2007, Japan became a super-aged society whereby 21% of its population was aged 65 or older. It has been estimated that the number of senior citizens will continue to increase to the point where 40% of the population, or 1 in 2.5 people, are aged 65 or older by 2060. The population will decrease in line with the declining birth rate and aging society, and the scale of the processed food market is likely to shrink in trillions of yen. We must assume that our sales will also decline as the market contracts.

As the super-aged society becomes more prominent, nursing care issues that arise between healthy life expectancy and the average life expectancy will come to the fore. The average life expectancy for Japanese is approximately 81 years for men and 87 years for women. However, the gap between the average life expectancy and the healthy life expectancy, whereby people are able to lead healthy lives, is as long as nine to twelve years.

Extending healthy life expectancy is also important if we are to reduce the difficult periods of ill health suffered by the patients and their families and ease the burden on the country in terms of the medical and nursing care costs borne by society overall. If we focus on the improvement and prevention of various diseases and physical disorders and further expand this focus to include beauty and anti-aging measures, consumer spending on ways to continue to remain healthy will no doubt soar further. We firmly believe that supplying the health information and products sought by consumers is a business opportunity that will allow us to utilize the expertise of our research and development department.

The Innovation Division, which is responsible for research and development, commenced in October 2015 with the research institute founded in 1979 as its base. The Division has two main missions. The first is to undertake research into functionality, varieties and cultivation technology, and materials and processing technology by “creating research-driven innovation.” The second is to undertake product quality and safety evaluations and the protection and utilization of intellectual property by “strengthening the business support infrastructure.” In particular, we are working on research on the functionality of tomatoes, vegetables and plant-based lactic acids based on the theme of the value of health, and are collecting evidence so that we may deliver health to all generations through our functionality research.

One example of the results of this research is Tomato Juice as a food with functional claims mentioned earlier. The number of people identified with high cholesterol levels has been increasing in recent years, and this trend is evident in both men and women over the age of 50. In this context, our company has been gathering scientific findings regarding the role of tomato-sourced lycopene in increasing HDL (“good” cholesterol) in the blood, and launched Tomato Juice as a food with functional claims after our notification of functional labeling was accepted by the Consumer Affairs Agency.

Although it has widely been known that Tomato Juice is good for the health, the verification and dissemination of this information has increased the value of the product.

We have created a roadmap to increase business opportunities, increase opportunities to expand profits, and achieve sustainable growth by applying research and development expertise that can actively support good health and longevity to the development of products and menu promotions. To get there, we needed an easy-to-understand mission-type vision with which people could identify. This is how we came up with our vision of transformation from a “tomato company” into a “vegetable company.” Kagome already supplies 11.9% of the green and yellow vegetables consumed in Japan. Yet this is still 57g short of the Ministry of

Health, Labor and Welfare recommendations for a daily vegetable intake of 350g for each Japanese person. By expanding the agri-business that is engaged in the sale of fresh vegetables and increasing sales of new products made from vegetables to improve this situation, we will eliminate the shortage of vegetables in the Japanese diet and extend healthy life expectancy. Increasing Kagome's sales is tantamount to increasing the vegetable consumption of Japanese, and an increase in sales is the most important KPI in this long-term vision

Shareholder policy – promoting dialogue with investors

As a result of efforts in pursuit of “the Creation of 100,000 Kagome Fans (shareholders)” that we have been working on since 2001, we have already achieved a figure of approximately 200,000 “fan shareholders.”

Surveys and other research activities have shown that “Kagome Fans” who are individual shareholders supporting our products and company retain their shares in the company on a long-term basis and also purchase our company's products at a rate 10 times greater than general customers. Estimates based on purchasing amounts suggest that the daily vegetable intake of these shareholders is 350g or more. A great many of the over 2,000 shareholders who attend the Annual General Meeting of Shareholders held in March every year are healthy, active senior citizens. We will continue to develop products and disseminate information so that all Japanese people can enjoy a healthy life in their senior years by consuming a large volume of vegetables, just like our “Kagome Fan Shareholders.”

In addition, we have been providing opportunities for direct dialogue and interactions with our “Kagome Fan Shareholders”

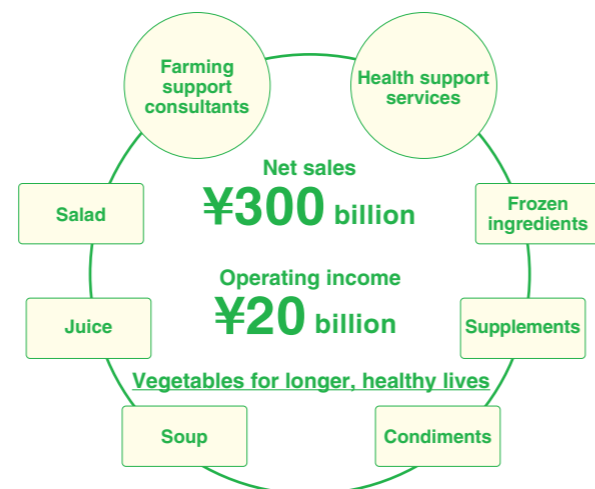
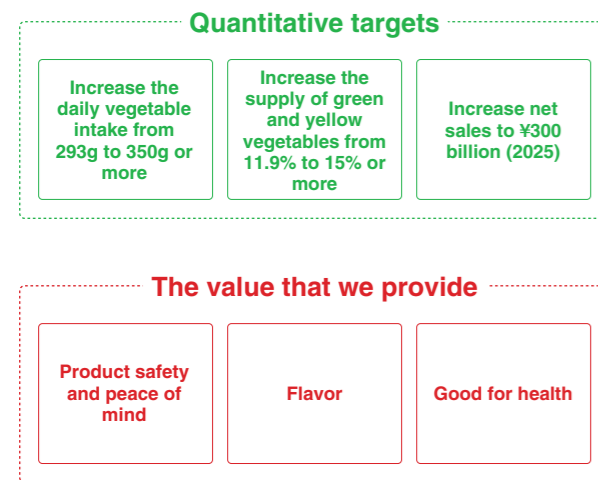
through “Talks with the President” since 2014. We post the questions we receive that day on our website, and have found that these questions cover a diverse range of topics that often lead to suggestions regarding company management. This year we plan to hold these talks in Tokyo, Osaka, Nagoya and Hokkaido, a record-high number of locations.

Although our focus in the past has been on creating individual “Kagome Fan Shareholders,” since last year we have been strengthening dialogue with institutional investors. The words of encouragement we receive from our individual “Kagome Fan Shareholders” give us courage and joy but if we are to become a strong company, we must also listen carefully to the critical opinions of analysts and institutional investors. Apart from financial results briefings, we also hold small meetings with analysts and institutional investors aimed at promoting dialogue. Going forward, we will step up our engagement by exchanging opinions on the growth potential of health and agriculture, and will enhance our corporate value.

Regional revitalization and agricultural development – turning agriculture in Japan into a growth sector

We believe that our domestic agri-business is the solution to turning agriculture in Japan into a growth sector, an issue that was also noted in the Trans-Pacific Partnership (TPP) negotiations. Despite the fact that agriculture is one of the main industries supporting local communities, it faces a serious shortage of

successors. The absence of successors and the increase in abandoned farmland not only means a decrease in crops and the collapse of the industry itself, but also means that the environmental protection of “satoyama” (the areas between mountain foothills and arable flat land), in which the agricultural



industry had been engaged, will lapse. The Ministry of the Environment is also accelerating efforts to protect “satoyama” by taking heed of the fact that the biodiversity, pleasant landscape, and culture of “satoyama” have been handed down through various human efforts associated with agriculture and forestry.

I am from Matsue, in Shimane Prefecture, a rural “satoyama” where the original landscape was blessed with an abundance of nature. Inhabited by frogs and red dragonflies, it was a region that seemed to symbolize a harmonious environment where humans and nature coexisted. I believe that agricultural activities conserve the original landscapes of the regions of Japan. Recently, the regional “satoyama” have become an important tourism resource to attract overseas visitors to Japan. I think that to halt the collapse of the agriculture industry and turn agriculture in Japan into a growth sector requires private enterprises to become agricultural leaders.

A World Food Problem – Tomato Consumption Growing at a Rate of 1 Million Tons per Year

Meanwhile, countries outside of Japan are not only working on SDGs such as food shortages, famine and poverty caused by population growth and climate change, but are also facing social issues such as obesity in developed nations and malnutrition in emerging nations. We believe that these issues also serve as business opportunities where we can leverage our expertise and strengths.

We recognize that our international business centering on Kagome Inc., a company that offers menu proposals to many customers in the global food service business, must tackle obesity in developed nations and other health issues going forward. Kagome Inc. started out in the production and sale of pizza sauce but today, it produces a growing range of sauces and is also seeing an increase in customers. Kagome Inc.’s top priority is to respond to customers’ requests for B-to-B business, but it believes that, along with food globalization, it is also important to raise awareness of health and nutrition issues among people all over the world by means of menu proposals.

We are also building a vertically integrated value chain overseas for tomatoes, from seed development to field cultivation, primary processing and product production. In contrast to the population decline in Japan, the consumption of vegetables is increasing elsewhere as the global population grows. The

History suggests that it is highly unlikely that the issue of abandoned farmland, which is spreading throughout every area in Japan, can be resolved by the policies of national and local governments alone. As a measure to combat this abandonment of farmland, I would like to promote the revitalization of the domestic agri-business utilizing the expertise that we have developed thus far in the agricultural sector, including cultivation technology, human resource training and development. Therefore, in April 2017 we launched the agri-support business to establish and manage greenhouses and provide guidance in agricultural technology in order to resolve the issues facing producers of fresh tomatoes. The business, led by staff from our Agri-Business Division, provides agricultural consulting services in various areas including planning, construction management, agricultural technology, and greenhouse management, and will contribute to turning agriculture into a growth sector by fostering successors.

consumption of tomatoes in particular, which is the most popular vegetable, is forecast to increase by 1 million tons per year and it is expected that the production and sales of processed tomato products will continue to be a global growth industry.

In anticipation of the future growth of the global tomato industry, last year we established the Agri-Business Research and Development Center in Portugal and began new research in agriculture utilizing big data. We are conducting field inspections from the sky using drones to collect data using various sensors, and are using the big data gathered to conduct research into new cultivation methods. The agricultural industry in general harvests crops once a year and it therefore requires several years to increase yields through trial and error. If it is possible to control the growing conditions using big data, it may be possible to increase crop yields right from the first year.

On the other hand, although the consumption of tomatoes in emerging nations is high, the majority of this consumption consists of fresh tomatoes prepared in dishes at home, with some countries not yet having reached the economic phase where consumers purchase processed tomato products. At the Agri-Business Research and Development Center, we are developing seeds for Africa and elsewhere, and are also starting cultivation demonstration tests on tomatoes for processing. This is a major

project that requires a long period of time from the point of experimental cultivation until industry creation but if it succeeds, it will ensure an income and food supply for agricultural workers in developing countries and will contribute to the elimination of

hunger and poverty. Furthermore, by providing the food materials for a healthy diet and the know-how to bring about economic independence, we will also be a step closer to resolving social issues.

To our stakeholders

The reason that we have so far focused on turning agriculture into a growth sector not only in Japan but also overseas is that all of our products utilize the value of nature’s bounty, including tomatoes, vegetables and fruit. Unless we can obtain good raw materials, our business model falters. That is why it is important for agriculture to develop as a growth industry not only in Japan but throughout the world.

Up until now and onward, Kagome will continue our corporate philosophy of “appreciation,” “nature,” and “corporate openness,” an inherited management spirit that pervades through changing times, and our corporate philosophy-based management that values our brand statement, “True to nature, the flavor of Kagome.” Likewise, we will contribute to the healthy lives of people using nature’s bounty that includes tomatoes and other vegetables and

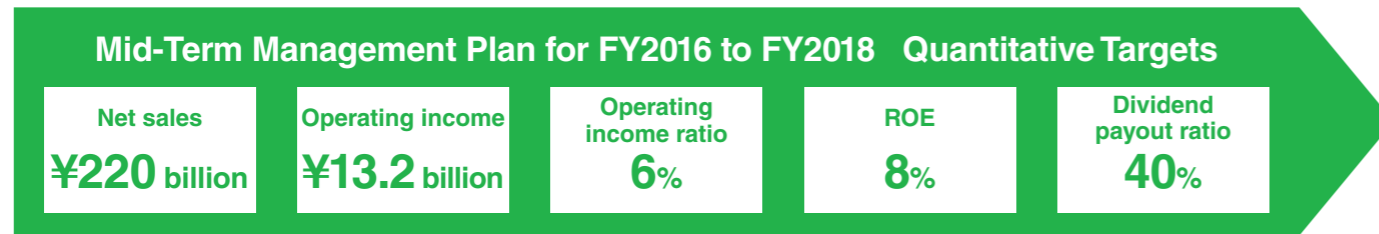
fruits by means of “What Kagome Strives for” and our “long-term vision.” By developing value utilizing these bounties of nature, we aim to be a strong company that can overcome competition in global markets and be capable of sustainable growth. The reason we can do this is that we are a unique company that is involved in seeds and fields. We hope that you will continue to look forward to the future of Kagome as we create value together with our stakeholders through food.



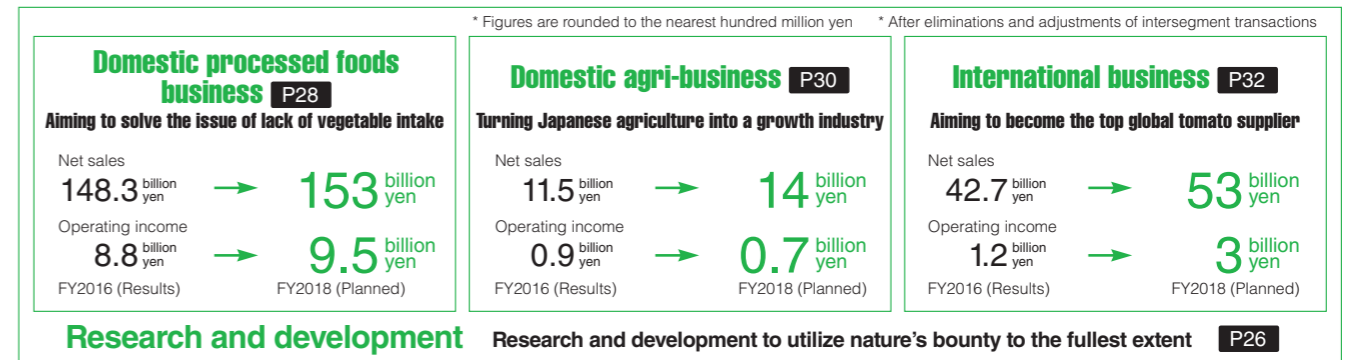
We will contribute to the healthy lives of people using nature’s bounty that includes tomatoes and other vegetables and fruits by means of “What Kagome Strives for” and our “long-term vision.”

Connecting Our Global Network to Become

a "Strong Company" that Grows Sustainably



In the Mid-Term Management Plan, we set quantitative targets according to the growth stage of each segment. In the mainstay domestic processed food business, we aim to help people live longer, healthy lives by offering vegetables in various products, and plan stable growth targeting net sales of 153,000 million yen (an increase of 4,700 million yen compared to fiscal 2016) and operating income of 9,500 million yen (an increase of 700 million yen compared to fiscal 2016). The domestic agricultural business has continued to grow by increasing contracts with greenhouse farms, and we plan to increase net sales by 14,000 million yen (an increase of 2,500 million yen compared to fiscal 2016) while planning to decrease operating income (by 200 million compared to fiscal 2016) to 700 million after including fixed costs for business expansion. In the international business, business restructuring in Asia has been completed, and we plan to grow significantly targeting net sales of 53,000 million yen (an increase of 10,300 million yen compared to fiscal 2016) and operating income of 3,000 million yen (an increase of 1,800 million yen compared to fiscal 2016).



Research and Development

Research and Development to Utilize Nature's Bounty to the Fullest Extent



Recent Research Results

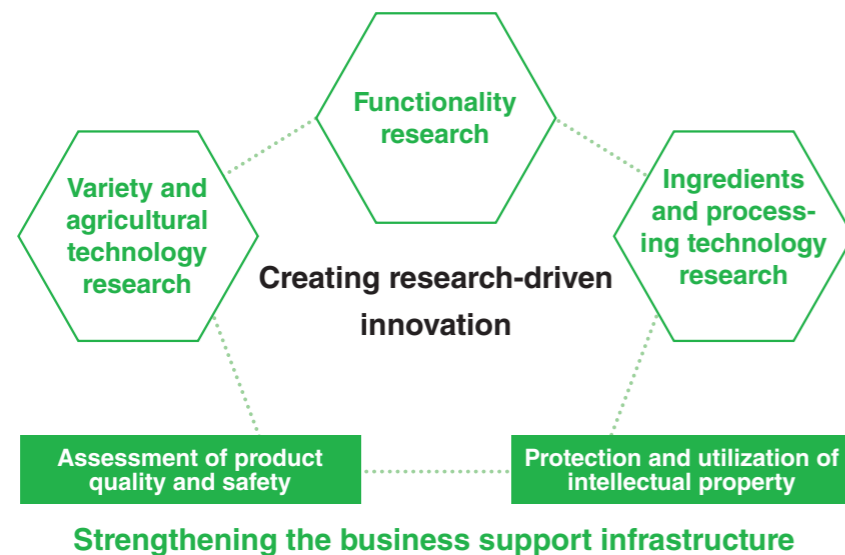


- May 2015** Consumption of approximately 200ml of vegetable juice before a meal was found to be effective in suppressing rises in blood-sugar levels after a meal (Announced at the 58th Annual Meeting of the Japan Diabetes Society)
- August 2015** Tomatoes were found to contain many anti-inflammatory components [Joint research by the Molecular Function of Food Lab. and the KAGOME Tomato Discoveries Lab. of the Graduate School of Agriculture, Kyoto University] (Announced at the 62nd Annual Meeting of The Japanese Society for Food Science and Technology)
- September 2015** Mixed vegetable and fruit juice was found to enable more efficient absorption of beta carotene than eating raw carrots (Announced at the 29th Symposium of the Japanese Society for Carotenoid Research)
- August 2016** Consumption of tomato juice in the morning was found to lead to efficient absorption of the functional component "lycopene" (Announced at the 63rd Annual Meeting of The Japanese Society for Food Science and Technology)

Initiatives to Promote Growth

Research and Development Aimed at "Creating Research-Led Innovation" and "Strengthening the Business Support Infrastructure"

The Innovation Division is made up of five departments, responsible for the functions of variety and agricultural technology research; functionality research; as well as ingredients and processing technology research aimed at "creating research-driven innovation," and the functions of protection and utilization of intellectual property as well as assessment of product quality and safety aimed at "strengthening the business support infrastructure."



Research and Development that Covers All Stages of the Value Chain, from Seed to Table

Functionality Research

We promote functionality research mainly on green and yellow vegetables, submit functional claims of food, and distribute information on health. In FY2016, we published releases concerning the "relationship between timing of tomato juice consumption and absorbency of functional components" and "relationship between tomato juice and skin tone recovery." Furthermore, we conducted the "analysis of tomato components" with the Graduate School of Kyoto University using the big data analysis method, and made further progress in the "exploration of anti-inflammatory components" in tomatoes.



Lycopene, a component that comes from tomatoes, boosts high-density lipoprotein (HDL) cholesterol in the blood stream

Variety and Agricultural Technology Research

Having accumulated 7,500 varieties of tomato genetic resources, we conduct the development of new varieties and agricultural technology research in our own testing fields. Through the development, improvement and cultivation of varieties with superior attributes, we will raise the value of tomatoes. In FY2016, we applied for the registration of a total of ten varieties including a fresh tomato variety with disease resistant properties. Also, by spreading the tomato varieties and agricultural technology from Japan to other countries, we are contributing to an increase in the yield of tomatoes overseas. Furthermore, we are enhancing our vegetable research as we work towards achieving our long-term vision.



[Genetic resources: 7,500 varieties]



Parent varieties that produce the F1 variety

[Number of parent varieties: 990]



Cross-breeding, evaluation, selection



Development of varieties for specific uses

Ingredients and Processing Technology Research

We promote activities that raise the added value of our products, by developing new ingredients that draw out the original flavors and characteristics of tomatoes and vegetables, and improving processing technology. By employing fractionation technology in our research on tomato ingredients, we have developed and launched various processed tomato products such as tomato extract and tomato pulp. In recent years, in order to create new value on an unprecedented scale, besides developing in-house technologies, we are also actively engaging in partnerships using technologies from other companies.



Products that use tomato extract

Tomato pulp

Tomato puree

Assessment of Product Quality and Safety

To strengthen the safety infrastructure that will support the Kagome Group's business expansion over the medium term, we will conduct both process management and verification through analysis to ensure we offer safe and reliable products. To provide safe and reliable products to our customers, we will implement three initiatives: conduct risk prediction activities, set up analysis and assessment technology, and evaluate the safety of raw materials.

Protection and Utilization of Intellectual Property

To support efforts in maintaining sustainable competitiveness, we will make discoveries and inventions via in-house research and development activities, as well as strengthen the intellectual property-related infrastructure (acquisition, protection, and prevention of obstruction and lawsuits of intellectual property) by periodically investigating other companies' patents

Domestic Processed Foods Business

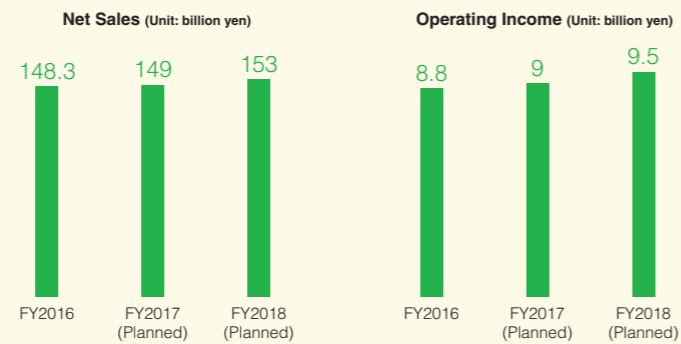
Aiming to Resolve the Problem of a Lack of Vegetables in Japanese Diets



Trends in Performance (FY2016)

Net sales **148.3** billion yen
(Up 5% year on year)

Operating income **8.8** billion yen
(Up 53% year on year)

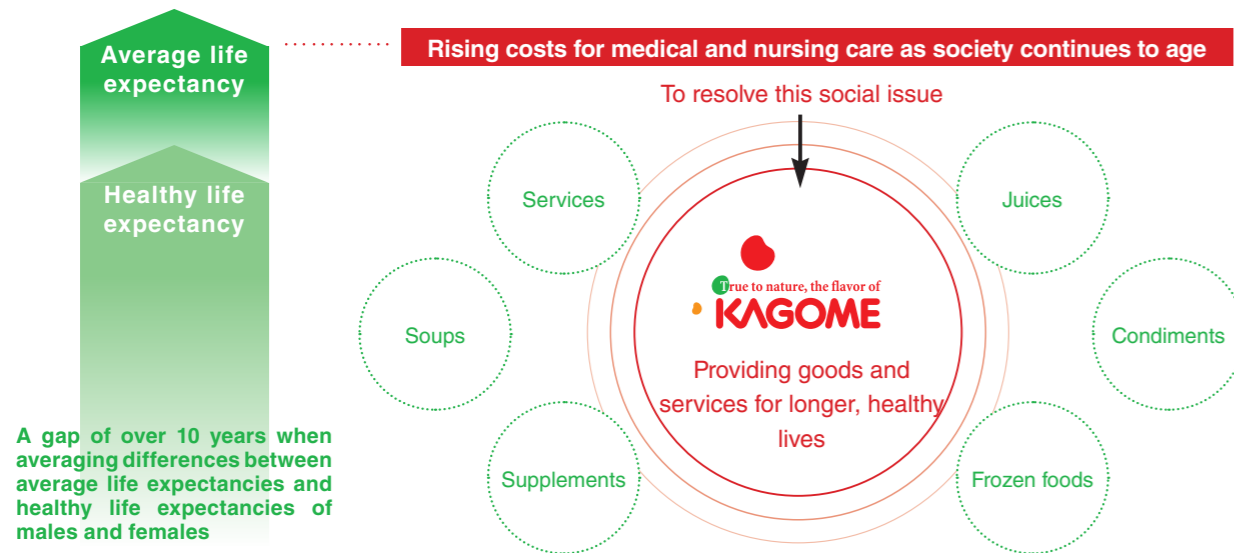


* After eliminations and adjustments of intersegment transactions
* Figures are rounded to the nearest hundred million yen

Initiatives to Promote Growth

Contribute to tackling social issues regarding the extension of healthy life expectancy, by aiming to resolve the problem of a lack of vegetables in diets via providing various products that utilize vegetables

In a super-aging society, it has become an important issue on the level of the society, the household and the individual to help people live longer, healthy lives. In Japan, while a long-term population decline and the shrinking of the processed food market are anticipated, consumer spending on goods and services related to the maintenance of good health is expected to rise. Capturing these widespread health needs, Kagome provides various products that utilize vegetables. In addition to our mainstay products such as the "Yasai Seikatsu 100 Series," "Yasai Ichinichi Kore Ippon," tomato juice and tomato ketchup, we also offer products such as frozen foods, soups and supplements that allow vegetables to be conveniently and easily consumed. Through offering such products, we will contribute to resolving the problem of a lack of vegetables in Japanese diets and the goal of giving people longer, healthy lives.



By providing to customers various products that utilize vegetables, we aim to:
1. Raise the level of vegetable intake of Japanese people from 293g* to 350g.
2. Raise our share in the supply of green and yellow vegetables in Japan from 11.9% to 15%.
* From the 2015 National Health and Nutrition Survey conducted by the Ministry of Health, Labour and Welfare

Beverage Department

Functional Research on Vegetables Successfully Led to Launch of Products with Functional Claim Labeling

In February 2016, we started selling tomato juice with functional claim labeling that reads "For those worried about their blood cholesterol levels." Popular among women in their 50s and above concerned about their cholesterol levels, sales of tomato juice increased by 30% year on year. Instead of adding components with new functions to existing products, just by including research results on the label of the same product, the product itself does the job of value selling. In fall of 2017, we are planning to release the Kagome Vegetable Juice with functional claim labeling as well.



Responding to Various Health Needs and Consumption Situations

New products that make it easy for people to incorporate vegetables into their diets, which respond to various health needs and consumption situations, are selling well. The Yasai Seikatsu 100 Smoothie is filling and has become a highly popular snack replacement. The Yasai Seikatsu Peel & Herb has also been praised as the "flavorful but not overly sweet" drink that is ideal as a refresher. We are planning to further launch a new product lineup going forward.



Promoting "Locally Grown, Nationally Consumed" Campaign with Yasai Seikatsu 100 Seasonals Series

The "Yasai Seikatsu 100 Seasonals Series" is the product that promotes the "locally grown, nationally consumed" campaign to consume locally produced agricultural products all over Japan. The series sells in sequence at least ten different flavors each year. We will continue contributing to local agriculture as well as good health and longevity by selecting new vegetables and fruits as ingredients in our products.



Food Department

Focusing on Umami Component of Vegetables, and Proposing Salt-Reduced Recipes

According to the "Dietary Reference Intakes for Japanese 2015" published by the Ministry of Health, Labour and Welfare, the reference amount salt intake for males is less than 8.0g per day, and for females is less than 7.0g per day. Male and female adults are said to need a reduction of 30% in their daily salt intake levels. This is where we zeroed in on the "umami" (savory flavor) component of glutamine acid in tomatoes. On a nationwide level, we are proposing "recipes with 30% or more reduced salt" that use tomato ketchup to replace half the normal amounts of miso or soy sauce used in cooking.



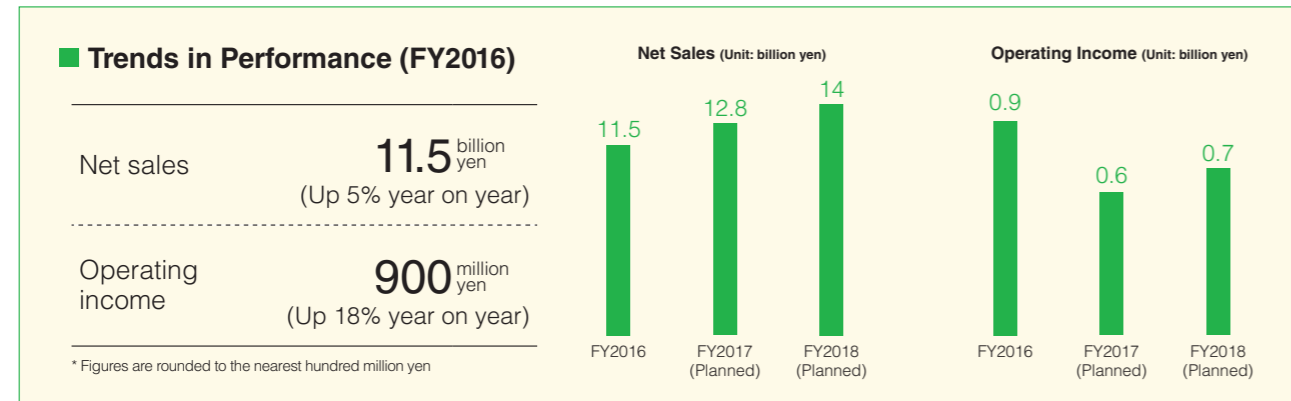
Easy-To-Cook Healthy Recipes are Popular among Working Women

As people become increasingly health-conscious, the need for easy-to-cook fish recipes is rising. Therefore, we proposed a new Tomato Pazza (seafood and vegetables braised in tomato sauce) recipe, which uses our "Kihon no Tomato Sauce." As it can be easily prepared by braising seafood such as sliced fish and tomato sauce in a frying pan for about ten minutes, it is highly popular among working women. Besides usage in households, the recipe has also been adopted for institutional and industrial use due to their ease of preparation, such as in restaurants where there is a shortage of staff.



Domestic Agri-Business

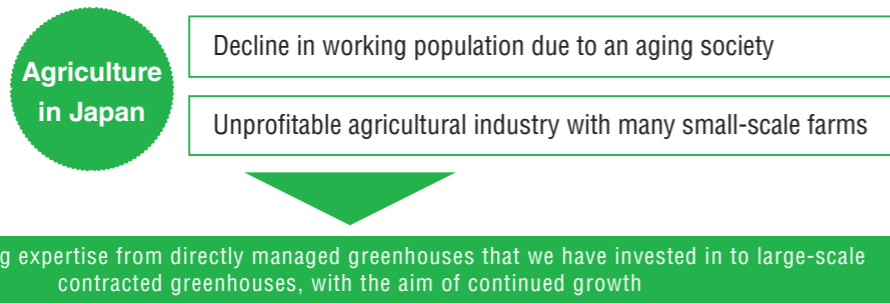
Working with Contracted Greenhouses to Turn Agriculture in Japan into a Growth Sector



Initiatives to Promote Growth

Overcome Agricultural Risks with Kagome's Technology and Expertise, and Work with Contracted Greenhouses to Contribute to Efforts in Turning Agriculture in Japan into a Growth Sector

Our fresh tomato business started in 1998. Today, we have large-scale directly managed greenhouses under the scope of consolidation at four locations, large-scale contracted greenhouses at 10 locations, and general contracted greenhouses at 35 locations. Altogether, they have a total area of 77 hectares (large-scale greenhouses: 53; others: 24), and each year we ship out 17,600 tons of produce (3% share). Overcoming agricultural risks (weather, diseases, pest damage, prices, etc.) with Kagome's technology and expertise, we have established agriculture as a business. We aim to achieve further business expansion by providing technology we have cultivated and the accumulated skills of our human resources to contracted greenhouses. Fresh tomatoes have the highest handling cost among vegetables, and while shops such as mass market retailers wish to sell them throughout the year, procurement becomes more difficult as production sites shift according to the season. Through its own distribution bases from its seven production locations in Japan, Kagome directly delivers products to stores of mass market retailers and other customers throughout the year, and its one-stop services have been highly acclaimed by customers.



Developed Super Vegetables Series with High Value-Added Tomatoes

Fresh tomatoes labeled with the Kagome brand are sold through mass market retailers across Japan. In particular, sales of "High-Lycopene Tomatoes," which contain 1.5 times the amount of lycopene in regular tomatoes of Kagome, have been increasing in recent years and have grown to make up 40% of the overall sales turnover of fresh tomatoes. We also launched the Super Vegetables Series, which has tomatoes with special features such as a high amount of a healthy vegetable component. Such products include Beta Carotene Tomatoes, which have an abundance of the orange pigment beta carotene as much as carrots and pumpkins, and GABA-Rich Tomatoes, which contain 1.5 times the amount of the natural amino acid GABA in regular tomatoes of Kagome. The series has been well-received. These products are truly characteristic of Kagome who, as a company, has thoroughly researched tomatoes across the world and owns 7,500 varieties of genetic resources, the largest of any private company in the industry.



Expanding Out from Tomatoes to the Handling of Baby Leaf Lettuce

Among fresh vegetable products of Kagome, in addition to tomatoes, another fresh vegetable product that we are handling is baby leaf lettuce. These are baby leaves of vegetables harvested 30 days after sprouting, and are rich in elements necessary for the growth and development of leaves. Up until now, baby leaf lettuce has been procured from companies through business and capital alliances. However, from 2017, a new large-scale production facility will open in Hokuto, Yamanashi Prefecture, and we will begin full-scale shipping to the metropolitan area. Currently, the annual intake of baby leaf lettuce in Japan is about 18g per person. We will aim to expand sales and increase this intake level to 50g, equivalent to that in European countries. We predict that such efforts will triple the baby leaf lettuce market in Japan from the current scale of 10 billion yen to about 30 billion yen in 2020.



Entering the Business of Producing and Selling Packed Salads

To allow fresh vegetables to be consumed easily, we have entered the business of producing and selling packed salads. In Kanagawa Prefecture, we have jointly established a large-scale processing plant with another company as a supply location. The packed salads, which combine high value-added High-Lycopene Tomatoes, baby leaf lettuce, and other vegetables, are mainly sold in the metropolitan area.



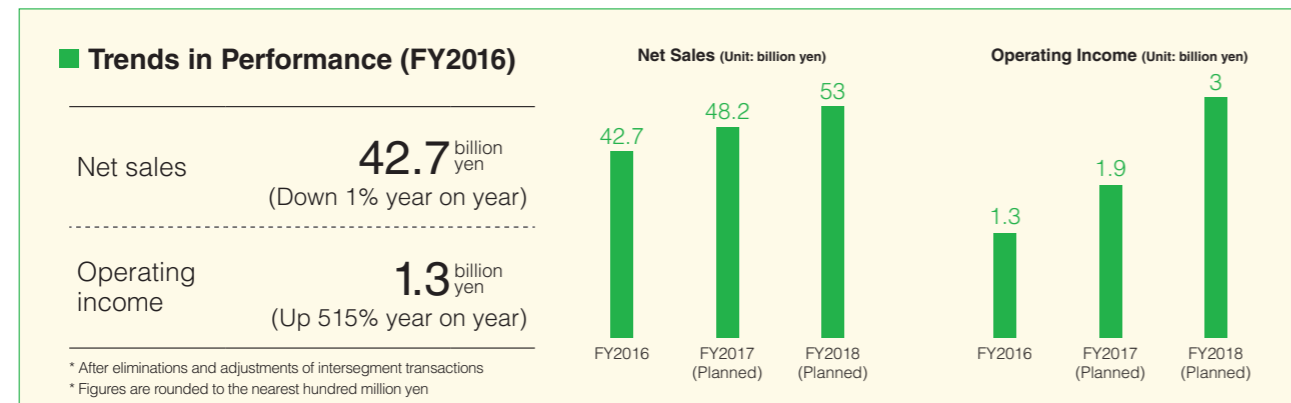
Strengthening Responsiveness to Demand and Supply by Launching the Agri-Support Business

To expand our fresh tomatoes business, it is necessary to increase the number of locations where we have large-scale contracted greenhouses. This led us to the idea of creating the agri-support business, a new business of offering Kagome's operating expertise to existing players in the market on the condition that they are to become contracted greenhouses of Kagome. At the same time, Kagome will also sell materials that it has developed based on its expertise. Through such efforts, we will work towards the goal of "turning agriculture into a growth sector" by supporting agriculture in a wide range of areas.



International Business

Aiming to Become the Top Global Tomato Supplier



Initiatives to Promote Growth

Seeing Business Opportunities in Greater Consumption of Tomatoes for Processing as World Population Increases, and in Globalization of Food

The United Nations announced that the world population is expected to grow from the current estimate of 7.3 billion to 9.7 billion in 2050. In line with this, demand for tomatoes, the most consumed vegetable worldwide, is expected to increase. The annual global consumption volume of tomatoes is currently about 140 million tons, including around 100 million tons of fresh tomatoes, and around 40 million tons of tomatoes for processing used to make products such as tomato paste and ketchup. Tomato paste that uses tomatoes that have gone through primary processing has a longer shelf life and is more convenient. While demand for such tomato paste has doubled over the past 15 years, as the trend of consumption shifting from fresh food to processed food continues in line with population increases and economic growth, demand is expected to further increase by 10 million tons in the next decade. Demand for tomato condiments that use tomato paste as an ingredient, such as pizza sauce, is also increasing in line with the globalization of food. Kagome Inc. conducts the business of B to B sales of culinary sauces to restaurant chains that are engaged in the food service business globally, and plans to expand its business along with its customers' growth.



H.I.T. plant



Culinary sauces production line



Kagome Inc.

Seed Development and Seedlings Suited to Each Country's Farming Conditions and Market

United Genetics Holdings LLC., with bases in eight countries including California, United States, develops its own varieties of vegetables such as tomatoes, and provides seeds and seedlings in over 80 countries worldwide. Developers, called breeders, spend years improving varieties using traditional cross-breeding technology instead of genetic modification, and develop varieties suitable for each country's farming conditions and market needs through trial and error. Vegetables developed via this method are highly resistant to diseases, thus enabling a large increase in yield and significantly contributing to raising the productivity of agriculture.



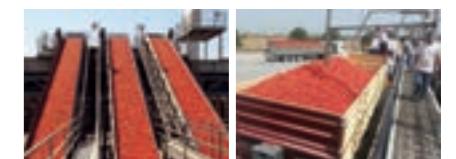
Research on ICT in Agriculture to Predict Risks and Raise Yields

At the Agri-Business Research and Development Center in Portugal, research is being conducted on how to utilize ICT in agriculture to achieve sustainable agriculture. After collecting image data obtained through satellites or drones, data obtained from weather and soil moisture sensors, data on cultivation methods and farming data such as irrigation, fertilizer use, and pesticide spraying, a virtual field is constructed on a computer. By running growth simulations on this virtual field, the optimal amounts of inputs such as water, fertilizer and pesticides according to weather conditions and the growth of the crops can be determined with a high level of precision.



Tomato Paste Production Business with High-Quality, Competitive Products

Consolidated subsidiaries of our company have tomato paste production bases in Portugal, Australia, and California, United States, the major production areas of tomatoes for processing. Together, the three companies handle about 200 million tons of fresh tomatoes, the second largest in the world in terms of volume. Each production base is in charge of primary processing in the vertically integrated value chain from seed to table, generating high-quality, cost-competitive products. As only a few companies have a global tomato paste production business like Kagome, through alliances, we aim to expand sales and share best practices, as well as minimize business risks through mutually complementary relationships. Also, as Kagome has production expertise on B to C products in Japan, it understands the value sought by and the needs of large food companies as sellers of tomato paste and is able to respond accordingly.



Tomato Processing Volume World Ranking

Rank	Company	Processing Volume (thousand tons)
1	Company M (United States)	3,900
2	Company C (China)	1,760
3	Ingomar	1,460
4	Company S (Portugal)	1,210
5	Company J (United States)	1,090
13	Kagome	596

B to B Business of Culinary Sauces Expanding Across the World

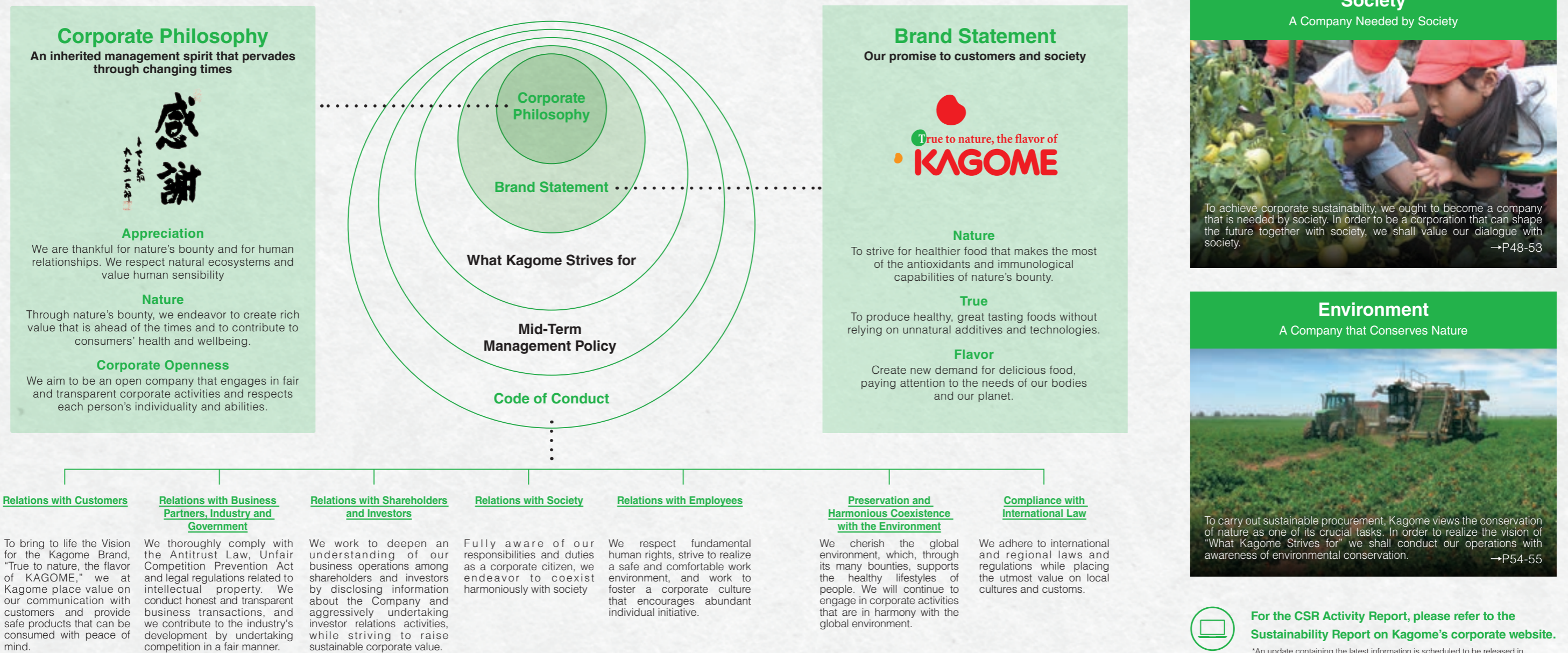
Kagome Inc., which sells food products in the United States, plays a central role in the business of B to B sales of culinary sauces to restaurant chains that are engaged in the food service business globally. While its mainstay product was pizza sauce in the 1990s, through research on market needs and the strengthening of its development capabilities, it has raised its ability to make proposals and extended its product range to include white sauce, teriyaki sauce, and more. Striving for further growth, it proposes new recipes to customers using the test kitchen that it opened in California. A major pizza chain currently has around 16,000 stores worldwide, and plans to increase this number to 20,000 by opening stores mainly in Asia and Europe, showing that the market is expanding beyond the United States into the world. As Kagome has production bases that can meet the needs of food services not only in the United States, but also in Europe (Portugal), Asia (Taiwan, Tianjin), and Australia, it plans to expand its business along with its customers' globalization.



Kagome's Environment, Social and Governance (ESG) Initiatives

With making the most of nature's bounty at the root of its business activities, Kagome creates value together with its various stakeholders, and views the goal of a sustainable society as an important one. It has continuously worked with growers through contracted farming to carry out agriculture that strives to reduce the burden on the environment. In the hope that children—leaders of the future—can grow up healthy, we engage in Dietary Education Assistance, such as through the original musical for children "Kagome Theater" which was launched in 1972. In 2011, along with Calbee, Inc. and Rohto Pharmaceutical Co., Ltd., we set up the Public Interest Incorporated Foundation: Michinoku-Mirai Foundation as a scholarship fund to support the higher education of children who had lost their parents in The Great East Japan Earthquake. Since 2001, upholding the philosophy of "corporate openness," we have continuously engaged in dialogue and interactions with our "Kagome Fan Shareholders," and reflected opinions from outside the company into our operations. As we continue to be conscious of the universal social issue of sustainable development goals (SDGs), ISO26000 and such, we will continue to implement initiatives for the society and the environment that are characteristic of Kagome. We shall hereby explain such activities from an ESG* standpoint.

* ESG: Environment, Social, Governance



Corporate Governance

Corporate Governance Based on Autonomy and Heteronomy

To transform from a "good company" to "strong company," we shall incorporate the various opinions of our stakeholders into management, and make further efforts in constructing a highly transparent and open governance structure. →P38-47

Society

A Company Needed by Society

To achieve corporate sustainability, we ought to become a company that is needed by society. In order to be a corporation that can shape the future together with society, we shall value our dialogue with society. →P48-53

Environment

A Company that Conserves Nature

To carry out sustainable procurement, Kagome views the conservation of nature as one of its crucial tasks. In order to realize the vision of "What Kagome Strives for" we shall conduct our operations with awareness of environmental conservation. →P54-55

For the CSR Activity Report, please refer to the Sustainability Report on Kagome's corporate website.
*An update containing the latest information is scheduled to be released in September 2017



Corporate Philosophy-based Management to Become a “Strong Company”

Hidenori Nishi

Chairman of the Board of Directors

Founder's intentions as the foundations of our corporate governance

“Appreciation,” “nature” and “corporate openness.” Our corporate philosophy originates from the intentions behind the foundation of the company as defined by the founder, Ichitaro Kanie. It refers to Ichitaro Kanie's mindset throughout his life and represents “appreciation,” which is our management spirit, “nature,” as the origin of Kagome's manufacturing, and “corporate openness,” which is a source that creates value through fair and transparent assessments and actions inside and outside the company. These were clearly stated in 2000 as a philosophy appropriate for a 21st century company with over one hundred years' history. This was four years after the first president from outside the founding family was appointed in 1996. They became the behavioral guidelines for employees to this day and the core of all corporate activities as a commitment to the stakeholders involved in management.

Creating “Kagome Fan Shareholders” for using external eyes in management

At the time, we received a largely skeptical response as to whether we could achieve “the Creation of 100,000 Kagome

In order to collaborate with external entities and accelerate challenges towards new business in our aim for further growth, we needed to evolve in terms of “corporate openness.” For this reason, we made the decision to incorporate “external eyes” that connects us to society into our management. We began endeavors geared toward “the Creation of 100,000 Kagome Fan Shareholders” in 2001, and in 2014 we brought in three external directors prior to enforcing our corporate governance code. Furthermore, in 2016 we revamped our management system into a corporate structure with an audit and supervisory committee.

Fan Shareholders” that we set forth in 2001. However, the number of shareholders continued to grow each year, reaching

100,000 in September 2005 and surpassing 200,000 in December 2014. The reason we were able to achieve our goal of creating 100,000 Kagome Fan Shareholders is that we focused on engagement with our shareholders. From 1998, we changed the date of the General Meeting of Shareholders so that it was no longer held on the day on which many companies hold their shareholders' meetings. We run events designed to promote direct dialogue and interactions with “Kagome Fan Shareholders,” including large-scale events with over 5,000 participants such as “Get-togethers with Shareholders for a Taste of Kagome” and “Kagome

Shareholder Forums;” we distribute “Gifts for Shareholders” twice a year; and, in recent years, hold events that include “Talks with the President” and “Production Plant Tours.” We have received critical opinions, suggestions, endorsements and encouragement from our shareholders as fans of Kagome products, and we have incorporated input from these events and from surveys into management in diverse ways. As a result of these specific initiatives aimed at corporate openness, we have been able to achieve a highly transparent management system by monitoring our management with as many “external eyes” as possible.

Further strengthening of “autonomy” complemented by “heteronomy”

We had been assessed by third parties as being a “good company” but did not receive a high assessment from institutional investors. In order that Kagome's strengths be highly and widely understood by further strengthening “autonomy” complemented by “subordination” to overcome our inward-looking mindset, we decided to pursue a higher level of accountability by bringing in external directors who have extensive management experience and are highly knowledgeable in their respective fields of specialization.

These external directors have provided us pointers for improvements such as the method of deliberation by the Board of Directors and risk handling and contingencies in overseas business which we could not have foreseen by ourselves, based on their extensive experience and perspectives that are lacking in our company. We reported the results of a survey on an assessment of the Board of Directors and individual interviews with external directors that we conducted in fall of 2016 to the Board of Directors, from which we extrapolated

issues and embarked on specific improvements. Meanwhile, we also arranged for external directors to inspect work sites such as overseas fields and production plants so that their statements are based on a greater understanding of our company.

Following the amendment to the Companies Act enacted in May 2015, our company transitioned to a corporate structure with an audit and supervisory committee. We are aware that this is a system that is unique to Japan but our aim is not the formalization of the structure but the creation of an organization and system that can function appropriately and effectively.

A corporate structure with an audit and supervisory committee is an organizational structure that is a hybrid between a corporate structure with corporate auditors and a corporate structure with committees, and one that has a high degree of flexibility and the ability to optimize the balance between “autonomy” and “heteronomy.” We will implement corporate governance that maximizes these advantages.

Aiming to be a strong company

As part of our transition to a corporate structure with an audit and supervisory committee, we restructured our management system. We separated the management of operations implementation from governance, and established management meetings to undertake the implementation of operations separately from the Board of Directors.

Going forward, we aim not only to be a “good company” in line with the expectations of our 200,000 “Kagome Fan Shareholders” by means of expedited decision-making, enhanced flexibility, clarified business responsibility, and strengthened management supervisory functions, but also to be a “strong company” that responds to the guidance and

expectations of institutional investors. Furthermore, based on our awareness of “creating a company with strong diversity,” we will focus internally on reforming the way our employees work, which forms the foundation for promoting this goal.

We believe that corporate governance is not something to be formally addressed but is a tool, the importance of which is understood by all employees as well as directors, to help us realize our corporate philosophy. By proactively using this tool, I am confident that we will evolve into a strong company that will survive over time.

Corporate Governance

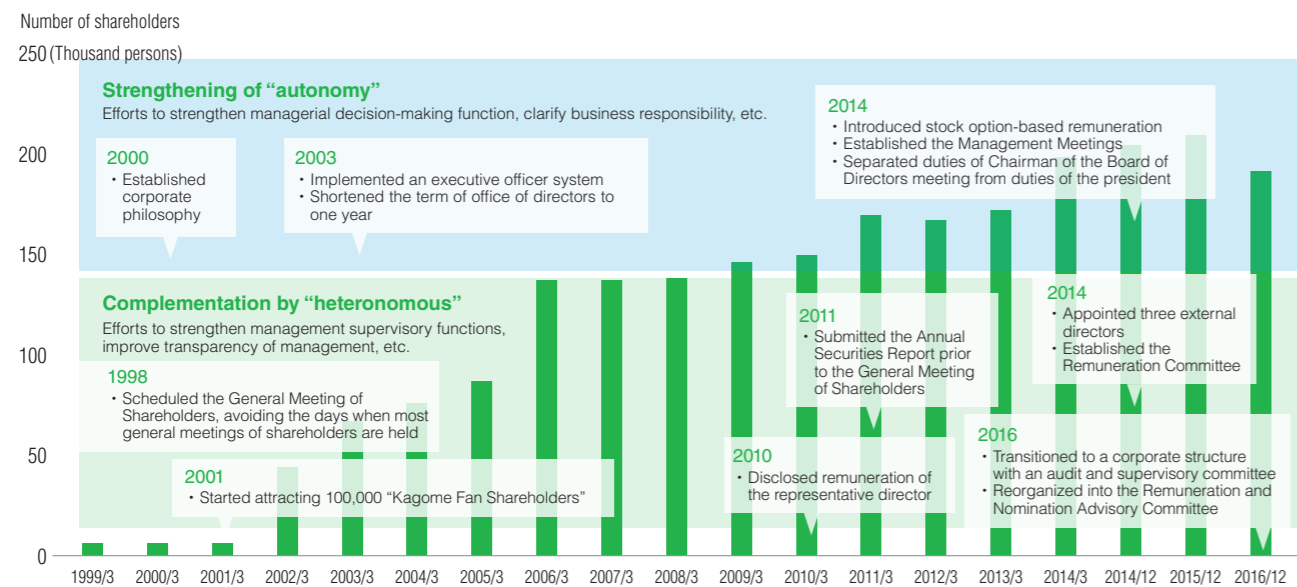
Basic Policy of Corporate Governance

In accordance with our corporate philosophy of "appreciation," "nature" and "corporate openness," we aim to achieve sustainable growth and improve the mid- to long-term value of the company. We acknowledge corporate governance to be a critical management issue toward these objectives. Our company considers further strengthening of "autonomy" complemented by "heteronomous" 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 function of 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

History of our corporate governance is a culmination of our efforts to achieve "corporate openness" as part of our corporate philosophy which can be traced back to the aspirations of our company founder. We have been continuously evolving up to the present through public offering of our shares, separation of capital from management, etc. in the past.

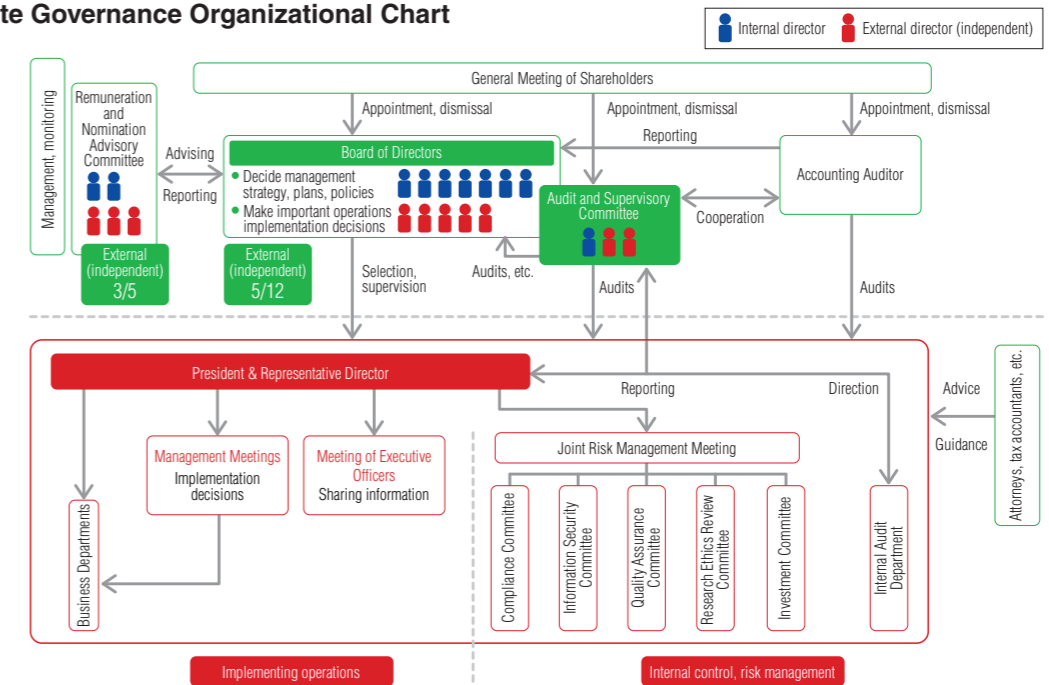


Corporate Governance System

In March 2016, we transitioned to a corporate structure with an audit and supervisory committee. This transition separates executive functions from supervisory functions, which helps clarify business responsibility and speed up decision making and execution of operations. Upon this transition, the main duties of the Board of Directors at our company are to decide our management strategy and policies, and monitor their implementation. In order to separate execution from supervision, the chairman of the Board of Directors is designated as the Chairman of the Board of Directors meeting, and three or more external directors who satisfy the Standards for Judging the Independence of Independent External Directors set out by our company are appointed. This is boosting our effectiveness with improved, enhanced advisory and supervisory functions. The audit and supervisory committee sets 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. 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 deliberation are advised to the Board of Directors, who then determines the nomination and remuneration of 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 executive officers. Furthermore, the Management Meetings have been established under the leadership of the president to ensure business is executed agilely and through mutual coordination. Deliberations in 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

Our Company has a policy of appointing three or more independent external directors to its Board of Directors that comprises ten or less directors (excluding directors who are audit and supervisory committee members) and seven or less directors who are audit and supervisory committee members. In addition, our company seeks to appoint persons, who have a wealth of knowledge and experience and high capability, as directors from various fields in a well-balanced way, with a view to making the Board of Directors demonstrate its functions to the fullest extent for the improvement of corporate value over the mid- to long-term.

Specialized areas of external directors

	Corporate management	Global	Society, economy	Accounting, tax	Law	Diversity	Food
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:

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

Initiatives to Enhance the Effectiveness of the Board of Directors

- Revision of the rules for submission of proposals to the Board of Directors (transition to the Management Meetings)
- Making annual schedule of proposals to the Board of Directors
- Providing external directors with prior explanation of proposals to the Board of Directors
- 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 in the Board of Directors meetings

Director Remuneration

Our company's director remunerations, etc. comprise basic compensation, bonus linked to business performance and (cash) stock options. The proportions of each of the above remunerations are determined based on the positions of directors. Basic compensation is a fixed-amount compensation which is determined based on the importance of roles played by directors. Both bonus and stock option are determined based on consolidated profit indicators as company-wide business performance and contributions made by the individual director. Stock options are incentives for medium-term and multiple-year management and are designed to be exercisable based on consolidated profit indicators after certain period of time from the time of allotment as exercise conditions. Accordingly, exercisable

number of these stock options is determined according to the degree of attainment. Compensation to director, audit and supervisory committee members and external directors each comprise basic compensation.

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 director compensation, etc. In fiscal 2016, the same committee was given functions as an advisory body concerning nomination of directors, and was then reorganized to become the current Remuneration and Nomination Advisory Committee.

Remuneration and Nomination Advisory Committee Held four times every year

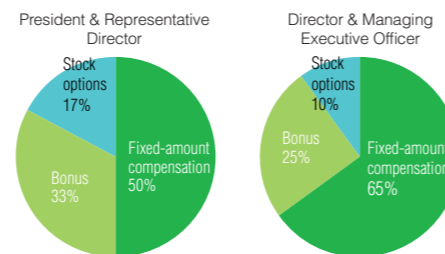
Fiscal year in which the committee was convened	Matters deliberated
2016 The first committee	• Determination of the amount of director bonus for fiscal 2015
The second committee	• Transition to Remuneration and Nomination Advisory Committee • Succession plan for fiscal 2016 • Director compensation for fiscal 2016 • Compensation to overseas CEO
The third committee	• Market data on director compensation for fiscal 2016 • Estimates of variable compensation expected for fiscal 2016
The fourth committee	• Report of results of executive assessment for executives and CS as well as 360-degree survey
2017 The first committee	• Determination of the amount of director bonus for fiscal 2016 • New appointment and reappointment of directors in fiscal 2017
The second committee	• Members of Remuneration and Nomination Advisory Committee in fiscal 2017 • Director compensation for fiscal 2017 • Business performance indicators for fiscal 2017

Director 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)*	309	176	19	113	7
Auditors, directors (audit and supervisory committee members)*	25	25	-	-	3
External directors	48	48	-	-	6

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

Composition of director compensation (a part)



Results of Evaluation of the Effectiveness of the Board of Directors

Our company ran an evaluation concerning the effectiveness of the board of directors in October 2016. An overview of the results is described below.

<p>1. Methods of evaluation Conducted surveys to directors (27 items within 6 categories) Categories of surveys are as follows. 1) The Board of Directors in general (improvement of corporate value, decision-making, implementation and supervision, etc.) 2) Composition of the Board of Directors (size, ratio of external directors, diversity, etc.) 3) Matters to be submitted and reported (completeness of themes, timing of submission, report of progress, etc.) 4) Operation of the Board of Directors meetings (frequency of meetings, length (explanation and deliberation), leadership of the chairman, support by the secretariat, etc.) 5) Discussions at the Board of Directors meetings (provision of information, Q&A sessions, application of results of deliberation, etc.) 6) Corporate governance system (system appropriate to our company, appointment of executives, remuneration system, dialogue with stakeholders, etc.) Interviews to external directors (five persons) by the chairman of the board of directors meeting</p> <p>2. Overview of results of evaluation After having engaged in discussions in consideration of the matters above, our Board of Directors evaluated that it functions appropriately overall in all of the categories 1) through 6) and that the board of directors was effective. Items that were highly evaluated in particular are as follows.</p>	<ul style="list-style-type: none"> • The Board of Directors makes prompt and flexible decisions. • A line is clearly drawn between matters to be resolved by the Board of Directors and matters to be resolved under the responsibility of implementing side. • The size of the Board of Directors (number of members) is appropriate. • The ratio of internal and external directors is appropriate. • Time is allocated in accordance with priority level of proposals. • At the Board of Directors meetings, the chairman exercises leadership appropriately in the proceedings. • After discussion by the Board of Directors, matters are reviewed and revised as necessary. • Compensation system is designed with appropriate incentives. <p>On the other hand, with regard to operation of the board of directors meetings, matters were brought up and constructive feedback was given on materials for the board of directors meetings, explanation of proposals, etc. for securing ample deliberation time. Furthermore, with regard to the corporate governance system, delays in activities related to implementation of selection process of executives, etc. were pointed out by some directors, hence they are to be discussed at the board of directors following discussion at the Remuneration and Nomination Advisory Committee. Reflecting on the results of the evaluation concerning the effectiveness of the Board of Directors, we seek to further improve its effectiveness going forward.</p>
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Response to the Corporate Governance Code

Our company considers the Corporate Governance Code as requests and expectations from the society, and has actively worked toward its achievement. Consequently, we judged that all of the items have been implemented as of April 2017; however, we are never satisfied with the status quo and will further evolve and develop in accordance with the basic policy. For details, please refer to our corporate governance report.
(Kagome website: www.kagome.co.jp/company/ir/stock/governance)

Message from External Directors

Aiming for governance which utilizes power outside the company effectively.

Since I assumed office as External Director in June 2014, I have been consistently working as "external eyes." Make constructive statements based on objectivity with a view of common knowledge outside the company and personal insights accumulated during my career, and ultimately, make decisions not in terms of contrasting the inside to the outside of the company but in terms of finding an optimal way to improve the corporate value. Having repeated this process, we have developed a system which enables decision-making process with effective utilization of power from outside the company.

To push ahead with reforming the board of directors, Kagome conducts surveys on evaluation of the board of directors and interviews to external directors. Centered on Chairman Mr. Nishi and President Mr. Terada, we are highly motivated toward promotion of reform, taking opinions from outside the company seriously. One example, albeit minor, is a proposal from Chairman Mr. Nishi, where we started changing seats at the board of directors meetings. Prior to this event, seating of internal directors was separated from external directors. But by arranging seating of internal directors and external directors alternately, the discussion at the meeting has been even lively than ever before.

On the other hand, there are remaining issues, some of which are overall time control of the board of directors meeting and depth of discussions. Although these issues have considerably been improved during the past three years, it is necessary to shorten explanation time of each proposal and deepen genuine discussions. For instance, power from the outside needs to be utilized more effectively in essential parts of important agenda such as medium- and long-term management strategy, risk issues, M&As, etc. In particular, as part of corporate risk management, matters which are difficult to change due to internal circumstances need to be changed greatly by using power from outside the company.

Through further implementation of reform, I strongly believe that Kagome will improve its corporate value under its outstanding corporate governance to become a global company.



Takayuki Hashimoto
External Director



Morihiro Murata
External Director
Audit and Supervisory Committee Member

Aiming for a corporate structure with an audit and supervisory committee with enhanced "management supervision functions"

"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change" is one of Darwin's most popular quotes. Kagome has been reorganized from a corporate structure with corporate auditors to a corporate structure with an audit and supervisory committee. I became an Audit and Supervisory Committee Member from Corporate Auditor, and also an External Director with voting rights at the board of directors meeting. Upon the transition to a corporate structure with an audit and supervisory committee, the number of directors including myself in charge of management supervision functions has been increased and management supervision functions at the board of directors have been enhanced. This evolution is a step which leads to the strengthening of the corporate governance required by society.

Kagome's corporate governance has been consistently evolving under the leadership of Chairman Mr. Nishi and President Mr. Terada, looking ahead of changes of the times. In June 2014, our company appointed external directors and started implementing management which effectively utilizes external opinions. Furthermore, we conduct surveys on evaluation of the Board of Directors and interviews to external directors, and are working on reforming the Board of Directors by actively incorporating suggestions from external directors.

For instance, with regard to an overseas project, I raised an objection to its business continuation at the Board of Directors meeting, after I conducted site visits to local plants and judged the project as being at higher risk. As a result of a discussion, adopted decision was made to discontinue the business. This has left a strong impression on me as an example of steadily increasing the management supervision functions of the Board of Directors in which the external eyes are incorporated.

I believe that skill in enforcing corporate governance determines corporate competitiveness and corporate value. By leveraging my career as a professional accountant, I am committed to enhance and strengthen management supervision functions which are a foundation of evolution of corporate governance.

Introduction of Executives (as of March 28, 2017)



Hidenori Nishi Remuneration and Nomination Advisory Committee Member
 (Born January 6, 1951)
 Chairman of the Board of Directors

1975 Joined the Company
 2000 Director
 2004 General Manager, Tokyo Sales Office
 2007 Chairman of Kagome Inc. (U.S.)
 2008 Director & Senior Managing Executive Officer of the Company Director, Business Management Division
 2009 President & Representative Director
 2014 Chairman of the Board of Directors & Representative Director
 2016 Chairman of the Board of Directors (to present) [Significant concurrent positions] Outside Director of Dynapac Co., Ltd., Outside Director of NAGASE & CO., LTD.



Naoyuki Terada Remuneration and Nomination Advisory Committee Member
 (Born February 5, 1955)
 President & Representative Director

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
 2014 President & Representative Director (to present)



Yoshihide Watanabe
 (Born March 4, 1958)
 Director & Senior Managing Executive Officer
 Director, Corporate Planning Division

1982 Joined The Nippon Credit Bank, Ltd. (currently 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 (to present)
 2016 Director & Senior Managing Executive Officer (to present)



Seiichi Kondo Independent
 (Born March 24, 1946)
 External Director

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 JX Holdings, Inc. Outside Director of Pasona Group Inc.



Takayuki Hashimoto Independent
 (Born July 9, 1954)
 External Director

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



Hidemi Sato Independent
 (Born February 17, 1959)
 External Director

1981 Joined Mitsubishi Electric Corporation
 1996 Completed Doctoral Program at Graduate School of Ochanomizu University; took 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 (currently 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



Katsuyuki Miwa
 (Born August 5, 1955)
 Director & Senior Managing Executive Officer
 Director, Production & Purchasing Division

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 (to present)
 2013 Director & Managing Executive Officer
 2016 Director & Senior Managing Executive Officer (to present)



Hirohito Kodama
 (Born March 22, 1959)
 Director & Managing Executive Officer
 Responsible for Business Process Redesign and President & Representative Director of Kagome Axis Co., Ltd.

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 (to present)
 2013 CEO, Asia Business Company
 2016 Responsible for Business Process Redesign (to present) [Significant concurrent positions] President & Representative Director of Kagome Axis Co., Ltd.



Masahiro Sumitomo
 (Born February 3, 1961)
 Director & Managing Executive Officer
 Director of International Business Division

1984 Joined the Company
 2002 General Manager, Business Development Department
 2006 Executive Officer
 2008 President of Vegetalia S.p.A
 2012 Representative, Europe Regional Head Office, Corporate Planning Division of the Company; and President of Vegetalia S.p.A.
 2012 Managing Executive Officer of the Company
 2015 Director of International Business Division of the Company; General Manager, Global Consumer Business Department; and CEO, Global Tomato Company of Kagome Co., Ltd. (to present)
 2016 Director & Managing Executive Officer (to present)



Mutsuhisa Kanie Audit and Supervisory Committee Member
 (Born December 5, 1954)
 Director, Standing Audit and Supervisory Committee Member

1977 Join the Company
 2001 General Manager of Logistics Department
 2007 Corporate Auditor
 2016 Director, Audit and Supervisory Committee Member (to present) [Significant concurrent positions] Outside Auditor of Dynapac Co., Ltd.



Murata Morihiro Independent
 (Born July 20, 1946)
 External Director, Audit and Supervisory 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 (to present) [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.



Hiroshi Mori Independent
 (Born February 21, 1965)
 External Director, Audit and Supervisory Committee Member

1989 Joined Development Bank of Japan (currently Development Bank of Japan, Inc.)
 1993 Seconded to Finance Bureau of Ministry of Home Affairs (currently Ministry of Internal Affairs and Communications)
 2003 Seconded to Tesac Corporation, a company under reorganization
 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, USEN Corporation Outside Director, Audit & Supervisory Committee Member, Mitsubishi UFJ Securities Holdings Co., Ltd.

Reasons for appointment

Hidenori Nishi	He has extensive experience in overseas business, business management, sales, etc., and is promoting measures to improve corporate governance at Kagome
Naoyuki Terada	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 medium-term management plan
Yoshihide Watanabe	He has extensive experience at a financial institution and the corporate planning department, etc. of Kagome, and is pushing forward with reforming working styles and reforming the earnings structure as supervisor of the corporate planning division.
Katsuyuki Miwa	He has extensive experience in the production and purchasing department, management of subsidiaries, etc., and is promoting improvement of quality of the Kagome's products and reduction of costs as supervisor of the production & purchasing division
Hirohito Kodama	He has extensive experience in the corporate planning and research and development departments, etc., and is driving ahead with improvement of business efficiency, business process redesign and health and productivity management of Kagome as the president of Kagome Axis Co., Ltd.
Masahiro Sumitomo	He has extensive experience in the overseas business department, management of overseas subsidiaries, etc., and is promoting global expansion of Kagome's business as supervisor of the international business division

Seiichi Kondo	He has extensive experience in overseas assignments of central government ministries and agencies and knowledge of economy, as exemplified by his participation in the formulation of the OECD Principles of Corporate Governance.
Takayuki Hashimoto	He has extensive experience and knowledge on diversity promotion and risk management in business as a manager of a highly diversified global company
Hidemi Sato	She has extensive knowledge on food science and food education through many research activities regarding food science and many years of educational activities on food and nutrition.
Mutsuhisa Kanie	He is proficient with the Company's business from his experience in the corporate planning division and SCM division etc., and has extensive experience as a corporate auditor and performs audits appropriately.
Murata Morihiro	He is proficient in corporate accounting as a certified public accountant and tax accountant, and has extensive insight to oversee corporate management based on his experience in corporate management, etc.
Hiroshi Mori	As a lawyer, he is well-versed in corporate legal affairs and risk management practices, and has extensive insight to oversee corporate management.

Compliance

A Policy of "Corporate Openness"

With its company executives and employees mutually recognizing and respecting one another's individuality and capabilities, our company supports a philosophy of "corporate openness" that strives for fair and transparent business operation. Each Group company also observes this philosophy, and it is the basis upon which they conduct their corporate activities.

This corporate philosophy was initially realized through the daily actions of each executive and employee. In this regard, our company formulated the Kagome Code of Conduct, a set of behavioral guidelines thoroughly adhered to by all group executives and employees. (Pages 34 through 35)

Compliance Promotion System

The Kagome Group has established a Compliance Committee, under the supervision of the Joint Risk Management Meeting (which is chaired by Kagome's President & Representative Director). The Compliance Committee, which is chaired by Director & Senior Managing Executive Officer with responsibility for overseeing compliance, undertakes 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 countermeasures. 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 2016, the Kagome Compliance

Hotline was used 15 times, and each case was resolved.

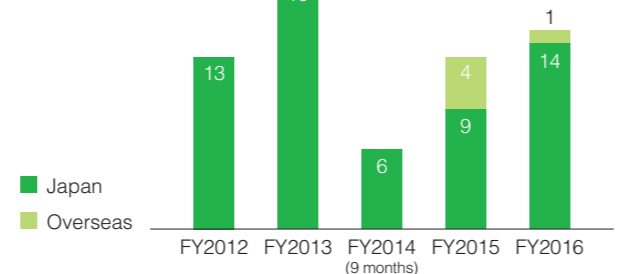
Contact details of the Compliance Hotline are registered on Kagome Safety Net, a smartphone application which can be downloaded by the employees, and every effort is made to ensure that employees can access the Compliance Hotline at any time.



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



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 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.

Efforts are made to keep training up-to-date, taking account of new developments in society and using examples from within the company. The training arranged for fiscal 2016 included e-learning concerning tax compliance. In addition, the group training aimed to increase the employees' awareness of compliance-related issues, delving into topics such as the Subcontract Act, points to note regarding the use of social media, unjustifiable premiums and misleading representations, maternity harassment and LGBT.

Handling Different Types of Risk

Policies for Handling Risk

Kagome, as a "vegetable company" which 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. With an eye

on ESG, we convey information on our risk management from the perspective of "Governance Risk Compliance" (hereinafter GRC) which is comprehensive risk management techniques to improve efficiency of management decision-making.

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. In addition, to enhance its risk management structure, our company has established five committees, particularly in consideration of the importance of third-party evaluation, and has set up the Joint Risk Management Meeting as a single integrated body to manage risk. The Joint Risk Management Meeting, which is chaired by the President & Representative Director and consists of members of the Management Meetings, works to ensure swift decision-making takes place with regard to policies for responding to risk and

important issues related to responses to risk. With a focus on operational risks, the Joint Risk Management Meeting meets in principle once a month to receive reports and suggestions from the secretariat and relevant departments on day-to-day social issues, their impacts on Kagome Group and responses to such issues, in addition to reports on activities of each committee, and to discuss and instruct on necessary responses, thereby improving internal control as activities to reduce risks. In addition, in order to improve effectiveness of internal control, details of the instructions are leveraged for monitoring by internal audit departments, and the result of the monitoring is reported to the Audit and Supervisory Committee monthly.

● Compliance Committee

The Compliance Committee is a corporate body to promote compliance in 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 taken by the company and its employees 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. This 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

In order to ensure customers with 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 for our company as a food manufacturer. With the objective of strengthening quality assurance of products, the Quality Assurance Committee brings together representatives of relevant departments and meets monthly to address customer comments, prevent accidents, respond to amendments of laws, and assure proper labeling. The establishment of this committee has enabled Kagome to respond more precisely, and in a more expeditious fashion, both internally and externally.

● 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 research objectives, ethical adequacy and scientific legitimacy.

● 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. This committee was established for the purpose of measuring and assessing risks of investments which are drafted by each department. Proposals which are verified by this committee are submitted to the board of directors or the Management Meetings and deliberated officially



Views Based on GRC

Our company is expanding our business domain and business areas to achieve the targets of the mid-term management plan. Our pressing issue is to strengthen governance of the entire Group to ensure sound management of the Group.

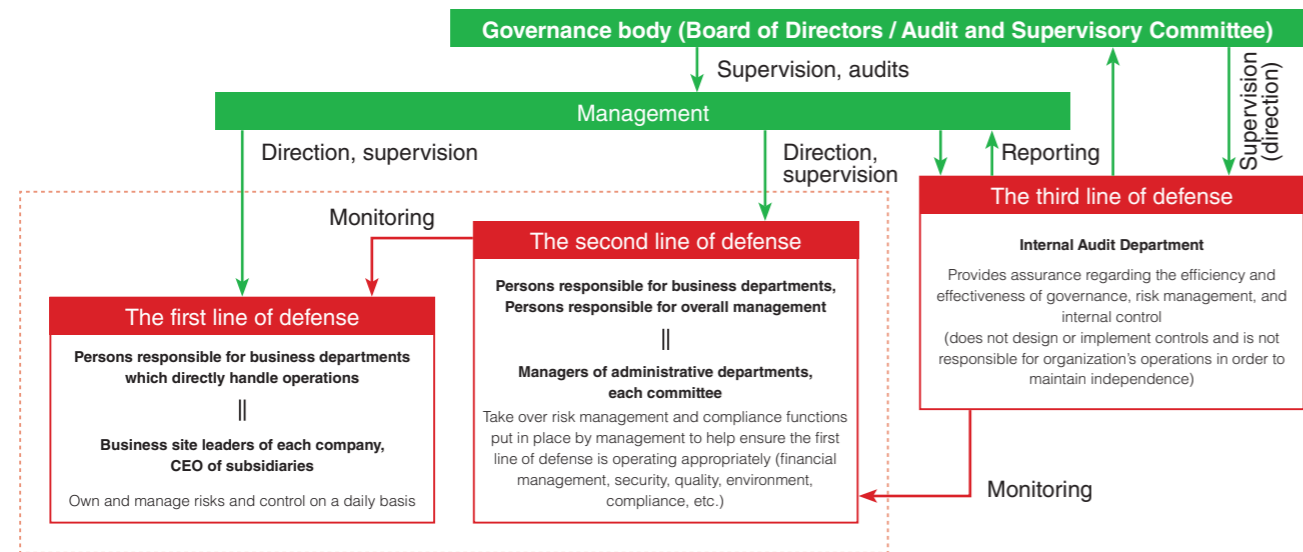
In an aim to promote sound group governance, Kagome started working on initiative of internal audit with an eye on "Leveraging COSO across the Three Lines of Defense," a paper which is a collaboration between the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and The Institute of Internal Auditors, Inc. (IIA). At the base of this initiative are control activities (the first line of defense) performed appropriately in business departments and Group companies which conduct day-to-day operational activities. We aim to develop a system in which head offices (the second line of defense) which oversee such activities and conduct overall management help further ensure that risks and controls are effectively managed, as the internal audit (the third line of

defense) monitors both of the abovementioned lines of defense and provides assurance to the management and the Board of Directors.

In internal audit, we have been trying to perform inspection not merely by evaluating good from bad based on a check list, but also by interviewing persons who are involved in the management as well as by verifying actual atmosphere and background of operation. This initiative is implemented not only in operational audits run by the Internal Audit Department, but also in monitoring quality, environment, labor and other areas in relevant departments.

Through various audit activities, we strive to accomplish the four purposes of internal control, namely to improve "effectiveness and efficiency of business operations," ensure "reliability of financial reporting," "comply with laws and regulations relevant to business activities" and "safeguard assets" through the proper procedures.

Concept of Internal Control (image of three lines of defense and internal audit)



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 under the president as a division director according to BCP*, 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 BCM 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.

* BCP: Business Contingency Plan

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 of 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 "convocation notice" and "documents accompanying the convocation notice," disclosing them on the company website and sending them as early as possible. In 2017, we featured a discussion meeting among directors and included suggestions from external directors. At the General Meeting of Shareholders, we made efforts to provide reports in an easy-to-understand manner 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.



After the meeting, we promptly disclosed details of the meeting including Q&A sessions and results of questionnaire surveys completed by shareholders who attended the meeting, in order to help shareholders who could not attend the meeting understand the details of 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 2001, we began working to attract 100,000 "Kagome Fan Shareholders" shareholders. This initiative drove shareholder numbers past the 100,000 mark on September 30, 2005, and shareholder number currently stands at over 200,000. We will continue to appropriately reflect the valuable opinions and needs of our shareholders in all our corporate activities.

Dividend Policy

Our company recognizes that returning profits to its shareholders is one of its most important management issues. We make it a basic policy to distribute stable dividends, targeting a dividend payout ratio of 40%. Internal reserves will be allocated to the strengthening of financial structure, future strategic investments and other activities aimed at even greater shareholder returns through future business growth.

Special Shareholder Benefits

Under Kagome's Special Shareholder Benefits system, twice a year 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.

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.

<p>R&I (Rating and Investment Information, Inc.)</p> <p>Long-term credit rating</p> <p>A</p>	<p>JCR (Japan Credit Rating Agency, Ltd.)</p> <p>Long-term credit rating Short-term credit rating</p> <p>A J-1</p>
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Topic 01 Introduction of a global personnel system that fairly evaluates all aspects of business from any part of the world



Opportunities for joint development and research across country boundaries have also increased along with global expansion

Standards set according to job functions and results, instead of people

Aims for introducing a global personnel system
The appropriate functioning of a personnel system that rewards hard work

Pay for Job	Pay for Performance	Pay for Differentiation
Provide easier-to-accept evaluations	→ Enhances motivation	
Cultivate healthy competition	→ Increases the promotion chances of female/young employees	
Clarify business results and value	→ Promotes way of working reforms	

Toward a "strong company" that is capable of sustainable growth

"Global Job Grading"

A grading system for the scale of universal job functions
Image of the global job grading

Grade	Japan	America	Australia	Portugal
V	○			
IV		○		
III	○		○	○
II	○		○	○
I				

The development of measures in response to diversifying work styles so as to accelerate global expansion

The Kagome Group has locations in 35 countries all over the world, and about 20% of its employees are overseas employees. However, we did not have a unified personnel system that allows management of the Group as a whole. In response to this, and aiming for our employees to "be evaluated under fair standards, and to be treated equally, anywhere in the world," we introduced, step by step, a global personnel system from 2013. In practical terms, the system aims to prepare infrastructure for globalization, to revise the seniority system which used to serve as an evaluation standard for job functions, and to appropriately distribute personnel expenses in accordance to more thorough evaluations.

Having Group-shared HR policies and measures accelerates corporate growth, and with regard to the above system we state the following three reasons as explanation to our employees.

First is to demonstrate our basic principle of "focusing on people," which we have inherited since Kagome's establishment. Second is to position our employees as significant stakeholders. And last but not least, to have a common indicator necessary for creating management policies and measures. This shared indicator is referred to as the "Global Job Grading." Through this, the scale of each job function can be taken into consideration, and a framework that ensures the clear reflection of evaluation results can be built. In turn, the Group-shared cultivation of human resources and registration is made possible, alongside phasing out the seniority factor, which is unique to the Japanese culture. Going forward, we envision the switching of roles among employees in various ranks in both overseas and domestic offices, and the revitalization of personnel communication.

Topic 02 Becoming a strong company by promoting diversity, striving for "50% of the workforce consisting of women" in all positions, from officers to employees

We want to value the female perspective, precisely because we are a company supported by women

An overwhelming majority of customers purchasing our products are women, and so are over half of "Kagome Fan Shareholders." Kagome constantly places high in job popularity rankings for female university students in STEM; we also have 1 female employee out of 4 employees, all of whom are active in their jobs at various placements. Working mothers returning to the office after their maternity or child-raising leave are also increasing. To be a company heavily supported by women, we believe that it is crucial and necessary to have 50/50 a gender ratio in the workforce.



The "Diversity Committee" was established in January 2016 to promote activities to sustainably revitalize the workplace



(Above) "Work-life seminars" organized in 4 venues across Japan (Tokyo, Osaka, Nasu, Nagoya) in 2016
(Below) "Diversity Day," a company-wide forum held annually, inviting external experts and specialists

<The Act on Promotion of Women's Participation and Advancement in the Workplace> Kagome's Action Plan

Period: April 1, 2016 to March 31, 2019

- ▶ Target 1 To hire new employees, of whom **50%** or more are female employees.
- ▶ Target 2 To maintain the employment percentage of female employees hired before the 9-11 fiscal years ago, at or over **80%** of that of male employees
- ▶ Target 3 To ensure that female employees make up over **8%** of managerial positions (Manager and above)

Utilizing diverse "talents," including women, can boost management reforms

In the promotion of diversity, we value the following 3 perspectives: 1) to fulfill our social responsibility as a company; 2) to enrich our employees' lives; 3) to become a strong Kagome. And the most important foundation in this endeavor is "communication." We believe that to recognize each other's differences, to exchange opinions, and to make use of these differing perspectives, abilities, and experiences are the driving force for us to become a "strong Kagome." In January 2016, 117 representatives from all offices established the "Diversity Committee" (which is chaired by President Terada), and began organizing activities in all offices to revitalize workplace communication, such as workshops for understanding differences among employees. Moreover, seminars inviting external experts and study sessions for managerial positions are held, in order to promote the understanding of diversity, as well as to give an opportunity to employees to think independently about their careers and work methods. In our mid-term management plan, we plan to utilize the various perspectives and abilities of our employees to create an environment where even those who are motivated but constrained by time or location can work to their hearts' fulfillment.



Became a member of the "IkuBoss Alliance" in April 2016

Topic 03 To build equal relationships with domestic and overseas growers and suppliers, and to prioritize mid- to long-term partnerships with shared values

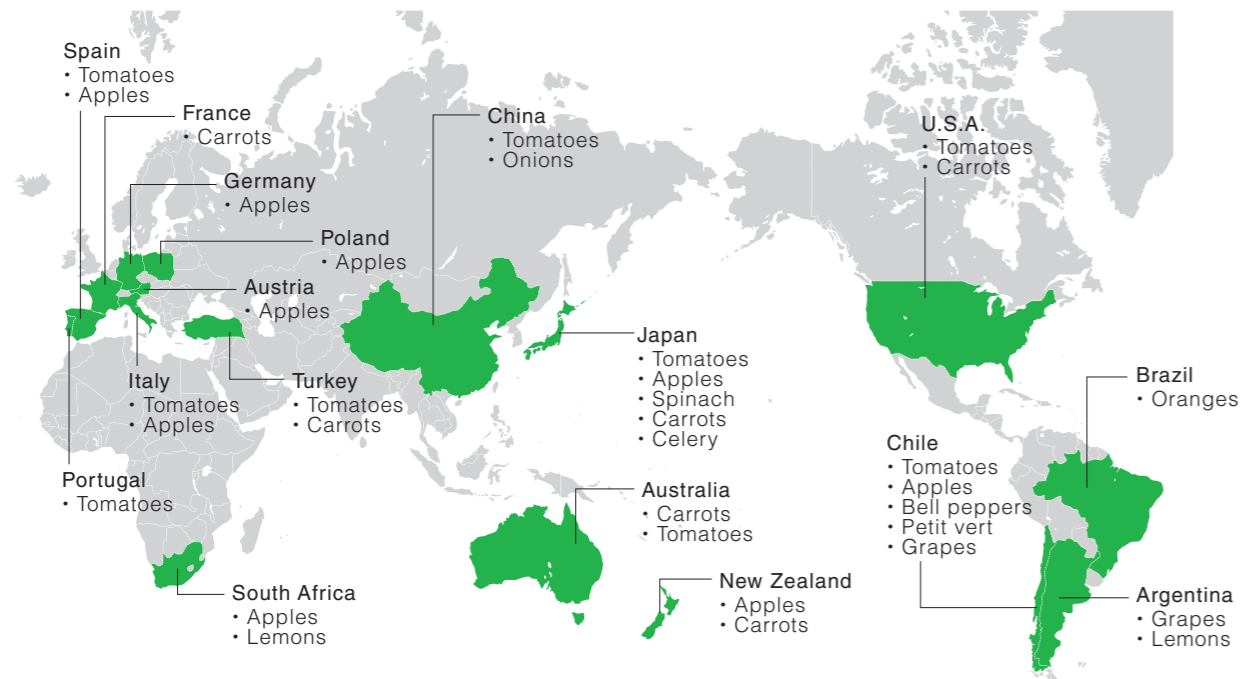


Guidance on food quality to domestic growers

Maintenance of equal, sound, and appropriate relationships

As an "open company," the Kagome Group strives to maintain equal, sound, and appropriate relationships with domestic suppliers and local manufacturers. Proposals from companies who want to start new transactions with us shall be handled immediately and fairly. Moreover, alongside complying with the Antimonopoly Act in our transactions, we respect the spirit of the Act, and shall never commit inappropriate trading with our suppliers. Therefore, we have set up a contact via telephone, the "Kagome Compliance Hotline," to handle requests and queries from suppliers.

Major suppliers of ingredients of the Kagome Group (as of May 2017)



Sharing values with suppliers based on our corporate philosophy

The Kagome Group is honored to have our trusted suppliers on mid- to long-term partnerships sharing the values based on our corporate philosophy, supporting us in our business, and delivering products with value to our customers. In order to inspire and get to know each other on a deeper level, we and our suppliers work to meet once a year to exchange dialogue and ideas, focusing on companies that have long traded with us.

The overseas procurement of processed agricultural materials

For overseas producers (suppliers) of processed agricultural materials, Kagome generally visits the suppliers' location, and inspects the status of quality management from the cultivation stage to the production process. For tomatoes, in particular, Kagome holds meetings with suppliers each year before production season. With the suppliers, we discuss issues covering the whole production process from field to factory, in order to enhance the quality of raw materials. For example, we investigate not only the processing procedures of harvested produce, but cultivation methods such as the number of times pesticides are applied by contracted farms, as well as optimal fertilization methods. Moreover, we extract potential issues of the coming year from the season review at the end of the period, so as to set targets which we can achieve through mutual support.

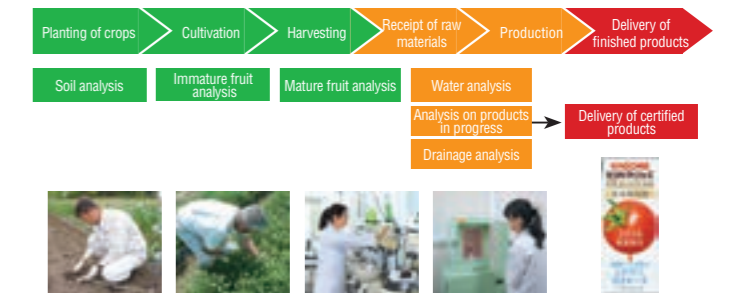
Topic 04 Towards safety and reassurance Quality management from field to products

Since the establishment of the Kagome Group, we have utilized nature's bounty and have worked as one to provide customers with useful products. Food safety and reassurance remains one of our first priorities. In Kagome, we undertake various analyses and checks for processes from the field to the provision of products.

Measures tackling radioactive materials

Immediately after the Fukushima Daiichi Nuclear Power Station Accident in 2011, public analysis institutions checked and carried out regular safety examinations on water used in factories, while Kagome checked and carried out the same for radioactive materials in raw materials and products procured and produced in Japan. For tomatoes in particular, we carry out examinations during multiple stages, including on the soil of the field where crops are planted, immature fruit under cultivation, mature fruit before harvesting, and the fresh juice before packaging, all the while keeping a close eye on information on food origins, harvesting periods, as well as administration and monitoring.

Confirmation of safety through process management (Example case: contracted cultivation of domestic tomatoes)



Measures in response to pesticide residues

Kagome carries out annual inspections of pesticide residues in raw materials to ensure safe consumption. Pesticide amounts have increased significantly since the "Positive List System for Agricultural Chemical Residues in Foods*" was issued in May 2006, and residual standards consequently became more stringent. While developing technology that enables the efficient analysis of multiple components, our analysis department has obtained the International Standard ISO17025, qualifying it as a capable organization for examinations and analyses. We are working to further enhance the precision of our analyses. Furthermore, aside from analyzing pesticide residuals, the same department is also equipped with a system that analyzes and examines mycotoxins and bacteria that causes food poisoning, etc., ensuring the safety of raw materials procured domestically or overseas.

*The "Positive List System for Agricultural Chemical Residues in Foods" is a system that, in principle, prohibits that circulation of foodstuffs containing excessive levels of non-standardized pesticides.



Analysis of pesticide residues

Measures towards food defense

To prepare for the "intentional contamination of foodstuffs with foreign matter" in Japan, Kagome has established an internal management guide related to food defense, and ensures its thorough observance. In more concrete terms, aside from installing cameras and renewing the lock system in company factories, as well as revitalizing the communication among factory employees, we work as one with our partner factories in establishing a system in line with Kagome's management guide.

Quality management of overseas Group companies

In addition to obtaining the GSFI certification*, Kagome's overseas Group companies share the same standards and work to enhance quality, so that the world will recognize "Kagome's quality." Since 2016, the Global Quality Assurance Department, aimed to enhance the level of quality assurance of overseas Group companies, has been officially established as an organization, and to this day establishes shared standards, assists in cooperation within the Group, and carries out inspections and provides guidance regularly.

* Global certification for food safety: GSFI-certified food safety assurance schemes GSFI (Global Food Safety Initiative): BRC, FSSC22000, SQF, etc.



Quality inspection at H.I.T. (Portugal) factory

Topic 05 Longer, healthy lives through food: Reducing the number of “Japanese people whose diets are short on vegetables to 0”

Resolving the health problems of a super aging society with vegetables

The Kagome Group is dedicated to business operations with the theme of helping people live longer, healthy lives through products that utilize nature's bounty. We have over 1,000 types of products, which covers 11.9% (494,000 tons) of green and yellow vegetables consumption in Japan. On the other hand, the average Japanese diet is still around 57g short of the targeted 350g or more recommended by the Ministry of Health, Labour and Welfare. In Japan, a country plunging into a super aging society rarely seen in the world, Kagome believes that the extension of healthy life expectancy is an urgent issue that requires attention from both public and private sectors, and is accelerating its efforts in resolving said issue through food.

Offering delicious ways to eat plenty of vegetables, according to needs

Kagome provides a wide range of vegetable drinks, for people who dislike eating vegetables or those who do not have time to cook, so that they can consume vegetables easily, anytime, anywhere. In the production process of “GREENS,” released in 2015, heating is more controlled than in those of other vegetable drinks, allowing consumers to enjoy the drink with the texture and aroma of the actual vegetables and fruits used. This line of products is especially popular among working women aged 20-40, as a substitute for salads during meals. Moreover, our direct marketing brand “Kenko Chokusōin” is mainly supported by customers aged 60 and above. This highly-praised system that directly delivers products to customers eases the burden of having to shop for juice and other heavy products outside, leading to an expansion in sales.



* Direct marketing brand “Kenko Chokusōin”



(From left) KAGOME Tomato Juice, with salt; KAGOME Tomato Juice 720ml / 200ml, with salt and no additives; KAGOME Lycopene Choleste-Fine

Labeling our Tomato Juice with functional claims

With a focus on tomatoes, Kagome has been engaged in research on vegetable nutrition for a number of years, testing out a variety of effects and efficacies. Lycopene has been reported to act in a way that boosts high-density lipoprotein (HDL) cholesterol, so starting last year we began selling our Kagome Tomato Juice (265g, 720ml, and 200ml sizes) and Lycopene Choleste-Fine with functional claims on the labels in 2016. Through this, our products have become more attractive for health-conscious people. Furthermore, GABA delivered from vegetables has also been reported to have a reducing effect on higher blood pressures, so we are re-branding our “Kagome Vegetable Juice” in fall of 2017 with functional claim food labeling.

Strengthening our efforts in reducing salt for the health of Japan

According to the “Dietary Reference Intakes for Japanese” issued by the Ministry of Health, Labour and Welfare in 2015, the reference value of salt intake for males is less than 8.0g per day, and for females is less than 7.0g per day. It is said that male and female adults need to reduce roughly 30% in their daily salt intake levels. This is where Kagome has zeroed in on the “umami” (savory flavor) component of glutamine acid in tomatoes. We are proposing “Recipes that reduce salt by 30% or more” that use tomato ketchup to replace half the normal amounts of soy sauce or miso in cooking.



Sales promotion tool shown at mass retail store fronts

Provision of information through stores, homepage, and events

To increase the consumption of vegetables, we work to promote the importance of eating vegetables through dietary education assistance, as well as store-front PR activities.



Distribution of “Lylyco,” tomatoes used for making juice
Every year, we distribute tomatoes for free to customers who have purchased vegetable drinks at our mass retail stores.



Homepage for “Day of Vegetables”
Website that introduces easy ways of consuming vegetables, which tend to be lacking in summer

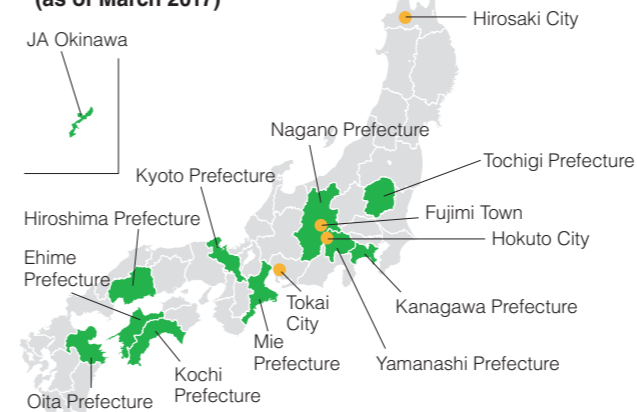
Topic 06 Corporate growth hand-in-hand with societal growth: efforts in regional revitalization and dietary education assistance

Efforts in agricultural development and regional revitalization

Promoting agricultural development through agreements with local communities

Kagome has entered into agreements with local governments across Japan and launched the “Locally Grown, Nationally Consumed” campaign in 2010, as a way of bringing local specialties from all over Japan and seasonal tastes to customers through the Kagome brand products. The agreement covers 15 prefectures, and encourages diverse cooperation in these locations, such as the provision of disaster aid, and activities with the aim of agricultural and economic development, in addition to the utilization of local produce as raw materials.

Agreements that Kagome has concluded in communities (as of March 2017)



Using vegetables and fruits from regions all over Japan as ingredients for vegetable drinks

The “Yasai Seikatsu 100 Seasonals Series,” which forms the core of the “locally grown, nationally consumed” campaign, is a limited-time product using seasonal fruits.

By limiting product numbers, we are able prevent the series from becoming a commodity, and to sell it maintaining the value of the ingredients. As a result, local farms can earn more appropriate revenues for their produce, allowing them to sustainably cultivate crops.



The “Yasai Seikatsu 100 Seasonals Series,” which uses vegetables and fruits locally grown in various Japanese regions

Dietary education assistance that helps children grow up healthy through food

As a food company, Kagome proactively endeavors in various dietary education assistance, aiming to contribute to good health and longevity of people through our corporate activities.

Kagome Theater

Kagome Theatre is an original children's musical launched in 1972. We have had about 3,460,000 people as our audiences to this point. Since 2012, the musical has been raising funds for “Charitable Foundation, the MICHINOKU Future Fund,” providing orphaned children of the Great East Japan Earthquake with the means to continue their education.



The Lylyco Wakuwaku Program

Every year from April to May, Kagome distributes saplings of “Lylyco,” tomatoes used for juice, to primary schools, kindergartens, and nurseries, contributing to the experience and education in terms of food and agriculture. As of fiscal 2016, about 1,000 schools and institutes participate in the program.



Efforts towards the Great East Japan Earthquake

Kagome forges “bonds of mutual assistance” with victims of the Great East Japan Earthquake and people involved in rebuilding efforts, organizing various activities.

The MICHINOKU Future Fund

In 2011, Kagome established the “MICHINOKU Future Fund” along with Calbee, Inc. and Rohto Pharmaceutical Co., Ltd., in order to commence activities that support orphaned children of the disaster in their dreams of continuing their education. We call for donations from all over Japan, and pay for full university and vocational school fees (with an annual limit of 3 million yen) as of the time of enrolment, with no requirement for repayment. For the coming 20 years, we plan to support about 1,300 children, including those who were not born yet during the disaster, until they graduate.



Topic 07 Running an agri-business that conserves biodiversity through the cultivation of tomatoes

Using ecosystem-friendly pesticides

Kagome makes intensive efforts not to use excess pesticides and chemical fertilizers when cultivating tomatoes for making juice. In 2003, we established our own "Kagome Standards for Pesticide Usage." Aside from removing pesticides that are suspect to include toxic substances or environmental hormones, we also work to eradicate those which bring negative effects to the ecosystem. We keep pesticide use at a minimum by having our field masters visit the fields, confirming the existence of pests and quickly assessing the situation, and informing workers of the farm of the appropriate dosage.



Visiting fields and providing guidance in the appropriate usage of pesticides and fertilizers

Changing pollenating bees from foreign species to native species

We use bees to pollenate our fresh tomatoes. The foreign species *Bombus terrestris* was listed as a candidate for specific foreign species that are potentially problematic. Consequently, since May 2004, Kagome has changed the pollinators in the 3 directly-managed large greenhouses all over Japan to *Bombus ignitus*. Moreover, the 5 large greenhouses established afterwards also employed *Bombus ignitus* from day one. The breeding technology of the said species had not been established, and its effects on the quality and economy of the tomatoes were unclear at that time, but through the proactive technological development of Kagome, it was soon successfully employed. The technology is currently well-established enough to employ *Bombus ignitus* for the cultivation of tomatoes all over Japan.



Photo credit: Masahiro Mitsuahata

Using the native species, *Bombus ignitus*, as pollinators for fresh tomatoes

Topic 08 Employing eco-friendly packaging for beverage products

Switching into product containers with a smaller environmental footprint

The Kagome Group focuses on the research and development of environmentally-friendly products, and is working to switch into product containers with a smaller environmental footprint.



FSC-certified[®]* paper packaging

*FSC[®] (the Forest Stewardship Council[®]) is an international institute that manages the certifying system for forests that produce timber, as well as the distribution and processing of the timber that come from those forests. (FSC[®]N002385)



Containers that use green energy*

*Green energy: electricity produced by means of wind energy, solar energy, bioenergy, in the belief that CO₂ is not produced in the process of energy conversion using natural means.



Proactive adoption of the "CartoCan," an eco-friendly paper container, 30% of which comprises domestic thinned wood and wood waste

Promotion of the segregation and volume reduction of used paper containers



We include a thank you message on the packaging that says "Thank you for folding us up!" to customers who segregate and fold used containers to reduce volume.

Topic 09 Promotion of the sustainable development of agriculture through cultivating tomatoes and vegetables suited to the climate and soil quality of countries all over the world



Mechanical harvesting in the vast Kagome Australia tomato fields



Sensors installed in fields all over the world link to satellites, collecting information such as temperature, humidity, and precipitation

The sustainable farming of Kagome Australia Pty. Ltd.

Inside and outside Japan, the Kagome Group has been promoting the development and spread of agricultural technology that is highly sustainable, while capable of protecting blessings granted to us by nature. Kagome Australia Pty. Ltd. (Australia) is 100% compatible with the sustainable agricultural standards established by an industry forerunner Unilever, and is working on achieving agriculture that allows long-term cultivation through fertilizer management by means of drip irrigation, as well as soil improvement by means of appropriate crop rotation.

H.I.T. (Portugal) also bases its agriculture on the GAP (Good Agricultural Practice). Moreover, the seed company United Genetics Holdings (U.S.A.) implements initiatives from the seed level, working on developing new tomato and vegetable species that are suited to the climate and soil quality of the cultivation sites, establishing cultivation technologies, and striving towards enhancing technology so as to further reduce environmental impact and provide stable raw materials.



The drip irrigation system of Kagome Australia
Drip irrigation is used for the cultivation of tomatoes for processing. Underground tubes provide irrigation water directly and slowly to the plant roots, minimizing the amount of water and fertilizer consumed. The photo above shows the installation of pipes under the soil.

Research and development of the leading cultivation technologies for tomatoes for processing

From March 2015, we have been working to develop cutting-edge cultivation techniques for tomatoes for processing overseas, through the use of agricultural ICT*. In practical terms, we utilize data obtained from sensors for climate, soil, etc. installed in experimental fields, as well as from satellites and drones, to optimize the amount of water, fertilizers, and pesticides used according to the growth status of tomatoes and climatic conditions, in addition to maximizing yield. This in turn assists us in our aim to increase added value in agriculture and to achieve environmentally-friendly agriculture.

Moreover, to establish a supply system in response to the increased global consumption of tomatoes, we opened an agriculturally-focused research and development center in Portugal in March 2016, in which we engage in activities toward the stable production of tomatoes for raw materials, as well as research with the aim to develop Kagome's own tomato varieties and cultivation technologies. Through these activities, we are able to develop new varieties of tomatoes in anticipation of market demand, and aim to increase added value in agriculture by maximizing the quantity and quality of crops, while minimizing resources invested (e.g. water, fertilizers). Moreover, we are also working to develop cultivation technologies connected to the achievement of environmentally-friendly agriculture.

*ICT: Information and Communication Technology



One of Kagome Agri-business Research and Development Center's activities

Aiming to be a “strong company” that only a “good company” can be.

Yoshihide Watanabe

Director & Senior Managing Executive Officer,
Director of Corporate Planning Division

Authentic power is hidden in our accumulated intangible assets

The Company has accumulated intangible assets in all stages of a value chain from seeds to tables over many years, including our own variety development, agricultural technology, material processing technology, basic research on health effect of vegetables and relationships of trust with customers developed based on our experience and knowledge. Those steady efforts since the foundation of the Company have resulted in the Company's high reputation and the establishment of “Kagome brand” supported and loved by many consumers. We express our profound gratitude for our stakeholders fostering Kagome not only as a product brand that ensures, first of all, product safety and peace of mind, good taste and wholesomeness, but also as a corporate brand that can receive a high evaluation in popularity ranking of companies among job-seeking students and corporate image surveys.

This trust in the brand acquired by the Company in the area of processed food over a long period of time has extended to the fresh vegetable category. The system of contract farming of tomatoes for processing adopted by the Company since its foundation has been used for the procurement of fresh tomatoes. Although the Kagome brand is not well-known to general consumers overseas, Kagome is one of the global

Promoting dialogue with institutional investors as a company with “Corporate Openness”

Since 2001, we have focused on increasing individual shareholders in Japan based on the policy, “Having 100,000 Fan Shareholders.” Now, we have approximately 200,000 individual shareholders, which is the largest number as a food company in Japan and is ranked 35th in the listed companies on the first section of the Tokyo Stock Exchange. We regard our fan shareholders as representatives of our customers who purchase Kagome products and have actively had dialogue and interacted with fan shareholders by holding various events. On the other hand, we have been pointed out by institutional investors that the increase in the number of fan shareholders has caused prolongation of the average holding period of



leading players in the tomato industry. The volume of raw tomatoes primarily processed by the Kagome Group is approximately 2 million tons per year, which ranks second in the world. Tomato sauce for institutional and industrial use which started to be produced after the business expansion to the United States in 1988 is now used by customers in 39 or more countries in the world as a raw material of home-delivery pizzas. By proceeding with product development focusing on customers, Kagome in the U.S. has grown along with the expansion of restaurant chains to gain the highest profits in overseas business.

Kagome has practiced its brand statement, “True to Nature, the Flavor of Kagome” strictly and honestly and made legitimate decisions at any time by returning to its corporate philosophy, “Appreciation,” “Nature,” “Corporate Openness.” Otherwise, Kagome would not have been evaluated as a “good company” in respect of such corporate attitude as well as of its products but for our non-financial capital supporting the attitude.

Company's shares, and as a result of which “liquidity is low, given the stock price level.” We regard that this indication from institutional investors represents one of our issues to be addressed. In addition, we also received opinions that the target profit level presented in the Mid-Term Management Plan was low. We would like to produce results by promoting internal reforms to establish a structure that can gain profits corresponding to our high brand value evaluated by the public.

We will continue to positively receive indications and opinions from institutional investors and aim to manage the Company to be evaluated as a company with sustainable growth capacity.

Growing out of a “good company.” Visions to create value for “What Kagome Strives for”

Our greatest risk is to remain a “good company.” In order to grow out of a “good company” and “to become a strong company capable of sustainable growth, using food as a means to resolve social issues,” we need to gain sufficient profits and secure investment funds for growth by further promoting “reforms of the way we work” and “reforms of our earnings structure.” For reforms of our earnings structure, we will focus on reduction in unreasonableness, waste and inconsistency and optimize our production system. To address an already actualized logistics issue, we formed a new logistics company, “F-LINE CORPORATION” by joint capital investment with other three food manufacturers. In order to increase profits while the food market in Japan is shrinking, we will promote efficient

operating activities by setting marginal profit by customer as KPI. Furthermore, to improve personnel cost productivity per total working hours, we need to reform the way we work. For employees to work lively, we have set the target rate of annual paid leave taken as 70%. For the purpose of improving work engagement, we have introduced the system of telework since April 2017. In addition, for employees to work actively, we have started collaboration with FINC inc., a healthcare venture corporation providing service via smartphones since the current fiscal year. We intend to promote healthy management so that employees can firstly practice appropriate lifestyle habits that extend healthy life expectancy.

Reorganization of segments with focusing on capital efficiency and fundamental risks We aim to achieve net sales of 220 billion yen, operating income to net sales of 6% and ROE of 8% in FY2018.

Since FY2017, business segments were concentrated into three businesses—“domestic processed food business,” “domestic agriculture business” and “overseas business”—by focusing on capital efficiency and the characteristics of dispersion of the past returns. Asset turnover ratio of the domestic processed food business is 1.1, which is about the average among the food industry in Japan, and that of the domestic agriculture business is 1.8, which is high in efficiency, and that of the overseas business is 0.7 because it has the pronounced nature of the equipment industry. To improve the asset turnover ratios, the domestic processed food business will contribute to “the resolution of the problem of Japanese people's insufficient intake of vegetables” by increasing sales. In addition, we will further promote the reform of our earnings structure by developing the KPI structure that has quantitative targets, including marginal profit rates and breakeven point ratios in the sales operating fields. In the domestic agriculture business, we intend to expand the scope of business to further increase asset efficiency by promoting the network business in collaboration with agricultural corporations all over Japan that function as investors, in which we, for instance, purchase all tomatoes produced by the corporations through contract farming and take charge in the matching of supply and demand and marketing development. In the overseas business that mainly treat tomatoes for processing for food manufacturers and major restaurant chains, we will focus on sub-segments that have high profit rates in a value chain while actively making capital investment in regions that can expect future strong growth in response to the increase of global population and economic development.

In the current earnings structure, we rely on the domestic processed food industry, particularly beverages in that business. We will reform this structure by promoting stable strategies for growth of the domestic agriculture business and the overseas business and distributing risks by portfolios of the three businesses that have different fluctuations of profit variations while sharing the same non-financial capital that generates competitive strength. Through this reform, we will be Kagome that sustainably generates higher profits. To achieve net sales of 300 billion yen, operating income of 20 billion yen as stated in “Long-term Vision,” we have revised the targets in FY2018, the final fiscal year of the Mid-Term Management Policy upward; i.e., the target of net sales has been revised to 220 billion yen, that of operating income to net sales to 6% and that or ROE to 8%. In FY2018 as the final fiscal year of the current Mid-Term Management Policy, we will establish a solid earnings structure by completing “reforms of our earnings structure” and “reforms of the way we work.” The policy for the following term will be shifted toward growth of Kagome. Therefore, we will promptly address management issues that can be completed ahead of schedule and practice an expeditious PDCA cycle that can respond to changes in advance.

Kagome has adhered to the management based on its Corporate Philosophy and developed as a unique company. We will continue to endeavor to realize “What Kagome Strives for” with the new resources for growth that will be obtained by further improving our value cultivated heretofore.

Conditions of Earnings and Profits

Net sales

We saw an increase in domestic business revenues by 8,154 million yen (a 4.9% increase) compared to the same period of the previous year. The main factor was brisk sales in our core beverage business.

While our overseas business grew on a local currency basis—with Preferred Brands International, Inc., which became a Kagome consolidated subsidiary at the end of May 2015, contributing throughout the year to this growth, net sales fell in yen terms by 557 million yen (a 1.2% decrease) compared to the same period of the previous year due to the appreciation of the yen that continued from the beginning of the year.

As a result of eliminations of the above results by net sales between consolidated companies, net sales increased by 6,915 million yen (a 3.5% increase) from the previous year to 202,534 million yen.

Cost of sales and gross profit

Cost of sales increased by 1,302 million yen (a 1.2% increase) from the previous year to 111,607 million yen. Cost of Sales Ratio improved by 1.3 points to 55.1% mainly due to cost reductions and elimination of underperforming products in domestic businesses as well as a positive effect of low price of crude oil on cost of sales.

As a result, gross profit increased by 5,612 million yen (a 6.6% increase) from the same period of the previous year to 90,927 million yen.

Selling, general and administrative expenses and operating income

Selling, general and administrative expenses were increased by 1,390 million yen (1.8%) from the previous fiscal year to 79,981 million yen. The ratio of selling, general and administrative expenses to net sales was 39.5%, decreased by 0.7 points from the previous fiscal year mainly due to effective utilization of sales promotion expenses and a reduction in the depreciation of good will for our overseas business. As a result, operating

income increased by 4,222 million yen (a 62.8% increase) from the previous fiscal year to 10,946 million yen. The ratio of operating income to net sales was 5.4%, improved by 2.0 points from 3.4%.

Other income or loss and ordinary income

Other income was 1,224 million yen, increased by 82 million yen from the previous fiscal year mainly due to an increase in insurance income as a result of our consolidated subsidiary, Kagome Australia Pty Ltd.'s receiving of insurance income from product liability insurance. Other expenses were 854 million yen, at the same level as the previous fiscal year.

As a result, ordinary income increased by 4,300 million yen (a 61.3% increase) from the previous fiscal year to 11,315 million yen. The ratio of ordinary income to net sales was 5.6%, improved by 2.0 points from 3.6%.

Extraordinary gain or loss

Extraordinary gain increased by 1,633 million yen from the previous fiscal year to 2,233 million yen mainly due to the sale of real estate owned by the Kagome Group, which resulted in the recognition of gain on sales of fixed assets of 1,689 million yen.

In addition to the above items, we recognized compensation income for expropriation of 236 million yen and gain on forgiveness of debts of 307 million yen due to exemption of repayment of a portion of our subsidiary, Vegitalia S.p.A.'s borrowings from a bank.

Extraordinary loss increased by 1,472 million yen to 2,279 million yen from 806 million yen in the previous fiscal year, which consist of loss on disposal of fixed assets of 167 million yen, impairment loss of 606 million yen, loss on valuation of investment securities of 223 million yen, loss on disaster of 62 million yen due to the 2016 Taiwan Earthquake and the 2016 Kumamoto Earthquakes., business structure improvement expenses of 631 million yen associated with a resolution of the closure of the Kagome Shizuoka Plant, expense for voluntary recall of goods of 414 million yen for voluntary recall of institutional and industrial canned diced tomato products, and

allocations to provision for loss on guarantees of 172 million yen.

Income taxes and profit attributable to shareholders of parent

Total income taxes increased by 616 million yen from the previous fiscal year to 4,125 million yen. Actual effective tax rate after application of deferred tax accounting was 36.6%, which is over the effective statutory tax rate in Japan. The increase was mainly due to an increase in the tax burden rate caused by amortization of goodwill and an increase in tax payments owing to reversal of deferred tax assets due to changes in effective statutory income tax rate in Japan.

Profit attributable to shareholders of parent after deducting profit attributable to non-controlling interests from net income was 6,764 million yen, increased by 3,323 million yen from the previous fiscal year.

Analysis of Assets and Liabilities

Assets

Kagome's total assets increased by 10,918 million yen from the end of the previous fiscal year.

Current assets increased by 9,595 million yen from the end of the previous fiscal year. Going into detail, the reasons were as follows: While "marketable securities" decreased by 13,115 million yen from cashing in; inventories (the total of "Merchandise and finished goods," "Work in progress" and "Raw material and supplies") decreased by 5,047 million yen due to inventory reduction and exchange rate impact; and Derivatives decreased by 4,622 million yen due to the further appreciation of the yen in regards to the foreign exchange forwards possessed by Kagome; "Cash and deposits" increased by 30,504 million yen due to the cashing in of "marketable securities", fund procurement through a syndicated loan, and other reasons.

Fixed assets increased by 1,323 million yen from the end of the previous fiscal year.

"Property, plant and equipment" increased 12 million yen as

compared to the end of the previous fiscal year. This was because while it decreased by 4,729 million yen due to depreciation and exchange rate impact, there were fixed investments totaling 6,648 million yen to expand our lineup of equipment and build rental facilities.

"Intangible assets" decreased by 1,706 million yen from the end of the previous fiscal year due to amortization of goodwill and exchange rate impact.

"Investments and other assets" increased by 3,017 million yen from the end of the previous fiscal year. This was largely due to acquiring new shareholder interest in Ingomar.

Liabilities and net assets

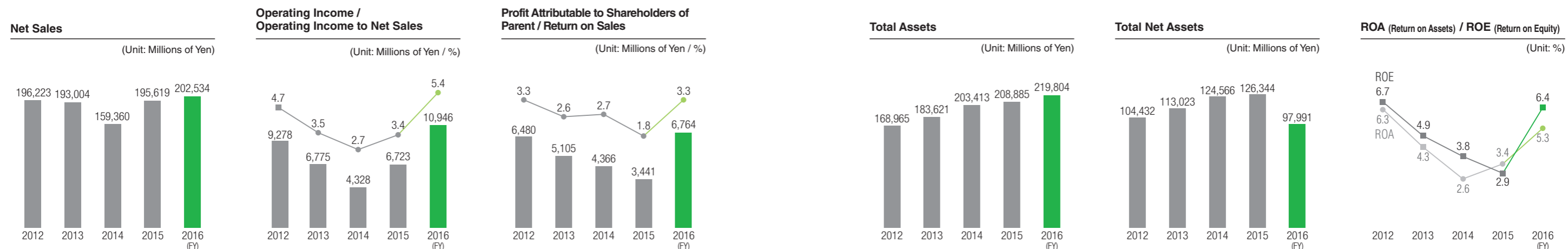
Liabilities increased by 39,271 million yen from the end of the previous fiscal year.

The major breakdown is as follows: "Short-term borrowings" increased by 27,452 million yen due to the procurement of purchase funds for the public offering of treasury stock and such; "Long-term borrowings (including 'current portion of long-term borrowings')" increased by 9,701 million yen due to fund procurement through syndicated loans and such, and "Other payable" increased by 2,657 million yen due to such reasons as construction of rental facilities. Meanwhile, "Notes and accounts payable" decreased by 1,475 million yen.

Net assets decreased by 28,352 million yen from the end of the previous fiscal year.

This was due to the increase in "Treasury stock" by 26,848 million yen (an equivalent decrease in net assets) with the public offering and purchase of treasury stock as well as reintroduction of employee stock ownership ESOP trust. Others included "Retained earnings," which increased by 6,764 million yen due to "Profit attributable to shareholders of parent" and decreased by 2,188 million yen due to distribution of surplus money; a decrease of "capital surplus" by 1,370 million yen due to reasons such as additional acquisition of shares in subsidiaries; decrease of "Non-controlling interests" by 1,329 million yen; and decrease of "Accumulated other comprehensive income" by 3,405 million yen due to continuing strong yen.

As a result, the shareholder equity ratio was 42.1% and net assets per share was 1,043.89 yen.



Consolidated Balance Sheets

	Millions of Yen		Thousands of U.S. dollars
	As of Dec. 31, 2015	As of Dec. 31, 2016	As of Dec. 31, 2016
Assets			
Current assets:			
Cash and deposits	8,413	38,918	335,500
Notes and accounts receivable	32,088	33,617	289,802
Marketable securities	13,115	-	-
Merchandise and finished goods	20,874	19,648	169,379
Work in process	1,041	932	8,034
Raw material and supplies	23,698	19,985	172,284
Deferred tax assets	634	660	5,690
Derivatives	10,297	5,675	48,922
Other current assets	6,044	6,325	54,526
Allowance for doubtful accounts	(305)	(264)	(2,276)
Total current assets	115,903	125,498	1,081,879
Fixed assets:			
Property, plant and equipment:			
Buildings and structures	41,135	41,609	
Accumulated depreciation	(24,046)	(24,642)	
Buildings and structures, net	17,089	16,966	146,259
Machinery, equipment and vehicles	73,705	72,286	
Accumulated depreciation	(54,031)	(53,751)	
Machinery, equipment and vehicles, net	19,674	18,535	159,784
Tools and furniture	6,579	6,408	
Accumulated depreciation	(5,440)	(5,307)	
Tools and furniture, net	1,138	1,101	9,491
Land	13,684	13,241	114,147
Lease assets	2,886	3,054	
Accumulated depreciation	(2,456)	(2,403)	
Lease assets, net	430	650	5,603
Construction in progress	1,605	3,138	27,052
Property, plant and equipment net	53,622	53,634	462,362
Intangible assets:			
Goodwill	7,616	6,515	56,164
Trademark right	2,392	2,192	18,897
Customer relationship	2,777	2,496	21,517
Software	1,522	1,442	12,431
Other intangible assets	365	321	2,767
Total intangible assets	14,675	12,968	111,793
Investments and other assets:			
Investment securities	19,764	19,532	168,379
Long-term loans receivable	2,010	1,691	14,578
Deferred tax assets	994	93	802
Other assets	1,987	6,460	55,690
Allowance for doubtful accounts	(72)	(75)	(647)
Total investments and other assets	24,684	27,702	238,810
Total fixed assets	92,982	94,305	812,974
Total assets	208,885	219,804	1,894,862

	Millions of Yen		Thousands of U.S. dollars
	As of Dec. 31, 2015	As of Dec. 31, 2016	As of Dec. 31, 2016
Liabilities			
Current liabilities:			
Notes and accounts payable	15,204	13,729	118,353
Short-term borrowings	10,780	38,232	329,586
Current portion of long-term borrowings	834	8,285	71,422
Other payable	9,438	12,096	104,276
Income taxes payable	2,206	704	6,069
Deferred tax liabilities	2,788	1,104	9,517
Accrued bonuses for employees	572	1,241	10,698
Accrued bonuses for directors	56	101	871
Derivatives liabilities	13	12	103
Other current liabilities	3,827	3,050	26,293
Total current liabilities	45,722	78,558	677,224
Long-term liabilities			
Long-term borrowings	25,701	27,952	240,966
Deferred tax liabilities	2,792	3,704	31,931
Net defined benefit liability	4,915	5,427	46,784
Provision for loss on guarantees	-	172	1,483
Other liabilities	3,409	5,996	51,690
Total long-term liabilities	36,818	43,253	372,871
Total liabilities	82,541	121,812	1,050,103
Net Assets			
Shareholder's equity:			
Common stock	19,985	19,985	172,284
Capital surplus	23,733	22,362	192,776
Retained earnings	61,916	66,492	573,207
Treasury stock	(314)	(27,163)	(234,164)
Total shareholder's equity	105,320	81,677	704,112
Accumulated other comprehensive income :			
Unrealized gain on available-for-sale securities	6,444	6,487	55,922
Deferred gains or losses on derivatives under hedge accounting	6,952	4,287	36,957
Foreign currency translation adjustments	1,787	1,276	11,000
Remeasurements of defined benefit plans	(1,024)	(1,296)	(11,172)
Total accumulated other comprehensive income	14,160	10,754	92,707
Subscription rights to shares	19	44	379
Non-controlling interests	6,844	5,514	47,534
Total net assets	126,344	97,991	844,750
Total liabilities and net assets	208,885	219,804	1,894,862

Consolidated Statements of Income

	Millions of Yen		Thousands of U.S. dollars
	Fiscal year ended Dec. 31, 2015	Fiscal year ended Dec. 31, 2016	Fiscal year ended Dec. 31, 2016
Net sales	195,619	202,534	1,745,983
Cost of sales	110,304	111,607	962,129
Gross profit	85,314	90,927	783,853
Selling, general and administrative expenses	78,590	79,981	689,491
Operating income	6,723	10,946	94,362
Other income			
Interest income	230	255	2,198
Dividend income	276	314	2,707
Share of profit of entities accounted for using equity method	70	46	397
Insurance income	73	194	1,672
Other	490	413	3,560
Total other income	1,141	1,224	10,552
Other expenses			
Interest expense	158	195	1,681
Foreign exchange losses	337	293	2,526
Other	353	366	3,155
Total other expenses	850	854	7,362
Ordinary income	7,015	11,315	97,543
Extraordinary gain			
Gain on sales of fixed assets	81	1,689	14,560
Gain on sales of investment securities	297	-	-
Gain on change in equity	152	-	-
Compensation income for expropriation	-	236	2,034
Gain on forgiveness of debts	68	307	2,647
Total extraordinary gain	600	2,233	19,250
Extraordinary loss			
Loss on disposal of fixed assets	156	167	1,440
Impairment loss	69	606	5,224
Loss on valuation of investment securities	32	223	1,922
Loss on disaster	-	62	534
Expense for voluntary recall of goods	-	414	3,569
Business structure improvement expenses	548	631	5,440
Provision for loss on guarantees	-	172	1,483
Total extraordinary loss	806	2,279	19,647
Profit before income taxes	6,808	11,269	97,147
Income taxes - current	3,706	2,208	19,034
Income taxes - deferred	(197)	1,917	16,526
Total income taxes	3,509	4,125	35,560
Net income	3,299	7,144	61,586
Profit (loss) attributable to non-controlling interests	(141)	379	3,267
Profit attributable to Shareholders of parent	3,441	6,764	58,310

Consolidated Statements of Comprehensive Income

	Millions of Yen		Thousands of U.S. dollars
	Fiscal year ended Dec. 31, 2015	Fiscal year ended Dec. 31, 2016	Fiscal year ended Dec. 31, 2016
Other comprehensive income			
Unrealized gain on available- for- sale securities	1,653	43	371
Deferred gains or losses on derivatives under hedge accounting	(2,367)	(2,667)	(22,991)
Foreign currency translation adjustments	(1,849)	(1,014)	(8,741)
Remeasurements of defined benefit plans	(33)	(275)	(2,371)
Share of other comprehensive income of an affiliate by the equity method	2	4	34
Total other comprehensive income	(2,593)	(3,910)	(33,707)
Comprehensive income	706	3,233	27,871
Comprehensive income attributable to Shareholders of parent	1,303	3,359	28,957
Comprehensive income attributable to non-controlling interests	(597)	(125)	(1,078)

Consolidated Statements of Cash Flows

	Millions of Yen		Thousands of U.S. dollars
	Fiscal year ended Dec. 31, 2015	Fiscal year ended Dec. 31, 2016	Fiscal year ended Dec. 31, 2016
Cash flows from operating activities:			
Profit before income taxes	6,808	11,269	97,147
Depreciation and amortization	5,894	5,732	49,414
Impairment loss	250	990	8,534
Amortization of goodwill	1,230	752	6,483
Interest and dividend income	(506)	(569)	(4,905)
Interest expense	158	195	1,681
Increase (decrease) in accrued bonuses	200	714	6,155
Increase (decrease) in other provisions	109	147	1,267
Increase (decrease) in net defined benefit liability	207	147	1,267
Share of loss (profit) of entities accounted for using equity method	(70)	(46)	(397)
Loss (gain) on sales of investment securities	(297)	-	-
Loss (gain) on valuation of securities	97	223	1,922
Loss (gain) on sales and disposal of fixed assets- net	75	(1,521)	(13,112)
Loss (gain) on change in equity	(152)	-	-
Gain on forgiveness of debts	(68)	(307)	(2,647)
Compensation income for expropriation	-	(236)	(2,034)
Decrease (increase) in notes and accounts receivable	1,312	(1,748)	(15,069)
Decrease (increase) in inventories	(1,273)	4,041	34,836
Decrease (increase) in accounts receivable- other	(386)	164	1,414
Increase (decrease) in notes and accounts payable	612	(1,374)	(11,845)
Increase (decrease) in accounts payable- other	(1,132)	2,173	18,733
Proceeds from lease and guarantee deposits received	-	1,255	10,819
Decrease (increase) in other current assets	(46)	156	1,345
Increase (decrease) in other current liabilities	(49)	(110)	(948)
Other- Increase (decrease)- net	230	542	4,672
Subtotal	13,204	22,591	194,750
Cash received from interest and dividend income	534	541	4,664
Cash paid for interest expense	(181)	(196)	(1,690)
Income taxes paid	(1,517)	(4,264)	(36,759)
Proceeds from compensation for expropriation	-	153	1,319
Net cash provided by (used in) operating activities	12,039	18,824	162,276
Cash flows from investing activities:			
Disbursement for time deposits	(443)	(10,676)	(92,034)
Proceeds from withdrawal of time deposits	1,110	546	4,707
Purchases of marketable and investment securities	(59)	(64)	(552)
Proceeds from sales and redemption of securities	4,420	-	-
Acquisition of fixed assets	(6,974)	(6,836)	(58,931)
Proceeds from sales of fixed assets	221	2,210	19,052
Payments of loans receivable	(0)	(0)	(0)
Collection of loans receivable	292	58	500
Purchase of shares and capital of subsidiaries	(9,612)	-	-
Purchase of shares of subsidiaries and associates	(1)	(3,741)	(32,250)
Other- Increase (decrease)- net	23	(73)	(629)
Net cash provided by (used in) investing activities	(11,023)	(18,576)	(160,138)
Cash flows from financing activities:			
Increase (decrease) in short- term borrowings	4,018	28,160	242,759
Proceeds from long- term borrowings	688	11,333	97,698
Repayments of long- term borrowings	(2,259)	(904)	(7,793)
Repayments of finance lease obligations	(85)	(57)	(491)
Proceeds from share issuance to non-controlling shareholders	722	195	1,681
Dividends paid	(1,646)	(2,187)	(18,853)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(2,715)	(23,405)
Dividends paid to non-controlling interests	(86)	(72)	(621)
Decrease (increase) in treasury shares	203	(26,848)	(231,448)
Net cash provided by (used in) financing activities	1,555	6,904	59,517
Foreign translation adjustment on cash and cash equivalents	(456)	86	741
Net increase (decrease) in cash and cash equivalents	2,114	7,238	62,397
Cash and cash equivalents at beginning of period	18,960	21,075	181,681
Cash and cash equivalents at end of period	21,075	28,313	244,078

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 billion yen
Number of Employees	2,621 (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	● Hokkaido Branch	● Shizuoka Business Office
Tokyo Head Office		● Tohoku Branch	● Hokuriku Business Office
Innovation Division		● Kita-Tohoku	● Osaka Branch
Tokyo Laboratory	Business Office	● Chu-Shikoku Branch	● Ueno Plant
		● Tokyo Branch	● Kozakai Plant
		● Kanagawa Branch	● Fujimi Plant
		● Kanto Branch	● Nasu Plant
		● Nagoya Branch	● Ibaraki Plant
			● Komaki Plant
		● Okinawa Business Office	

Main Group companies

Domestic Group companies	
● Kada Green Farm Co., Ltd.	(Wakayama City, Wakayama)
● Hibikinada Green Farm Co., Ltd.	(Kitakyushu City, Fukuoka)
● Iwaki Onahama Green Farm Co., Ltd.	(Iwaki City, Fukushima)
● Kagome Axis Co., Ltd.	(Nagoya City, Aichi)
● Kagome Distribution Service Co., Ltd.	(Obu City, Aichi)
Overseas Group companies	
● Kagome Inc.	(California, U.S.A.)
● Vegitalia S.p.A.	(Calabria, Italy)
● Holding da Industria Transformadora do Tomate, SGPS S.A.	(Palmela City, Portugal)
● Kagome Australia Pty Ltd.	(Victoria, Australia)
● Taiwan Kagome Co., Ltd.	(Tainan City, Taiwan)
● United Genetics Holdings LLC	(California, U.S.A.)
● Preferred Brands International, Inc.	(Connecticut, U.S.A.)

Status of Shares

Total number of outstanding shares	99,616,944 shares
(Note) 1. Total number of authorized shares	279,150,000 shares
2. Number of one trading unit of shares	100 shares
Number of shareholders	193,091

Major shareholders

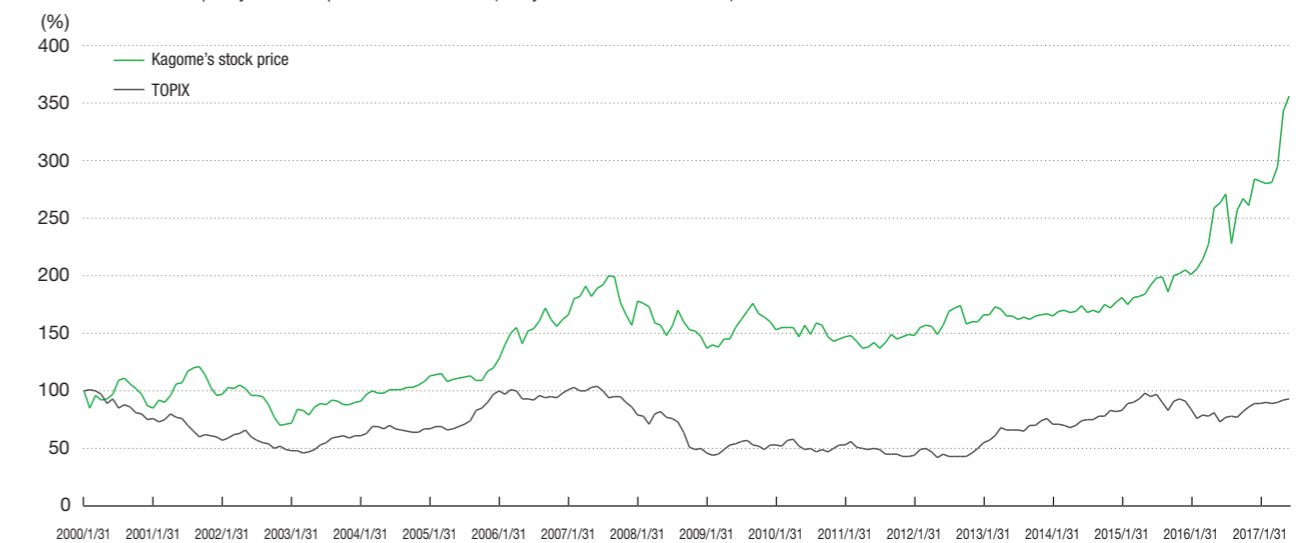
(As of December 31, 2016)

Name of major shareholder	Ownership stake in the Company	
	Number of shares owned	Shareholding ratio
Japan Trustee Services Bank, Ltd. (Trust Account)	8,309	9.34
Dynapac Co., Ltd.	5,379	6.05
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,555	5.12
Nissin Foods Holdings Co., Ltd.	1,559	1.75
Toshichika Kanie	1,412	1.59
Eikichi Kanie	1,175	1.32
Kagome Employee Stock Ownership Plan	983	1.11
Hisao Kawaguchi	983	1.11
Kagome Business Association	943	1.06
Junko Kanie	787	0.88
Total	26,089	29.33

* Shareholding ratio was calculated based on the total number of the issued shares excluding the number of treasury stock (10,658 thousand shares). The treasury stock does not include 412 thousand shares of the Company owned by the Master Trust Bank of Japan, Ltd. (trust account), which was set up through adoption of an employee incentive plan called "Employee Stock Ownership Plan."

Stock Price Trend

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



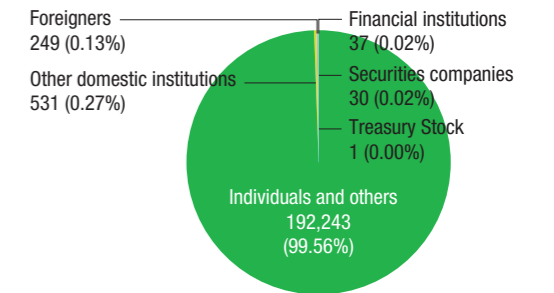
* Relative stock price denoted with the price as of the end of January 2000 being 100.

Stock Price · Volume · Dividend Trend (Unit: yen)

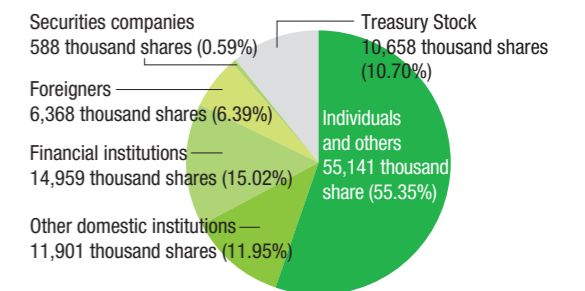
Fiscal year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Stock price (term end)	1,667	1,620	1,519	1,651	1,494	1,531	1,651	1,721	1,828	2,116	2,923
Volume (100 shares)	50,370	41,004	27,114	29,485	45,103	19,910	40,129	56,218	61,069	64,610	85,838
Annual dividend per share	15.00	15.00	15.00	15.00	15.00	18.00	20.00	22.00	16.50	22.00	24.50

Status of Share Distribution

Breakdown by type of shareholder



Distribution status by number of shares





KAGOME CO., LTD.

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