

# Efforts to resolve social issues and generate demand

## Kagome's strategy for achieving its long-term vision

Kagome considers its brand statement "True to Nature, the Flavor of Kagome" to be a promise to its customers and contributes to the realization of people's healthy diets through the development and delivery of products that benefit from the value of nature's bounty. In 2016, we established two long-term visions, "transform from a 'tomato company' to a 'vegetable company'" and "50% of the workforce consisting of women – from employees to executive officers," and we have been working to increase Kagome's corporate value while circulating sustainable growth and resolving social issues. We will first achieve our quantitative targets of net sales of 215 billion yen and operating margin of 6%, and will then continue to the next growth stage based on the new three-year Mid-Term Management Plan that is currently being developed.

### What Kagome Strives for

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

**SUSTAINABLE DEVELOPMENT GOALS**  
17 GOALS TO TRANSFORM OUR WORLD



2018

### Mid-Term Management Plan 2016–2018

**Earnings structure reform**

- Raising the value of existing products
- Innovating new products
- Narrowing down existing and new products
- Reducing slow-moving products, disposal and inventory
- Reducing fixed costs

**Work style reform**

- Prohibiting overtime after 8:00 p.m.
- Introducing a telecommuting system
- Introducing a staggered working hour system

Net sales

**215 billion yen**

Operating income

**13 billion yen**

Operating margin

**6%**

ROE

**8%**

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### Domestic Processed Food Business

Aiming to address the low vegetable intake of Japanese people

|                  |                   |                  |   |                   |               |
|------------------|-------------------|------------------|---|-------------------|---------------|
| Net sales        | 158.7 billion yen | FY2017 (results) | → | 162.3 billion yen | FY2018 (plan) |
| Operating income | 11.4 billion yen  |                  | → | 11.4 billion yen  |               |

\* Including "other businesses"

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### Domestic Agri-Business

Turning Japanese agriculture into a growth industry

|                  |                  |                  |   |                  |               |
|------------------|------------------|------------------|---|------------------|---------------|
| Net sales        | 11.4 billion yen | FY2017 (results) | → | 12.6 billion yen | FY2018 (plan) |
| Operating income | -0.2 billion yen |                  | → | 0.3 billion yen  |               |

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### International Business

Aiming to become the top global tomato supplier

|                  |                  |                  |   |                  |               |
|------------------|------------------|------------------|---|------------------|---------------|
| Net sales        | 44.1 billion yen | FY2017 (results) | → | 40.1 billion yen | FY2018 (plan) |
| Operating income | 0.8 billion yen  |                  | → | 1.3 billion yen  |               |

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### Innovation

Research and development to utilize nature's bounty to the fullest extent

By 2025

By around 2040

## Long-term Vision

**Transform from a "tomato company" to a "vegetable company"**

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

### Extend healthy life expectancy through vegetable intake

**Net Sales 300 billion yen**

**Operating Income 20 billion yen**

We will be a unique company providing products that use vegetables through a variety of ingredients, categories, temperatures, containers and volumes.

We will be a company that provides not only goods but also services by expanding our businesses from tomatoes to vegetables.

We provide vegetables in a variety of forms such as juices, condiments, soups, salads, frozen food and supplements. In addition to products under Kagome's conventional national brand, we will respond to the growth in demand for home meal replacements and increase opportunities for customers to consume vegetables by developing and selling private-brand products and prepared food in cooperation with vendors of mass retailers and convenience stores. We will not only develop products as goods, but we will also develop new businesses such as farming guidance business for contract farmers' vegetables and health support services.

We will be a strong company where both men and women can work enthusiastically, achieving high productivity.

We will develop and sell products that meet the varying needs of consumers, taking into account the perspectives of our key customers including homemakers.

We are implementing work style reforms. More than half of new employees hired since fiscal year 2016 have been women, with the aim of ensuring diversity through diversification. We have also introduced telecommuting and staggered working hour systems to enable a wider range of ways of working. While increasing productivity through such measures, the percentage of paid leave taken reached over 70%, which was the target for fiscal year 2017. For fiscal year 2018, we have set a company-wide target of over 80%. In fiscal year 2019, we are planning to open a preschool near our Tokyo head office for employees who are raising preschoolers. Based on the idea that work style reform leads to lifestyle reform, we will continue to help each individual maintain work-life balance and achieve a high level of performance.

Kagome's strategy of circulating sustainable

growth and solving social issues

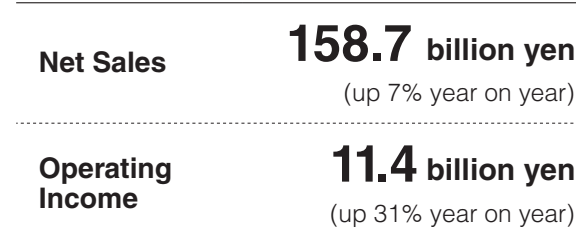
## Domestic Processed Food Business



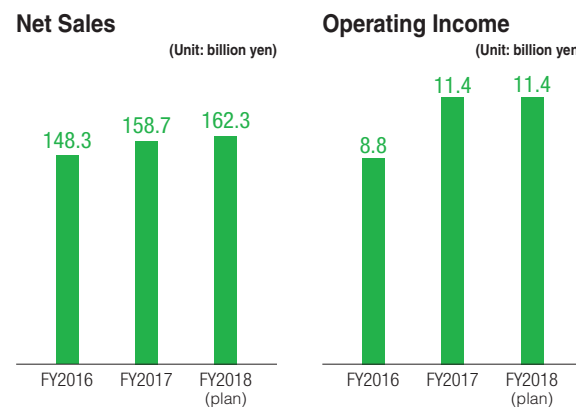
**Hirohisa Kobayashi**  
Managing Executive Officer  
Marketing Division Director

**We will promote vegetable intake by entering the prepared food market and working in cooperation with agri-business and contribute to addressing the low vegetable intake.**

### Performance trends (FY2017)



\* Including "Other businesses"  
\* After the elimination and adjustment of inter-segment transactions  
\* Figures are rounded to the nearest hundred million yen.



### To address the low vegetable intake of Japanese people

In Japan, with its super-aged society, how to extend healthy life expectancy has become an important issue for individuals, households and society. Kagome contributes to the extension of healthy life expectancy by helping to increase vegetable intake through a range of products such as beverages and food products and to address the low vegetable intake of Japanese people. We have launched joint research with Hirosaki University in the current fiscal year to study the health benefits of vegetables in an effort to demonstrate why vegetables are good for the body and help consumers to eat more vegetables.

|   |   |
|---|---|
| <h4>Strengths</h4> <ul style="list-style-type: none"> <li>● Kagome's brand power built over its 120-year history</li> <li>● Ability in product development to avoid additives as much as possible</li> <li>● Ability in ingredient procurement to deliver the bounty of nature to products</li> </ul> | <h4>Weaknesses</h4> <ul style="list-style-type: none"> <li>● Constraints in product development due to reliance on natural farm ingredients</li> <li>● Dispersion of marketing investment caused by diverse business composition</li> <li>● Decline in the relative value of our products due to the emergence of competitors' high-quality private brands</li> </ul> |
| <h4>Opportunities</h4> <ul style="list-style-type: none"> <li>● Increasingly diversified health orientation</li> <li>● Demands of the elderly and dual-earner households for simple cooking</li> <li>● Expansion of restaurant and cooked food due to an increase in dining out</li> </ul>            | <h4>Threats</h4> <ul style="list-style-type: none"> <li>● Further intensifying competition in the health beverage market</li> <li>● Steep rise in ingredient prices due to globally unseasonable weather</li> <li>● Acceleration of decrease in total spending on food due to a decrease in the population and population aging</li> </ul>                            |

### Delivering new value

We have developed new value to provide in the beverages with the aim of delivering "lifelong health beverages." We have expanded the variations of the Yasai Seikatsu 100 Smoothie and added functional claims to Tomato Juice. In the food segment, we have improved the communication of the value of Tomato Ketchup and its promotion with the expression, "Control salt intake with tomatoes." We have provided Tomato Ketchup dispensers that are most suitable for breakfast buffets, etc. at hotels often used by the increasing number of foreign visitors to Japan. Further, we held Kagome Napolitan Stadium 2017, a competition to determine the best spaghetti Naporitan in Japan among local-style spaghetti Naporitan made in different regions around Japan in an effort to stimulate overall demand. In the tomato-based condiment segment, we responded to demand for simple cooking and focused on the development of dishes for home cooking, home meal replacement, and eating out with "Tomato Pazza," a dish made by braising seafood and vegetables with tomato sauce. In direct marketing, we worked to raise recognition of our mainstay beverage Tsubuyori Yasai and supplements.

### Business results

#### Beverages Vegetable smoothie

The market for mixed vegetables and fruit juice grew 8% year on year, to 99.2 billion yen. Kagome's Yasai Seikatsu 100 Smoothie in capped bottles led the market growth. It fills the stomach with high viscosity and has established a new category of healthy snacks consumed between meals. GREENS, which pursues freshness, is re-growing after renewal as an additive-free smoothie in the premium product line. We will use new plant ingredients as raw materials to further increase variation.



#### Beverages Tomato juice

The market for tomato juice grew 29% year on year, to 25.5 billion yen. This was mainly as a result of releasing Kagome Tomato Juice as a food with functional claims in response to consumers' rising demand for health products. In February 2016, we launched tomato juice with a label that read "for people who are worried about their blood cholesterol levels," and in January 2018, we doubled the functional claims by adding "for people who have elevated blood pressure" based on the report that the GABA contained in tomatoes could reduce the blood pressure of people with elevated blood pressure.



#### Food and other products

While the market for tomato ketchup decreased 3% year on year, to 17.9 billion yen, sales of our other tomato-based condiments increased. The new tomato dish, "Tomato Pazza," has gained popularity. We are promoting it as a dish that can be easily made with our basic tomato sauce at home and with tomato-based condiments at mass retailers and restaurants. In direct marketing, sales of Tsubuyori Yasai and supplements have been strong.



\* The market size was estimated by Kagome.

### Message from the Division Director To extend our customers' healthy life expectancy

In the domestic processed food business, we deliver products ranging from room temperature and chilled beverages to food, prepared food and restaurant food. Recently, we have become able to offer our products with a fresh vegetables sales area by collaborating with agri-business. We are able to be connected with customers in all directions while also using the gift sale and direct marketing channels. By providing products that use vegetables in a variety of forms, we will continue to promote vegetable intake, which tends to be low, and help our customers to extend their healthy lives.



## Domestic Agri-Business



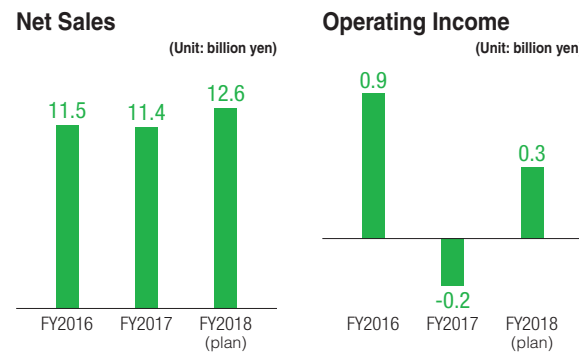
**Keigo Fujii**  
Executive Officer  
Director of Agri-Business  
Division

**We will contribute to the promotion of agriculture by taking measures against a decrease in the number of producers of tomatoes for processing and farming guidance provided to fresh tomato producers.**

### Performance trends (FY2017)



\* After the elimination and adjustment of inter-segment transactions  
\* Figures are rounded to the nearest hundred million yen.



### Aiming for the agricultural development and regional revitalization

In rural areas, population aging and shortages of farm successors are threatening the continuity of agriculture. Kagome is working on agricultural development and regional revitalization using the system of contract farming, which has operated since the beginning of the company's business, and its agricultural expertise in farm expansion and the use of machinery. In the fresh tomato business, we purchase all the tomatoes grown by our contract farmers throughout Japan and sell them directly to mass retailers and other businesses. For baby leaf lettuce, which is currently grown as a next-generation vegetable, we have developed new production facilities and improved the supply system. The business of vegetable farming guidance provided to contract farmers is also supporting the new agriculture.

|  |  |
|--|--|
| <h4>Strengths</h4> <ul style="list-style-type: none"> <li>● Kagome brand established in the fresh tomato market</li> <li>● Ability to develop tomato varieties equipped with functionality such as high lycopene content</li> <li>● Capacity for all-year-round supply based on own sales force and distribution networks providing stable shipments and nationwide 10,000 stores</li> </ul> | <h4>Weaknesses</h4> <ul style="list-style-type: none"> <li>● A lack of accuracy in forecasting fluctuations in the fresh tomato market and a lack of ability to adjust demand and supply</li> <li>● A lack of consumer recognition of new fresh vegetables such as baby leaf lettuce</li> <li>● Intensifying competition in the salad business due to the participation of numerous competitors</li> </ul> |
| <h4>Opportunities</h4> <ul style="list-style-type: none"> <li>● The government's activities to turn agriculture into a growth sector and revitalize agriculture</li> <li>● A shortage of farm successors and an increase in abandoned farmland</li> <li>● Growing demand for tasty and convenient fresh vegetables</li> </ul>  | <h4>Threats</h4> <ul style="list-style-type: none"> <li>● Increase in companies from other industries and large companies entering agriculture</li> <li>● Increasing difficulty in securing employees due to the acceleration of the super-aging of society</li> <li>● A decrease in farm land due to climate change such as global warming and the emergence of new diseases and pests</li> </ul>         |

### Growing agri-business

In the domestic agri-business that commenced in 1998, we have been selling fresh tomatoes grown all year round at large greenhouse to mass retailers and other stores. Net sales began exceeding 10 billion yen in fiscal year 2015, and operating margin reached a new level exceeding the company's overall operating margin, which was 6.7% in 2015 and 7.5% in 2016. We are developing new contract farmers to further expand the business. Meanwhile, as the range of businesses expands, it has become clear that fluctuations in the fresh tomato market caused by weather and other factors significantly affect the performance of agri-business. We are currently working to increase the accuracy of meteorological and yield forecasts to reduce this impact. We will also focus on expanding the business of products other than fresh tomatoes such as baby leaf lettuce and packed salads to diversify our business portfolio. In addition, we will continue to increase the use of agricultural machinery to shift to the next growth stage.

### Business results

#### Fresh tomatoes

By increasing the number of large contract farms, we expanded the total cultivation area to 74 hectares and the shipping volume to 18,900 tons, up from 17,600 tons in the previous year. Good weather in early spring, however, caused a rapid increase in the volume of fresh tomatoes shipped from large production regions such as Kumamoto and resulted in a fall in the market price, which led to a full-year operating deficit. At present, we are working to increase the accuracy of our yield and market forecasts and improve our ability to adjust demand and supply. The composition ratio of net sales of value-added products with high content of specific nutrients such as high-lycopene, beta-Carotene, and GABA reached approximately 50% as a result of strengthening the promotion of these products.



#### Baby leaf lettuce

The size of the domestic market for baby leaf lettuce is approximately 10 billion yen. This is a product for which market expansion can be expected in the future. Green Vege Bowl Baby Leaf Mix and Green Vege Bowl Baby Spinach, which are washed products sold in the Tokyo metropolitan area, can be eaten right out of the package without washing, providing value that meets consumer demand for time-saving, simple and healthy products. Sales of such products have therefore been strong. We have had only one production base for the Tokyo metropolitan area, but we will open new vegetable farms in Chiba and Yamanashi Prefectures. Our production capacity will triple with the start of shipment from a total of three farms.



#### Packed salads

The market for processed vegetables such as cut vegetables and salads has been on a growing trend thanks to population aging and lifestyle changes. Kagome sells packed salads to mass retailers and other stores, and the key products are Tomato Salad and 10-Vegetable Salad. Salad for Enjoying Tomatoes received an award in the Bento and Prepared Meal Awards 2018. We plan to build our production bases and low-temperature distribution networks from now on to expand our market area. Further, we will also increase the number of products that use new functional vegetables such as germinated soybeans, kale and sprouts.



### Message from the Division Director Aiming for the agricultural development and regional revitalization

The aging of farm workers and a shortage of farm successors are increasingly serious problems in rural areas. Using our two decades of experience in large facility gardening, Kagome provides motivated people with opportunities to practice "profitable farming, lucrative farming." Stable income can be earned by establishing an agricultural corporation in a rural area and growing vegetables on a large greenhouse while using government subsidies. We are also engaging in the research and development of harvest robots with the aim of achieving further labor savings. We will continue to expand our business to promote agricultural development and regional revitalization.

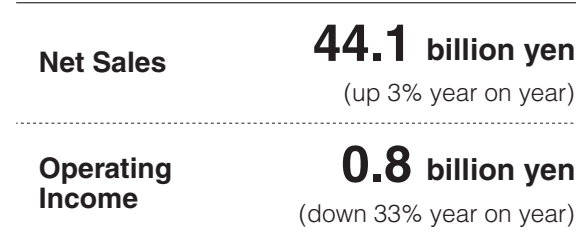
## International Business



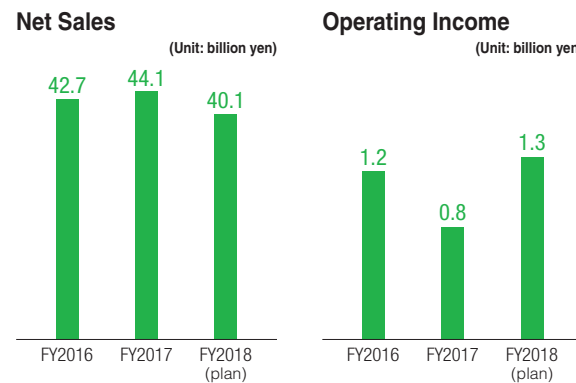
**Masahiro Sumitomo**  
Director & Managing Executive Officer  
Director of International Business  
Division

**We contribute to solving global food shortages using our vertically integrated value chains of tomatoes for processing from seeds to food on the table.**

### Performance trends (FY2017)



\* After the elimination and adjustment of inter-segment transactions  
\* Figures are rounded to the nearest hundred million yen.



### Developing the global business of tomatoes

In contrast to Japan, which is facing a decline in population, the United Nations estimates that the global population will increase from approximately 7.3 billion to 9.7 billion by 2050, and it is concerned about food shortages caused by the population growth. In this environment, Kagome is working to expand our business of tomatoes, the most-consumed vegetable in the world. Global tomato consumption is 140 million tons a year, of which tomatoes for processing comprise 40 million tons. Kagome develops tomato seeds, cultivates tomatoes, manufactures and sells primary-processed tomato products such as tomato paste, and manufactures and sells secondary-processed products such as pizza sauce on a global scale.

|  |  |
|--|--|
| <h4>Strengths</h4> <ul style="list-style-type: none"> <li>● Reliable quality unique to Kagome, which handles every step in tomato production, from seed to table</li> <li>● Solution capacity to propose dishes to food service chains in North America, Asia and Europe</li> <li>● Global primary processing network of tomatoes that is one of the largest in the world</li> </ul>   | <h4>Weaknesses</h4> <ul style="list-style-type: none"> <li>● Cost competitiveness that is lower than that of manufacturers that exclusively produce tomato-based sauces</li> <li>● High reliance on specific customers with large purchase amounts</li> <li>● Lack of brand power in the general consumer market (B to C)</li> </ul>   |
| <h4>Opportunities</h4> <ul style="list-style-type: none"> <li>● Further globalization of food through the global pizza and fast food chains, etc.</li> <li>● Growing demand for simple cooking and takeout food due to women's social advancement and the declining birthrate and aging population</li> <li>● Population growth and economic development in large tomato consumption regions such as India, the Middle East, North Africa and West Africa</li> </ul> | <h4>Threats</h4> <ul style="list-style-type: none"> <li>● Increase in damage to the growth of raw materials in various production regions caused by global climate change</li> <li>● Structural market slowdown due to competition in the expansion of primary-processed tomatoes</li> <li>● Damage to tomato production regions caused by serious water shortages in California, which is the world's largest production region.</li> </ul> |

### Kagome's overseas expansion history

Kagome's overseas expansion began in 1967 when we founded Taiwan Kagome for the procurement of ingredients. The US subsidiary founded in 1988 was the predecessor of the current Kagome Inc., which currently operates a B-to-B business of culinary sauces such as pizza sauce. Besides pizza sauce, the company has been adding products such as salsa and BBQ sauce. This culinary sauces business has been growing together with the development of global food services of large pizza chains, etc. that are the company's customers, which now comprise nearly half of Kagome's overall overseas sales. The principal business of HIT, a Portuguese company that was founded in 2007, and Kagome Australia that was founded in 2010 is to produce tomato paste by heating, crushing, and concentrating tomatoes for processing and sell it to large food manufacturers, etc. United Genetics is a US company that was acquired in 2013 that develops seeds, raises seedlings and exports seeds that meet the farming conditions in each of approximately 85 countries around the world. Kagome operates a global vertical integration business covering from seeds to tomato-based products.

### Business results

#### Globally expanding B-to-B business of culinary sauces

At Kagome Inc. in the US, while its B-to-B business targeting global food services performed well, sales decreased due mainly to changes in the timing of transactions among the group companies. Profit also fell due to temporary impacts such as manufacturing problems. We will continue to expand the range of our businesses while maintaining relationships with major customers. The Portuguese subsidiary, HIT, has also been growing its business of culinary sauces for the US-style food services through transactions with a large UK pizza chain and other companies.



#### B-to-B tomato paste business based on global networks

HIT in Portugal and Kagome Australia, which are subsidiaries, and Ingomar Packing Company in the US, which became an equity-method company through a capital and business alliance in 2016, also produce primary-processed products such as tomato paste from tomatoes for processing and sell them to food companies and others. These three companies are capable of processing a combined total of approximately two million tons per year. In 2017, they produced 1,880,000 tons, which was the third-largest amount in the world. We are growing our businesses while diversifying business risk through the network of Europe, Australia, and the US.



#### A Senegalese farming company working to help solve global food shortages

In December 2017, we founded Kagome Senegal, a farming company to grow tomatoes for processing in Senegal. Population growth and economic development are expected in the long run in the region, and we are engaging in a long-term project to develop a new production area of tomatoes for processing using our agricultural technology resources. We intend to expand the business area to include the manufacturing of tomato-based products in the future. Kagome Senegal has received recognition from the Japan External Trade Organization (JETRO) as an African business demonstration project.



### Message from the Division Director Helping to solve global food shortages using tomatoes

People in Senegal and other West African countries use tomato paste as an essential basic condiment. However, they rely largely on imported tomato-based products for much of their local consumption due to issues such as inadequate technology for growing tomatoes for processing and damage caused by diseases and pests. In 2017, therefore, we founded a company that would grow, purchase and sell tomatoes for processing, and we are aiming to develop a new production area of tomatoes for processing. Kagome will address global food issues using its tomato expertise developed over its 120 years of history.



## Research and Development

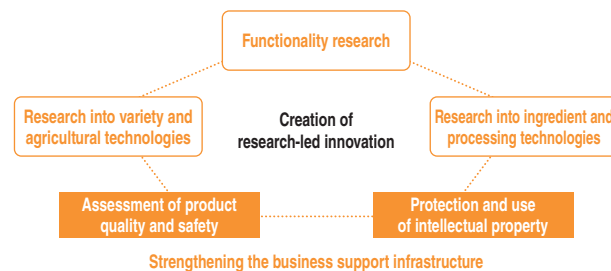


**Satoshi Yamaguchi**  
Executive Officer  
Director of Innovation  
Division

### Efforts to achieve growth

#### Research and development with missions to create research-led innovation and strengthen the foundation for business support

The Innovation Division consists of five sections. The division has the function of carrying out functionality research, research into variety and cultivation technologies, and research into ingredient and processing technologies with the mission of creating research-led innovation and the function of assessing product quality and safety and protecting and using intellectual property with the mission of strengthening the foundation for business support.



| Recent research findings |  |
|--------------------------|--|
| Aug. 2016                | We confirmed that drinking tomato juice in the morning helps to effectively absorb lycopene, a functional nutrient (announced at the 63rd annual meeting of the Japanese Society for Food Science and Technology).   |
| Mar. 2017                | We confirmed that sulforaphane contained in broccoli sprouts can control obesity caused by excessive fat intake. Joint research with the Brain/Liver Interface Medicine Research Center of Kanazawa University (published in the online edition of "Diabetes," the bulletin of the American Diabetes Association, on February 17, 2017). |

## We will accelerate the creation of new value through open innovation and use the research findings to help resolve social issues.

### Descriptions of each research project

#### Functionality research

We are promoting functionality research, primarily into brightly colored vegetables. In fiscal year 2017, we successfully developed Kagome Yasai (vegetable) Juice with functional claims that read "for people who have elevated blood pressure" after demonstrating the effect of the juice, which can control the contraction of blood vessels and reduce elevated blood pressure. We also released information on obesity control with sulforaphane contained in broccoli sprouts. In addition, we have been working on joint research with Hirosaki University to identify food and dietary habits that contribute to the attainment of longer, healthier lives.

#### Research into variety and agricultural technologies

We have accumulated 7,500 types of tomato genetic resources and are developing new varieties and cultivation technologies in our original experimental field. In fiscal 2017, we submitted patent applications for a total of four varieties, including a disease-resistant fresh tomato variety and a variety of tomatoes for processing that are suitable for machine harvest.

#### Research into ingredient and processing technologies

We are carrying out activities to maximize the original flavors, properties and nutrients of tomatoes and vegetables and increase the product's added value. In the research on tomato fractionation technology, we are developing a variety of tomato ingredients such as tomato extract and tomato pulp and vegetable ingredients.

#### Assessment of product quality and safety

To deliver safe, reliable products to our customers, we are conducting activities to predict risk, acquire analysis and evaluation technologies and assess the stability of raw materials. We are also working to improve our technology for the management of fresh vegetable microbes.

#### Protection and use of intellectual property

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

### Promotion of open innovation to help resolve social issues

We believe that rather than relying solely on our original technologies, we need to incorporate technologies used in other industries and cutting-edge technologies in our existing and new businesses. The following describes our industry-government-academia partnership.

#### I. Joint research course, "Vegetable life science," at Hirosaki University Graduate School of Medicine.

In January 2018, we established a research course, "Vegetable life science," jointly with Hirosaki University. We dispatch Kagome researchers to conduct joint research that combines medical science, life science and food science and carry out the following two projects for social implementation, namely promoting vegetable intake.



##### 1. Identify the mechanism whereby vegetable intake contributes to health maintenance and illness prevention.

Using the big data on health collected in the Iwaki Project examinations that the School of Medicine of Hirosaki University has been conducting for more than a decade, we analyze the relationships between vegetable intake and more than 2,000 health indicators measured in the examinations. At the same time, we explain the reasons why vegetable intake contributes to the improvement and maintenance of health by biochemically proving this mechanism.

##### 2. Develop means of easily measuring the sufficiency of vegetable intake in order to help address the low vegetable intake

To encourage consumers to change their behavior in terms of vegetable intake, we develop means of easily measuring the sufficiency of vegetable intake at Kagome and verify the effectiveness of such means in the health examinations conducted at Hirosaki University.

#### II. Open innovation-based research with the National Institute of Advanced Industrial Science and Technology (AIST) in the fields of food and agriculture

Kagome is the first food company to sign a comprehensive joint research agreement with AIST, which occurred in October 2017, and Kagome's researchers were sent to AIST. Specific partnership projects that are currently planned include research to pursue taste, the detection of foreign substances using AI, the development of new packaging containers, and a yield forecast system based on meteorological data analysis in the fields of food and agriculture, and we are aiming to create new businesses and innovation.



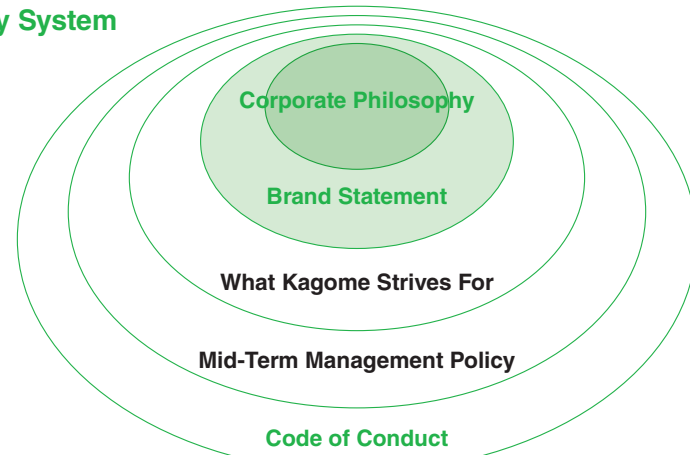
Iwaki Onahama Greenfarm collects data such as temperatures and humidity and carbon dioxide concentration, which are used in the development of yield forecast systems at AIST.

#### Message from the Division Director Using research findings to resolve social issues

The Innovation Division develops research strategies with an eye to a decade or two into the future and refines its activities for new research themes with the spirit of "no challenges, no innovation." In particular, we have been accelerating the creation of new value through open innovation that combines in-house and outside technologies since 2017. We will continue to carry out our research while strongly hoping to apply the outcomes to resolving social issues.

# Strengthening Our Foundation for Value Creation

## Kagome's Philosophy System



### Dialogues with Stakeholders

#### Relationships with Customers

To achieve its brand statement "True to Nature, the Flavor of Kagome," we value communication with customers and provide them with products with safety and reassurance.

#### Relationships with Business Partners, Industry, and Government

We comply with the Antimonopoly Act, the Unfair Competition Prevention Act, laws and regulations related to intellectual property and other applicable regulations, and conduct fair and transparent transactions and fair competition to contribute to the development of the industry.

#### Relationships with Shareholders and Investors

We facilitate the better understanding of our shareholders and investors through the disclosure of corporate information and effective IR activities and strive to achieve a continuous increase in corporate value.

#### Relationships with Society

We recognize our responsibility and duties as a corporate citizen and strive to maintain coexistence with society.

#### Relationships with Employees

We respect basic human rights and strive to create a corporate culture for a safe and comfortable workplace filled with individual energies.

#### Harmony with the Preservation of the Global Environment

We appreciate the global environment that supports our healthy life through various bounties, and we will continue our corporate activities that are in harmony with the global environment.

#### Legal Compliance in the International Community

We comply with international rules and local laws and regulations and respect local cultures and customs.

## Important Aspects

### Corporate Governance → Page 49



We are building an autonomous and heteronomous, transparent and open governance system for ourselves in order to remain a strong company.

### Quality and Environment → Page 38



Since quality and the environment are essential aspects of business, we have established a new integrated policy in the current fiscal year and are enhancing our activities.

## Kagome's ESG activities

We believe that we should achieve a sustainable society while co-creating value with our society by circulating Kagome's sustainable growth and the resolution of social issues. To this end, we must be a strong company with a resilient organization. To be a strong company, we must continue to strengthen our foundation for value creation while applying not only our internal assessment, but also opinions obtained in dialogues with our stakeholders. Kagome recognizes this as one of its growth strategies and is improving its ESG activities.

## Important issues (materiality) of Kagome

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

### Process of identifying the factors



We identified approximately 300 issues that should be addressed by using SDGs, UNGC, ISO 26000, GRI, SASB, etc. as a reference. Subsequently, we narrowed down the issues to approximately 100, taking into account the aspects that are important in Kagome's short-, medium-, and long-term value creation, and we are currently determining the priorities of such issues. We will determine the issues that are important to Kagome by the end of fiscal year 2018.

In dialogues with our stakeholders, we will identify gaps from issues important to Kagome, which will be identified by the end of fiscal year 2018, determine Kagome's materiality by taking their opinions into account, and establish KPIs.

### Sustainable Procurement → Page 41



Kagome profoundly values collaborative efforts with its partners to provide a stable supply of safe, reliable bounty of nature.

### Diverse Human Resources → Page 42



Kagome develops human resources who are capable of creating new value beyond the boundaries of nationality, religion, gender and other differences and focuses on its diversity management.

### Bonds with Society → Page 43



Kagome values communication with communities to build a sustainable society together.



# Quality and Environment



**Action**

Kagome considers quality and the environment to be a pair of wheels that support its growth, has established an integrated policy, and is expanding its activities.

**The quality and environmental literacy of the entire Kagome Group is improving.**

## Establishing Quality and Environmental Policy

In the manufacturing of Kagome, which has been contributing to people's health using nature's bounty, we begin, in principle, from the development of vegetable seeds and soil to grow safe, high-quality raw materials based on the idea that "fields are the primary production plant." To continue to enjoy the bounty of nature, it is essential to maintain a sustainable agricultural business in a rich natural environment. Achieving both the preservation of the global environment and nature-based manufacturing is vital for maintaining the growth of Kagome's business activities into the future.

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

**Quality and Environmental Policy (established October 1, 2017)**

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

### Environment & Quality → Managing the use of agrochemicals for raw material tomatoes and residual chemical testing through inter-division partnership

Kagome has established agrochemical standards that are stricter than the statutorily required levels in its cultivation of tomatoes for domestic processing and ensures yield and safety by spraying chemicals at an appropriate frequency to eliminate blight and pests. Purchasing Department staff called "field masters" provide producers with cultivation guidance and management to avoid unnecessary environmental burdens and producers' economic burdens. Meanwhile, the Innovation Division, which tests pesticide residues in tomatoes, shares information with the Purchasing Department and improves a system corresponding to the "Positive List System for Agricultural Chemical Residues in Foods"\* to achieve quality assurance through the inter-departmental alliance.



\* A system of generally prohibiting the distribution of food products containing agrochemicals, etc., for which standards have not been established, above the specified levels.

### Quality → Consistent quality control from the fields to the products

We conduct various tests, analysis and research in the process from the fields to the products. We periodically test tomatoes for pesticide residues and radioactive materials to ensure safety. Further, the Research Department is working to raise the level of our quality assurance technology to ensure safety.



### Quality → Improving measures to prevent mixed foreign substances

In preparation for the intentional contamination of foreign substances in Japan, we have established our original management guidelines based on risk assessment of food defense, and we ensure thorough compliance. More specifically, we have installed security cameras in our factories, renewed the locking systems, promote active communication among factory employees, and request that our partner factories also establish systems according to Kagome's management guidelines in our company-wide efforts.

### Quality → Promoting activities aimed at acquiring FSSC 22000 certification

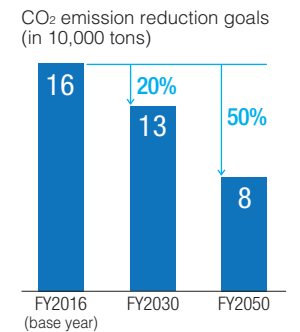
We obtained ISO 9001 certification in 2003 for the process from design and development to procurement, production, distribution and sale, and the entire company has been working to improve its quality management. We have also been working to acquire FSSC 22000\* certification, the international standard for food safety, since fiscal year 2016, and are expecting to complete the certification of all six of our factories in Japan by fiscal 2019.

\*The Food Safety System Certification (FSSC) 22000 is international standards approved by the Global Food Safety Initiative (GFSI) founded mainly by global food manufacturers and food distributors, which includes the mechanism for safe food manufacturing (ISO 22000) and hygiene control requirements that are preconditions for food manufacturing (ISO/TS 22002-1).

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

### Environment → Establishing Kagome Group Medium- and Long-term CO<sub>2</sub> Reduction Targets

Based on the Paris Agreement for establishing an international framework for measures to counteract global warming, Kagome has set goals of reducing the entire Group's CO<sub>2</sub> emissions by at least 20% by 2030 and at least 50% by 2050. We will take a range of measures to achieve these goals.



### Environment → Establishing the Kagome Group Water Policy

A large amount of water is used in Japan and abroad for growing and processing crops that become the raw materials for the products. According to this policy, we will promote the sustainable use of water by the Kagome Group and its major suppliers to protect the local water resources in the areas we operate.

#### Kagome Group Water Policy

|  |   |
|--|---|
| <b>1</b> The Kagome Group and its major suppliers understand water-related risks.                                | <b>2</b> The Kagome Group and its major suppliers strive to reduce water intake and use water efficiently to protect local water resources. |
| <b>3</b> The Kagome Group and its major suppliers clean used water before returning it to the local communities. | <b>4</b> Factories in areas where water-related risks are high take measures for water that are appropriate for the local areas.            |

### Environment → Establishing the Kagome Group Biodiversity Policy

We have established this policy to strive to increase biodiversity in various areas of the business and maintain corporate activities that use nature's bounty for a long time into the future. We will continue to promote effective activities.

#### Kagome Group Biodiversity Policy

| Preservation of biodiversity in supply chains.              | Cooperation with partners outside the company                 |
|---|---|
| (1) Use and maintenance of genetic resources.               | (8) Penetration of the policy both in and outside the company |
| (2) Reduction of environmental burdens in agriculture       | (9) Dialogues with parties outside the company                |
| (3) Preservation of farmland and surrounding ecosystems     | (10) Information disclosure                                   |
| (4) Reduction of environmental burdens of procured goods    | (11) Social contribution                                      |
| (5) Consideration for the environment during transportation | (12) Response to fundamental causes                           |
| (6) Reduction of environmental burdens of factories         |   |
| (7) Consideration for products and services                 |   |

\* Items are extracted from each policy.

# Quality and Environment

**Action**

Promoting global quality assurance activities and recycling-based agriculture, to support the growth of overseas business operations

- Enhancing competitiveness by improving quality at overseas group companies
- Achieving a balance between stable procurement of raw materials and social responsibilities

**Quality** → Building a global quality assurance system to ensure quality at overseas group companies

In the past, due to differences between countries in terms of legal regulations, business practices, the level of customer requirements, and various other aspects, there were discrepancies between the levels of quality management in place at Kagome's various overseas group companies. In order to tackle this issue, in 2016, we established the Global Quality Assurance Department, with the aim of improving the level of quality assurance at our various overseas group companies and prevent losses due to quality-related problems. Based on quality management expertise developed by Kagome in Japan, we have established a common global quality management standard known as Kagome Best Manufacturing Practice, and are conducting quality assurance activities at each company using this standard. As the first of these, we have created specialized standards for the prevention of foreign-object contaminations, and advanced their widespread adoption and establishment in terms of both hard (machinery) and soft (management) aspects of production processes, with the cooperation of both local staff and Japanese engineers dispatched to these overseas locations. Moving forward, we will continue to expand and enhance group-wide quality control standards overseas, and drive the

creation of products that cater to the expectations of our customers. We will do this by advancing the improvement of our workplaces through various initiatives, such as activities to implement the 5S methodology, in order to foster a quality-oriented mindset in the production workplace.



**Environment** → Implementing the latest cutting-edge agricultural techniques to reduce environmental impact, from seeds to cultivation

The agricultural processes involved in cultivating the produce used as the raw ingredients for Kagome's products require large amounts of water, and place a burden on the environment due to activities such as soil fertilization and spraying with pesticides and other agrichemicals. By choosing crop varieties and establishing cultivation techniques that are a good match for the land where they are being grown, we are working to reduce our environmental footprint.

- **United Genetics Holdings (United States)**  
Working to reduce environmental impact through the development of tomato and other vegetable varieties suited to various growing locations around the world, and to optimize volumes of agrichemicals used by utilizing disease resistance
- **Agri-business Research and Development Center (Portugal)**  
Developing tomato varieties and cultivation techniques aimed at achieving stable production of raw-ingredient tomatoes at new growing locations
- Working to establish cutting-edge cultivation techniques for tomatoes for processing that utilize ICT to analyze big data (including weather, soil, tomato growing conditions and farm management records) to achieve optimal management of water, fertilizer and agrichemical usage
- **Kagome Australia (Australia)**  
Implements drip irrigation-based management of water and fertilizers and appropriate crop rotation methods in 100% compliance with Unilever plc's Sustainable Agriculture Code (SAC)

Environmental Data for Overseas Production Locations (actual results for FY2017)

|                           | Energy usage (1,000 GJ) | CO <sub>2</sub> emissions (tons) | Water usage (kilotons) |
|---------------------------|-------------------------|----------------------------------|------------------------|
| Kagome Inc.               | 101                     | 6,738                            | 169                    |
| Kagome Foods, Inc.        | 128                     | 7,962                            | 64                     |
| Vegitalia S.p.A.          | 71                      | 3,121                            | 126                    |
| HIT (Italagro)            | 458                     | 19,774                           | 2,643                  |
| HIT (FIT)                 | 261                     | 13,764                           | 1,069                  |
| Kagome Australia Pty Ltd. | 298                     | 19,358                           | 271                    |
| Taiwan Kagome Co., Ltd.   | 49                      | 2,467                            | 81                     |



# Sustainable Procurement



**Action**

Enhancing our response to ageing of Japanese growers of tomatoes for processing  
Promoting the development of new overseas production locations for tomatoes for processing

- Responding to the shortage of manpower for growing and harvesting tomatoes for processing
- Increasing and expanding the range of market opportunities for tomatoes for processing, for which there is growing global demand

**In Japan** → Introducing measures to tackle the ageing of Japanese growers of tomatoes for processing

A major issue with regard to the procurement of tomatoes for processing in Japan is societal ageing of tomato producers. Many growers had been cultivating tomatoes continuously for around 30 or 40 years, and there are cases in which they retire from the business of cultivation due to a lack of successors. The chief cause of this is that the harvesting season for tomatoes is between late July and mid-August, which is concentrated around the hottest time of year, and manual harvesting of tomato crops places a crushing burden on producers. Kagome came up with the idea of dividing cultivation and harvesting work, and spent approximately six years working in collaboration with agricultural machinery manufacturers to develop the Kagome Tomato Harvester (KTH), a machine for harvesting tomatoes for processing. Work efficiency of harvesting using the KTH has reached approximately three times that of hand pick harvesting, enabling around 1.8 tons of tomatoes to be harvested per day. In 2017, we introduced a test initiative in Ibaraki prefecture whereby KTH harvesting machines and workers were dispatched to farms as a set. The operation and transportation of the KTH machines were outsourced to the same company to which we entrust the transportation of the tomatoes

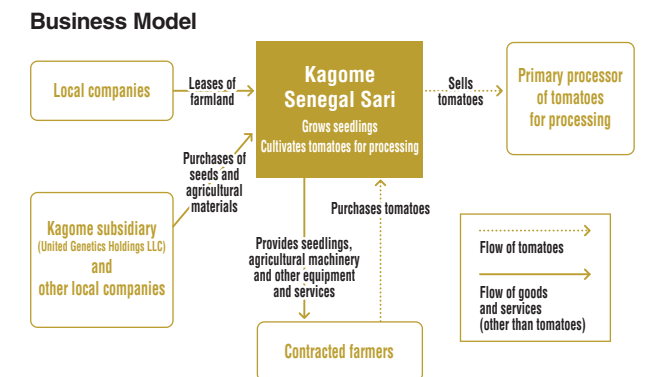
themselves. Moving forward, we will continue to drive initiatives to ensure the continuation of tomato cultivation by existing growers and increase numbers of new growers.



Harvesting demonstration involving a KTH tomato harvesting machine and harvesting workers in August 2017

**Overseas** → Developing new overseas production locations to respond to global food shortages

Global demand for tomatoes is predicted to continue growing for the foreseeable future, and the Kagome Group is working to secure tomato harvest volumes and develop production locations in countries around the world, from a medium to long-term perspective. Kagome Senegal utilizes seeds, cultivation techniques and other agricultural technology resources owned by other Kagome Group companies to create new production locations in Senegal to grow tomatoes for processing. In the future, the company will aim to expand the scope of its business operations to include the manufacture of tomato-based products. Tomato paste as a basic condiment is deeply enrooted in the culinary cultures of many countries in the ECOWAS (Economic Community of West African States) region. However, due to issues such as poor advancement of cultivation techniques for tomatoes for processing and high levels of disease and pest-related stress, the quality and volume of tomatoes being cultivated is insufficient, and these countries rely on imports from overseas for the majority of their tomato-based products. By raising the level of tomato cultivation techniques with the aim of achieving a situation in which tomatoes are both locally grown and locally consumed, we will continue to develop new production locations for tomatoes for processing and make Senegal a strategic hub, with a view to consumption within the ECOWAS region in the future.



Local staff inspect a tomato field in Senegal in March 2018



## Diverse Human Resources



### Action

Achieving simultaneous reforms in both our earnings structure and work styles, by improving productivity, and creating an environment in which a diverse range of personnel can continue to work and feel that they are doing a worthwhile job

- Aiming to achieve our target of 1,800 total working hours per year by 2020
- Creating a strong organization by advancing diversity

### Work Style Reform

Reducing total working hours with an awareness of reforming the way we live

Since 2014, we have been working to reform the way we work. Our efforts begin by prohibiting overtime work past 8 p.m., and we have now developed this concept into "reforming the way we live," with the two goals of "creating a company that is easy to work at and where employees feel that they are doing a worthwhile job" and "achieving total annual working hours of 1,800 hours" by 2020.

#### 1. Creating an environment that is even easier to work in

Kagome is advancing the revision of existing schemes and the establishment of new ones to enable all employees to make greater effective use of their abilities and take active roles in the company. We are also considering lifting our ban on secondary jobs as of 2019, with the hope of creating greater synergy in employees' main job by diversifying their career paths.

- Introducing a staggered working hour system where employees can choose their hours
- Introducing a telecommuting system
- Introducing a hour-based paid leave scheme for the factory division

#### 2. Total annual working hours of 1,800 hours

By advancing improvements in work efficiency as an organization by eliminating unreasonableness, waste and inconsistency at the individual level, we are working to reduce total annual working hours (which currently stand at between 1,900 and 2,000 hours) to 1,800\* hours by 2020. In order to improve work efficiency, it is essential to coordinate between departments and improve productivity at the section and team level. We are currently engaged in productivity initiatives, such as by slimming down meeting presentation materials, improving time management such as by sharing of individual schedules online amongst teams in our staff and sales divisions, and labor saving and more effective utilization of personnel by introducing new equipment and machinery in our factory divisions.

\* 1,800 hours: 224 days (working days excluding holidays and 20 paid leave days) × 8 working hours per day

### Promoting Diversity

Improving productivity by respecting diversity



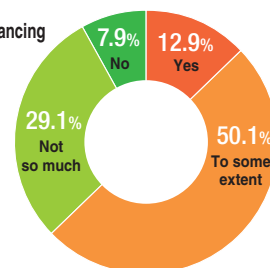
Kagome has the long term vision of having "50% of the workforce consisting of women – from employees to executive officers," which we hope to achieve by around 2040. By making effective use of the diverse perspectives of not only women but each and every one of our employees, we are maximizing the performance of our organization, reforming internal awareness, and driving the creation of systems that will enable a diverse range of personnel to continue working with us, with the objective of creating new value. We have established a "Diversity Committee" comprised of representatives from all offices, which organizes activities to revitalize workplace communication, and are working to reform employee awareness and identify issues, such as by holding events including work-life seminars and IkuBoss (a progressive on childcare issues) seminars, run primarily by the Diversity Promotion Department. In March 2018, we were selected in the New Diversity Management Selection 100.

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

|          |   |                          |      |
|----------|---|--------------------------|------|
| Target 1 | To hire new employees, of whom 50% or more are female employees   | Actual result for FY2018 | 60%  |
| Target 2 | To maintain the continuous employment percentage of female employees hired before the 2009-2011 fiscal years at least 80% of that of male employees | Actual result for FY2017 | 0.75 |
| Target 3 | To ensure that female employees make up at least 8% of managerial positions (Manager and above)   | As of April 1, 2018      | 4.6% |

#### Do you feel that the level of diversity is advancing in your workplace?

(from an internal questionnaire-based survey conducted in November 2017)



## Bonds with Society



### Action

Expediting resolution of social issues and accelerate corporate growth through wide-ranging collaborations with partners, including municipal governments, universities and other companies

- Contributing to longer, healthy lives
- Achieving agricultural development and regional revitalization
- Attempting to solve world food problems
- Offering support to victims of the Great East Japan Earthquake

### What Kagome Strives For

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

#### Joint research in collaboration with Hirosaki University to reveal the health benefits of vegetables

In January 2018, Kagome established a "Vegetable Life Science" joint research course in association with Hirosaki University. In addition to conducting joint research on the health benefits of vegetables through a combination of medical, life science and food science approaches, the course also aims to contribute to extending the health life spans of Japanese people.



Opening ceremony at Hirosaki University

#### Farm management with the aim of advancing the tomato industry in Senegal

At the end of 2017, Kagome established a farming company in the West African country of Senegal. As well as providing a foothold for tomato cultivation, the company ultimately aims to energize the tomato industry in the country. Through the use of cultivation and farm-management techniques developed by Kagome, the company is contributing to encouraging the local growing and local consumption of produce, as well as promoting increased employment and improvement of incomes.



A tomato field in Senegal

#### Forming agreements to promote collaborative relationships with local governments

As of June 2018, Kagome has signed agreements with 19 prefectures and regions in Japan, and is working with them and making mutual use of resources to improve services for local residents and further revitalize these regions. Specifically, Kagome makes use of the local specialty produce of these regions as raw ingredients for its products, and engages in a wide-range of other activities including food education support and assistance in times of disaster.



A ceremony to mark the signing of an agreement with Kanagawa prefecture

#### The MICHINOKU Future Fund (a scholarship fund supporting around 1,300 children who have lost one or both parents because of the Great East Japan Earthquake)

Kagome operates the MICHINOKU Future Fund in association with Calbee, Inc., Rohto Pharmaceutical Co., Ltd. and Ebara Foods Industry, Inc. The fund provides support to enable children who have lost one or both parents by the Great East Japan Earthquake to continue their education to university to vocational school. For the coming 19 years, we plan to support around 1,300 children, including those who were not yet born at the time of the disaster, until they graduate.



The 7th MICHINOKU Future Fund gathering, held in March 2018

#### Connecting consumers with producers through the Noen Oen (Local Obscure Farm Support) direct marketing business

Kagome's Noen Oen (Farm Support) direct marketing business was launched in 2015. Through this initiative, Kagome conducts limited sales of rare and delicious fruit and vegetables grown by passionate producers nationwide. Through these activities, we aim to pass on producers' high-level skills and rare fruit and vegetable varieties to the next generation of growers.



A Farm Support producer

#### Food education activities experienced by a total of 3,506,000 people

Kagome is engaged in continuous activities to develop children's interest in food and support healthy growth. Our activities include inviting parents and children to our musical Kagome Theater which communicates the importance of food and health, and providing tomato seedlings and study materials to approximately 1,000 elementary schools and preschools nationwide.



Kagome Theater 2017