

Interview with the Chairman

# Building a Universal System for Enhancing Corporate Value at All Times

—Discussing Kagome's Evolution in Corporate Governance as the Chairman of the Board—

Building the optimum corporate governance system is one of the key parameters for enhancing corporate value set out in the mid-term management plan.



Chairman of the Board of Directors

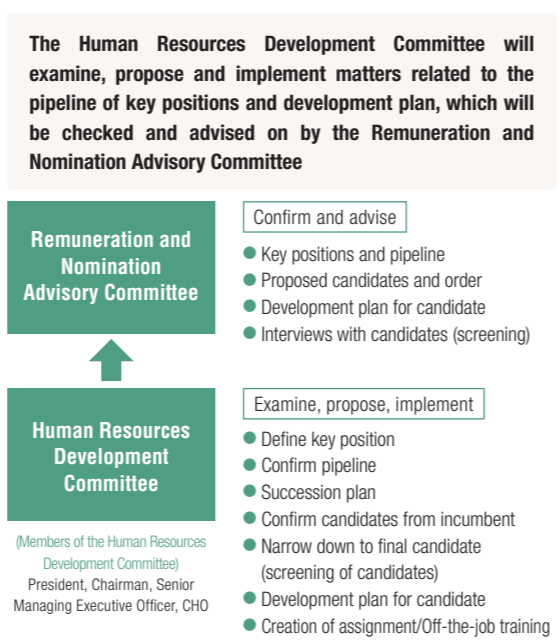
野田 直行

## Q1 Can you provide details about Kagome's succession plan?

We introduced a new system and process starting from the election of the new president, which increased transparency and objectivity.

Developing the persons responsible for management and achieving a highly transparent selection process are important matters required under Japan's Corporate Governance Code. The selection of the next president until now was largely delegated to the incumbent president, but we introduced a new system and process for the election of the new president. This involves the Remuneration and Nomination Advisory Committee discussing candidates selected by the newly established Human Resources Development Committee, with the findings of the committee reported to the Board of Directors for election of the candidate.

The new Human Resources Development Committee has enhanced the objectivity of candidate selection, and the human resources development plan will be used strategically not only for the president and other officers, but also employees considered to be future management resources. By continuing with this system and process, we will seek to strengthen corporate governance.



## Q2 What are the key points behind the Board's initiatives to strengthen governance and its role?

We are strengthening our systems to enable fundamentally deep discussions for enhancing corporate value over the medium term.

Since transitioning to a corporate structure with an audit and supervisory committee in FY2016, we have evaluated board effectiveness. Every year, we conduct a survey of directors comprised of 30 items, and discuss the results during board meetings. Efforts are made to rectify issues that were brought to light as a result, and in FY2019, we instituted countermeasures, including increasing the time spent on deliberating important agenda items and issuing findings only after sufficient discussion. We are making steady progress with improvements through this ongoing evaluation of board effectiveness.

Amid growing importance placed on dialogue with various stakeholders, including institutional investors and shareholders, we have placed even greater expectations on External Directors and Audit & Supervisory Committee Members supervising management and facilitating sound management practices based on recommendations.

The Board plays two important roles. First is the

supervision of management. Business execution is carried out in an expedient manner by delegating it to Management Meetings, while the Board makes decisions regarding policy and important execution matters. In turn, the Audit & Supervisory Committee audits this process. The key word of supervision is whether transparent, fair, prompt and bold decision making is being carried out or not.

Second is advice to management. This focuses predominantly on advice for sustainable growth and enhancing medium- to long-term corporate value, and External Directors are involved in the formulation of the mid-term management plan. The advice of External Directors at Board meetings simply cannot be obtained from members of management alone internally, such as opposition to a proposal or stricter reviews of conditions. I feel like a high level of decision making is being carried out.

## Q3 What is your approach and expectations regarding the three newly appointed External Directors?

We will utilize diversity for increasing board effectiveness and to grow by overcoming the recent crisis.

To ensure board effectiveness, we select a suitable number of members that can effectively conduct discussions and with diversity in terms of gender, international experience, expertise, career experience and personality. From this perspective, the three newly elected External Directors are appropriate, and female representation increased, which puts us one step closer to achieving our long-term vision of 50% of the workforce consisting of women—from employees to

executive officers.

In addition, our response to the COVID-19 pandemic has become a major challenge. The opinions of External Directors will be important particularly during such a crisis, and I find their views to be very reassuring in terms of governance. To overcome this crisis and achieve greater growth, I expect External Directors to provide advice not only to the Board, but also in a broad range of other opportunities.

## Q4 What are your thoughts about employees' efforts toward strengthening governance as it pertains to the new Code of Conduct established in October 2018?

The Code of Conduct has become the focal point of employee actions for enhancing corporate value coupled with our corporate philosophy

For us, a company that is working on social issues aimed at the realization of its vision for 2025, we revised the Code of Conduct believing there was a need for a focal point of employees' activities as a member of a socially responsible company. A corporate philosophy is the pulse of management that does not change no matter the times, while a Code of Conduct represents a conscience that should mimic the times, along with society's issues and interests. I expect employees to respect our new Code of Conduct, which comprises the three elements of mutual support, respect for

human rights and fairness, and use it to elevate their self-awareness in all of their actions as members of Kagome and society in general.

The recent establishment of the Kagome Mirai Yasai Foundation is an initiative that combines our business activities with solutions to social issues. It will function as a mechanism of mutual support as per our Code of Conduct. By having employees support the activities of the foundation, they will be actively involved in resolving social issues and the spirit of mutual support will penetrate the entire company.

# Directors



## Naoyuki Terada

(Born February 5, 1955)  
Chairman of the Board of Directors

Remuneration and  
Nomination Advisory  
Committee Member

1978 Joined the Company/2004 General Manager, Sales Promotion Department/2005 Director & Executive Officer/2006 General Manager, Tokyo Sales Office/2008 Director & Managing Executive Officer/2008 Director, Consumer Business Division/2010 Director & Senior Managing Executive Officer/2010 Sales Division Director/2013 Representative Director & Senior Managing Executive Officer/2014 President & Representative Director/2020 Chairman of the Board of Directors (to present)



## Satoshi Yamaguchi

(Born December 29, 1960)  
President & Representative  
Director and Director,  
Vegetable Business Division

Remuneration and  
Nomination Advisory  
Committee Member

1983 Joined the Company/2003 General Manager, Institutional & Industrial Business Unit/2010 Executive Officer/2010 Director, Institutional & Industrial Business Division/2015 Director, Innovation Division/2018 Director, Vegetable Business Division (to present)/2019 Director & Managing Executive Officer/2020 President & Representative Director (to present)



## Yoshihide Watanabe

(Born March 4, 1958)  
Director & Senior Managing  
Executive Officer

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



## Katsuyuki Miwa

(Born August 5, 1955)  
Director & Senior Managing  
Executive Officer

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



## Hirohisa Kobayashi

(Born July 16, 1961)  
Director & Managing Executive Officer  
Director, Sales Division

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



## Takayuki Hashimoto

(Born July 9, 1954)  
External Director

Independent

Remuneration and  
Nomination Advisory  
Committee Member

1978 Joined IBM Japan, Ltd./2008 Director & Senior Executive Officer General Manager, Sales, IBM Japan/2009 General Manager, IBM Japan/2014 External Director of the Company (to present)/2016 Outside Member of the Board, Mitsubishi Chemical Holdings Corporation (to present)/Outside Director, CHUBU Electric Power Co., Inc. (to present)/2017 Honorary Advisor, IBM Japan (to present)/2019 Representative Director and President, Yamashiro Management R&D Institute Ltd. (to present)



## Hidemi Sato

(Born February 17, 1959)  
External Director

Independent

Remuneration and  
Nomination Advisory  
Committee Member

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



## Hirohito Kodama

(Born March 22, 1959)  
Director, Standing Audit and  
Supervisory Committee Member

Audit and Supervisory  
Committee Member

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

## Recommendations from newly appointed External Director



## Kumi Arakane

(Born July 4, 1956)  
External Director

Independent

1981 Joined KOBAYASHI KOSÉ COMPANY LIMITED (now KOSÉ Corporation)/1997 Obtained PhD in Pharmaceutical Sciences from the University of Tokyo/2002 Senior Chief Researcher of R&D Headquarters Advanced Cosmetic Research Laboratories of KOSÉ Corporation/2004 General Manager of Product Development Dept., Marketing Headquarters of KOSÉ Corporation/2006 Executive Officer and Deputy Director-General of Marketing Headquarters and General Manager of Product Development Dept. of KOSÉ Corporation/2010 Executive Officer and General Manager of R&D Laboratories of KOSÉ Corporation/2011 Executive Officer and General Manager of Quality Assurance Dept. of KOSÉ Corporation/2011 Director of KOSÉ Corporation/2017 Audit & Supervisory Board Member of KOSÉ Corporation (to present)/2019 Outside Audit & Supervisory Board member, Kubota Corporation (to present)

### Contributing to Kagome and its dramatic growth potential

Kagome has the potential to grow dramatically from a company that creates good products to a company that can provide truly valuable solutions in healthcare, food and agriculture. I look forward to helping realize this potential with the support of stakeholders.



## Tatsuya Endo

(Born August 18, 1959)  
External Director, Audit and  
Supervisory Committee Member

Independent

Audit and Supervisory  
Committee Member  
Remuneration and  
Nomination Advisory  
Committee

1985 Joined Tokyo Office of Arthur Andersen LLP/1990 Registered as Certified Tax Accountant/1998 Became Tax Partner of Tokyo Office of Arthur Andersen LLP/2002 Tax Partner at Asahi KPMG (now KPMG Japan)/2016 Deputy Senior Partner of KPMG Japan/2020 Representative, Tatsuya Endo Tax Accountant Office (to present)

### Contributing to sustainable growth and creation of corporate value for Kagome as it transforms itself

To identify issues well in advance, I will visit Kagome's places of business to carefully and broadly listen to what frontline workers have to say. I will strive to contribute to Kagome's sound and sustainable growth and medium- to long-term corporate value as the company undergoes a transformation from tomato company to vegetable company.



## Asako Yamagami

(Born January 1, 1970)  
External Director, Audit and  
Supervisory Committee Member

Independent

Audit and Supervisory  
Committee Member

1999 Registered as an attorney-at-law and joined Taiyo Law Office (now Paul Hastings)/2005 Forwarded to Walt Disney Company (Japan) Ltd./2006 Joined IBM Japan, Ltd. /2012 Attorney attached to the Office of International Affairs, Japan Federation of Bar Associations/2012 Joined Natori Law Office as Partner (to present)/2015 Outside Director and Audit & Supervisory Committee Member, Musashi Seimitsu Industry Co., Ltd./2016 Head of the Office of International Affairs, Japan Federation of Bar Associations

### Utilizing my knowledge as an attorney for Kagome's corporate stance that resonates with me

I hope to utilize my knowledge as an attorney to contribute so that Kagome achieves fair business activities that transcend compliance and workplace environments, where diversity and individual skills are embraced, while focusing on social changes through discussions with a diverse range of stakeholders.

## Corporate Governance

### Basic policy of corporate governance

In accordance with its 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.

We consider further strengthening of “autonomy” complemented by “heteronomy” to be the fundamentals of our corporate governance. It will ensure objectivity and

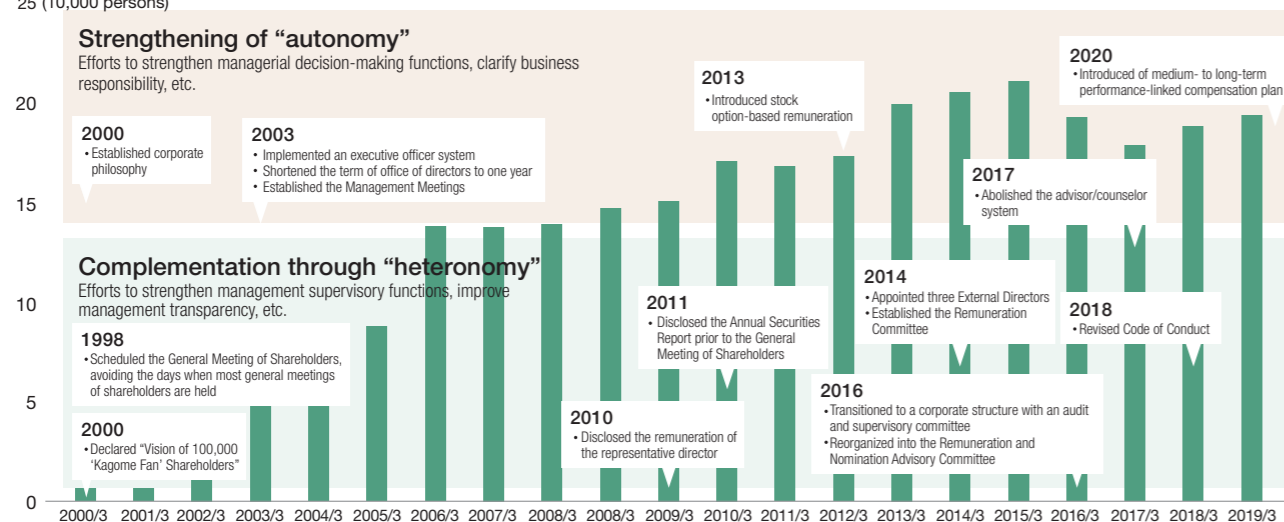
transparency, forming a basis by designing its own concept of corporate governance adapted to the present day, while incorporating diverse outside viewpoints by working to attract more “Kagome Fan Shareholders” and leveraging the function of external directors among other things.

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

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

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

Number of shareholders  
25 (10,000 persons)



### Corporate governance system

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

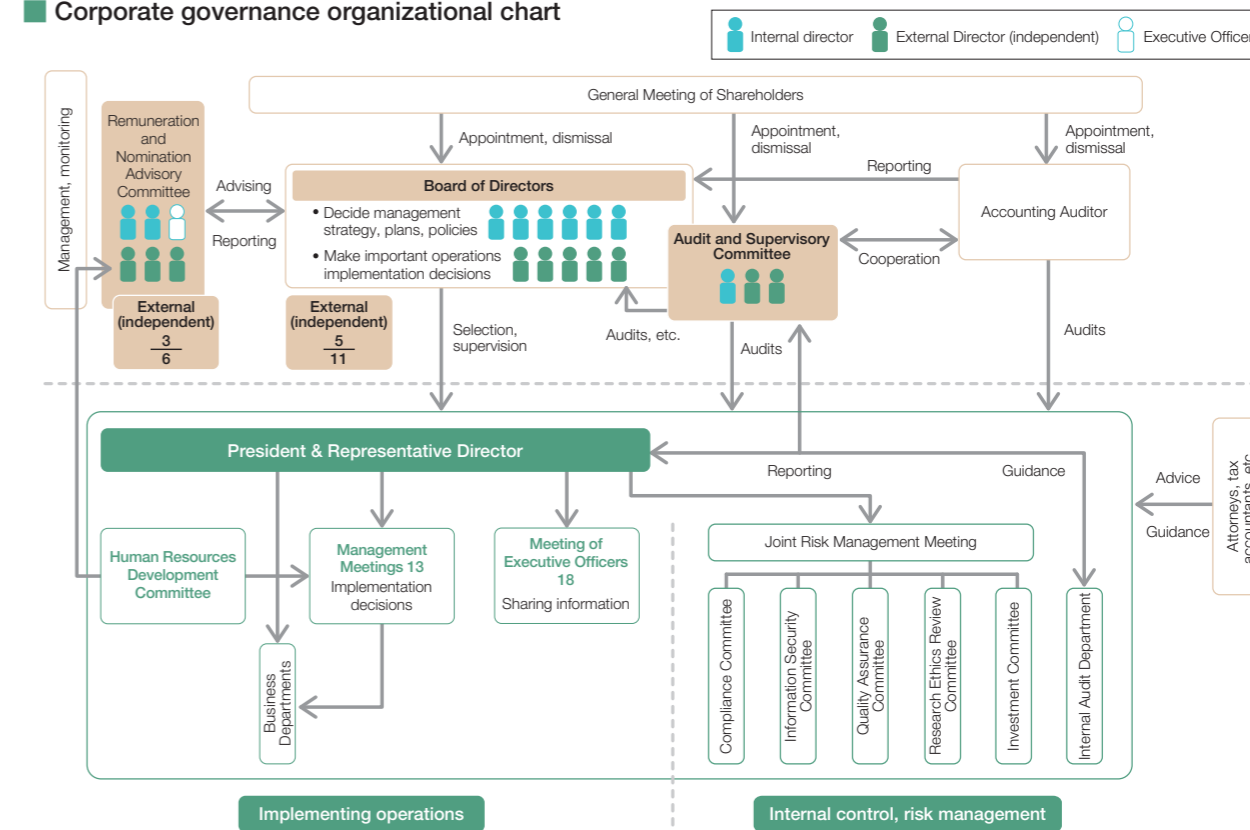
The Audit & Supervisory Committee has set a policy of having one or more standing Audit and Supervisory Committee members, and uses internal control systems to audit the legality and appropriateness of the operations implemented by the directors.

The nomination and remuneration of directors are deliberated by the Remuneration and Nomination Advisory Committee; more than

half of whose members are independent external directors. The results of the deliberations are advised to the Board of Directors, which then determines the nomination and remuneration of the directors, thereby enhancing fairness and appropriateness.

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

### Corporate governance organizational chart



### Kagome’s policy on appointing directors

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

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

### Specialized areas/Areas of expertise of Directors

	Corporate management	International operations	Finance, accounting	Law	Human resources development and diversity	Sales and marketing	Production and procurement	Research and technology
Naoyuki Terada	○				○			
Satoshi Yamaguchi	○					○		○
Yoshihide Watanabe	○	○	○					
Katsuyuki Miwa	○						○	○
Hirohisa Kobayashi	○	○				○		
Takayuki Hashimoto	○	○			○			
Hidemi Sato					○	○		○
Kumi Arakane	○					○		○
Hirohito Kodama	○	○						○
Tatsuya Endo		○	○					
Asako Yamagami		○		○				

## Kagome's Management

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

We deem 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, corporate auditor (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.

### Directors' remuneration

Our company's directors' remuneration plan is designed and managed according to the basic policy [that it be a remuneration plan suited to a global corporation aimed at the realization of the mid-term management plan and that the results provided to the company and roles expected through the job duties of individual directors are important and that they are evaluated appropriately](#). Specifically, remuneration comprises basic compensation and the compensation that are linked to business performance. The proportions of each of the above are determined based on the positions of the directors.

Basic compensation is fixed compensation that is determined based on directors' positions and the scope of the role of each job grade. Performance-linked compensation comprises cash bonuses and stock options determined based on consolidated profit indicators as the company-wide business performance and contribution made by each individual director. Stock options serve as incentives for mid-term and multiple-year management and are designed to be exercisable based on consolidated profit indicators after a certain period of time from the time of allotment as exercise conditions. Accordingly, the exercisable number of these stock options is determined according to the degree of attainment. Compensation for directors who are audit and supervisory committee members and external directors comprises basic compensation only. Further details are provided in the Annual Securities Report for the 76th Period. ([https://www.kagome.co.jp/library/company/ir/data/statutory/2020/pdf/2020\\_all.pdf](https://www.kagome.co.jp/library/company/ir/data/statutory/2020/pdf/2020_all.pdf))

In FY2014, the Remuneration Committee, as an advisory body to the Board of Directors in which external directors account for one half or more of its members, was established

in order to enhance transparency and objectivity in determining directors' compensation, etc. In FY2016, the same committee was given functions as an advisory body concerning the nomination of directors, and was then reorganized to become the current Remuneration and Nomination Advisory Committee.

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

Fiscal year in which the committee was convened	Main matters deliberated
2019 First committee	<ul style="list-style-type: none"> <li>FY2018 executive bonus</li> <li>Revision to director compensation for FY2019</li> <li>Performance-linked bonus factor for FY2019</li> <li>Finalization of FY2016 stock options</li> <li>Personnel reshuffle of directors with effect from April 2019</li> </ul>
Second committee	<ul style="list-style-type: none"> <li>Remuneration and Nomination Advisory Committee for FY2019</li> <li>Directors' compensation for FY2019</li> <li>Evaluation of overseas CEOs and compensation</li> <li>FY2019 succession process</li> </ul>
Third committee	<ul style="list-style-type: none"> <li>Candidates for the next President</li> </ul>
Fourth committee	<ul style="list-style-type: none"> <li>Candidates for the next President</li> <li>Personnel reshuffle of directors and major posts with effect from October 2019</li> </ul>
Fifth committee	<ul style="list-style-type: none"> <li>Candidates for External Director in FY2020</li> <li>Candidates for executive officer positions in FY2020</li> <li>New stock compensation proposal (trust-type stock compensation)</li> </ul>
Sixth committee	<ul style="list-style-type: none"> <li>Compensation for President and Chairman after January 2020</li> <li>Results of compensation survey for FY2018</li> </ul>
2020 First committee	<ul style="list-style-type: none"> <li>FY2019 executive bonus</li> <li>Finalization of FY2017 stock options</li> <li>Personnel reshuffle of directors with effect from April 2020</li> </ul>
Second committee	<ul style="list-style-type: none"> <li>Committee system after April 2020</li> </ul>
Third committee	<ul style="list-style-type: none"> <li>Directors' compensation for FY2020</li> <li>Evaluation of overseas CEOs and compensation</li> </ul>

### Directors' compensation

Category of directors	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)			Number of eligible directors (persons)
		Basic remuneration	Stock options	Bonus	
Directors (excluding Audit and Supervisory Committee members)*	313	150	42	120	6
Directors (Audit and Supervisory Committee members)*	30	30	-	-	1
External Directors	52	52	-	-	5

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

### Total amount of compensation, etc. of individual directors

Category of directors	Total amount of compensation, etc. (million yen)	Total amount of compensation, etc. by type (million yen)		
		Basic remuneration	Stock options	Bonus
President & Representative Director Naoyuki Terada	112	43	21	48

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

### Breakdown of compensation by position

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

### Amount of fixed compensation by position (excluding Director & Audit and Supervisory Committee member and External Director)

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

### Calculation method of performance-linked compensation

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

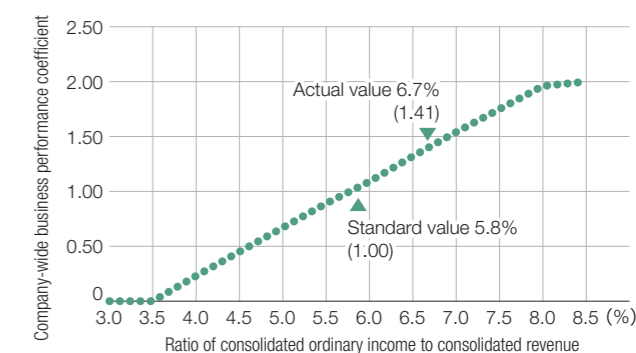
- Basic bonus amount = Total basic compensation of each position/job grade × Total percentage of performance-linked compensation
- Total amount of performance-linked compensation = Standard bonus amount × (Company performance pay coefficient<sup>1</sup> [ratio of consolidated ordinary income to consolidated revenue] × Position weight + Company performance pay coefficient<sup>2</sup> [net income versus budget] × Position weight + Individual performance pay coefficient<sup>2</sup> × Position weight)

<sup>1</sup> The "Company performance pay coefficient" is determined through a "company performance evaluation" which evaluates the rate of achievement of company performance indicators. We have established the two indicators of (1) Ratio of consolidated ordinary income to consolidated revenue and (2) Net income versus budget as company performance indicators.

(1) Ratio of consolidated ordinary income to consolidated revenue  
We set "ratio of consolidated ordinary income to consolidated revenue" as one company performance indicator using for important consolidated management indicators related to company performance valuation following our voluntary adoption of International Financial Reporting Standards in FY2019. The ratio of consolidated ordinary income to consolidated revenue for FY2019 was 6.7%. As a result, the coefficient of the ratio of consolidated ordinary income to consolidated revenue was set at 1.41 in advance pursuant to the table at right.

(2) Net income versus budget  
We set "Net income attributable to shareholders of parent," the ultimate bottom line, as a second management indicator so that we can continually create value for shareholders and achieve a higher level of contributions. Specifically, the achievement rate of the performance amount versus the initial budget is set as the coefficient. The achievement rate of the performance amount versus the budget for FY2019 was 1.07.

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



## Kagome's Management

### Short-term performance-linked compensation: Cash bonus

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

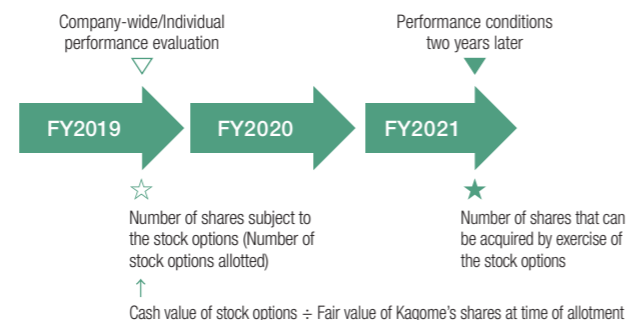
$$\text{Cash bonus} = \text{Total amount of performance-linked compensation for single fiscal year} \times \text{Percentage of total amount of performance-linked compensation accounted for by cash bonus}$$

### Medium- to long-term performance-linked compensation: stock compensation

We use stock options as medium- to long-term performance-linked compensation for directors. Until FY2019, we have used a scheme of stock options as compensation whereby the exercise price is 1 yen (the amount paid by the individual is one yen per share). The number of stock options allotted is determined by dividing the cash value of the stock options, which is decided based on the performance evaluation for a single fiscal year, by the fair value of Kagome's shares at the time of their allotment. The number of shares that can be acquired by exercise of the stock options will then be decided according to the degree of achievement of the company-wide performance indicator (ratio of consolidated ordinary income to consolidated revenue) in two years' time.

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

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



Furthermore, we will introduce a director compensation Board Incentive Plan trust ("BIP trust") in FY2020 as a medium- to long-term performance-linked compensation that is highly transparent and highly correlated to shareholder value, following our policy on directors' compensation. The BIP trust is a new stock compensation plan that will replace stock options. Since stocks, instead of rights, will be granted directly to directors, this will increase directors' motivation to create value for shareholders. We also expect the plan and its implementation to be easy to understand and transparent.

## Results of evaluation of the effectiveness of the Board of Directors

Our company undertook an evaluation of the effectiveness of the Board of Directors in November 2019. An overview of the results is described below.

### 1. Methods of evaluation

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

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

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

### 2. Overview of results of evaluation

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

Areas suggesting a need for further improvement in the evaluation this time included "reporting the status of operations (setting agenda items systematically and in order of priority)" and "more

exhaustive deliberation on important themes." We are implementing initiatives regarding the reporting of status of operations from major organizations based on the results of the effectiveness evaluation from the previous fiscal year, but we did not set out key points for discussion. In this effectiveness evaluation, we received the opinions of each director on "themes that should be deliberated upon" during a Board meeting. Based on these opinions, we will have the Board discuss the themes to deliberate for this fiscal year, stipulate the main agenda items for the year, and create a detailed schedule of when to deliberate these items.

Members of the Remuneration and Nomination Advisory Committee expressed opinions on the development of a medium- to long-term succession plan, while members of the Audit and Supervisory Committee said further efforts should be made to ascertain the actual situation of subsidiaries and business sites in order to secure the effectiveness of audits. Our Board of Directors also recognizes these as issues to address and will work to solve them.

We will seek to further improve board effectiveness in light of the results of the latest evaluation.

## Initiatives to enhance the effectiveness of the Board of Directors

- Revision of the rules for the submission of proposals to the Board of Directors (transition to the Management Meetings)
- Making an annual schedule of proposals to the Board of Directors
- Providing external directors with prior explanations of proposals to the Board of Directors
- Organizing a study camp to examine the next Mid-Term Management Plan
- Holding meetings for external directors to share the matters deliberated in the Management Meetings
- Observation visit of business sites and overseas subsidiaries by external directors
- Advanced disclosure of deliberation materials on the dedicated site for the Board of Directors

## Response to the Corporate Governance Code

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

## Strengthening group governance

Kagome voluntarily adopted International Financial Reporting Standards ("IFRS") in place of the existing Japanese accounting standards ("JGAAP") from FY2019. By using IFRS, we will seek to improve business administration quality and enhance international comparability of the Group.

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

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

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

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

## Cross-shareholdings

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

average ROA of the Company for the past five years on a non-consolidated basis, such shares are subject to review for sale. Also reviewed are shares whose market price has declined 30% or more from the book value and shares of a company with whom the Company has transactions amounting to less than 100 million yen per year. Shares of suppliers and clients that fall below these standards are subject to deliberation at meetings of the Board of Directors every year as to whether or not to sell them. As a result of a review, the Company sold some of its cross-shareholdings in FY2019.

## Compliance

### Revision of Code of Conduct

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

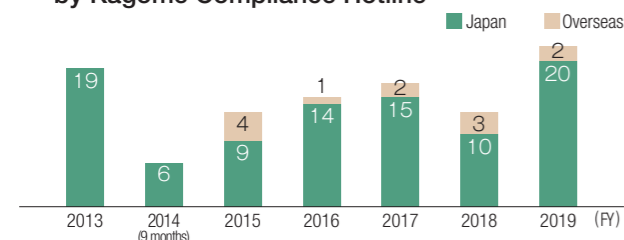
The new Code of Conduct consists of three pillars: "mutual support," "respect for human rights" and "fairness," and it is considered pivotal for the daily activities of Kagome Group employees, indicating how they should behave as corporate citizens as Kagome set its sights on becoming a "Strong company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

### Compliance promotion system

The Kagome Group has established a Compliance Committee, under the supervision of the Joint Risk Management Meeting chaired by Kagome's President. The Compliance Committee, which is chaired by the Executive Officer with responsibility for overseeing compliance, undertakes the verification of compliance promotion and monitoring status. The results of the Compliance Committee's deliberations are reported to the members of the Management Meetings via the Joint Risk Management Meeting. The Legal Affairs Office, which functions as the committee's secretariat, 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 on the condition that they can be contacted by the hotline.

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 FY2019, the Kagome Compliance Hotline was used 22 times, and each case was resolved.

### Number of consultations and reports received by Kagome Compliance Hotline



Kagome fully recognizes the importance of compliance in relation to Group companies located overseas. In 2014, an overseas internal reporting system was 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.

### Initiatives to maintain rigorous compliance

Having formulated the Kagome Group Compliance Implementation Rules, Kagome Group in Japan 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 in-house compliance training conducted on an ongoing basis using group training and e-learning for new employees and new managers that incorporate awareness raising, case studies, and group discussions. The in-house compliance seminars are integrated with the Skill Points program in the personnel management system, and participation in these seminars is a prerequisite for promotion.

In recent years, we conducted an internal investigation into harassment following worldwide developments. Based on the results, we formulated implementation guidelines for eliminating harassment in the workplace, with an eye toward the statement in our Code of Conduct "We nourish a corporate culture that prevents and stops all forms of harassment," and created a compilation of harassment case studies, which we are using to raise greater awareness among our employees. In addition, as an initiative for anti-corruption, which has become an important worldwide issue as indicated in the SDGs, we evaluated the bribery risks of overseas subsidiaries, and after deliberations by management level meeting bodies, we formulated the Kagome Group Corruption Prevention Policy to complement the Code of Conduct. In addition to Japanese, the policy has been localized in other languages as well, including English, Chinese (Traditional), Portuguese, Italian, and Spanish. Efforts are now underway to make this policy known to all employees of the Group, spearheaded by the CEOs of overseas Group companies.

### Tax compliance

In all the countries and regions where it conducts its business operations, the Kagome Group observes and adheres to tax laws, maintains good relationships with tax authorities, and contributes to society by paying the appropriate taxes. We also respond in a timely and appropriate manner with regard to annual revisions to taxation systems and changes in the international taxation rules, including tax treaties, conventions and OECD guidelines. Internally, we carry out regular e-learning and other training with regard to tax compliance, in order to heighten employees' awareness regarding observance of tax laws. With regard to transfer pricing taxation, we have established transfer pricing management regulations. For international transactions between companies belonging to the Group, we analyze the functions, assets and risks associated with each party in the transaction based on the arm's length price principle, and calculate appropriate profit allocations and transfer prices based on their respective contributions.

## Initiatives to Strengthen Internal Control

### Policies for handling risk

Kagome, as a "vegetable company" that makes maximum use of nature's bounty and aims to contribute to helping customers live longer, healthy lives, has been promoting activities to reduce various risks centering on food safety. We are engaged in continuous risk management efforts in keeping with a company-wide approach to risk management (ERM: Enterprise Risk Management) to improve the efficiency of management decision-making with an eye on ESG.

### Companywide risk management structure

Kagome strives to address compliance risks and operational risks after identifying the issues faced by each individual department. Also, in terms of company-wide risk management, we are seeking to create an enhanced risk management structure and have established five specialized committees which handle issues that are viewed as being particularly important for a food products company. We have also established the Joint Risk Management Meeting chaired by the President, as an overall risk management structure. The meeting is attended by the Senior Managing Executive Officer(s), standing Audit and Supervisory Committee member(s) and Managing Executive Officer & Chief Human Resource Officer, and also includes other Audit and Supervisory Committee members who are external directors in its membership, enabling the meeting to obtain objective assessments from an outside perspective. The meeting endeavors to maintain a detailed grasp of the state of risk response across the entire Kagome Group and to make improvements that will enable swifter decision making with regard to risk response policies and significant risk response issues. The Joint Risk Management Meeting meets on a regular basis to receive reports and suggestions from the each committee and relevant departments on day-to-day social events, their impact on the Kagome Group and responses to such issues, and to discuss and instruct on necessary responses. In addition, in order to improve effectiveness of internal control, details of the instructions are utilized in monitoring by the Internal Audit Department, and the results of the monitoring are reported to the Board of Directors and the Audit and Supervisory Committee.

### Compliance Committee

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

### Information Security Committee

The Information Security Committee determines basic policies and audits the execution of these policies with regard to the protection of important information, such as personal information held throughout the Group, as well as the proper management framework and usage. The committee works to assure adherence

to the law and prevent information leaks. The Information Security Committee conducts monitoring of any unauthorized access from the outside and examines measures to enhance operation of information systems.

### Quality Assurance Committee

To ensure customers enjoy peace of mind when using our products which contribute to customers' longevity and good health through nature's bounty, maintaining quality is always the most important issue for Kagome 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, we engage in research activities toward elucidating 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 violations when product efficacy and safety verification testing on humans is conducted at the R&D stage. This committee is comprised of employees who are not a part of our company's R&D operations, as well as external medical experts and lawyers; hence creating a framework with a neutral perspective, capable of judging ethical adequacy and scientific legitimacy of research objectives and methods.

### Investment Committee

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



**Kagome's Management**

**Leveraging the “Three Lines of Defense” model and the COSO Framework**

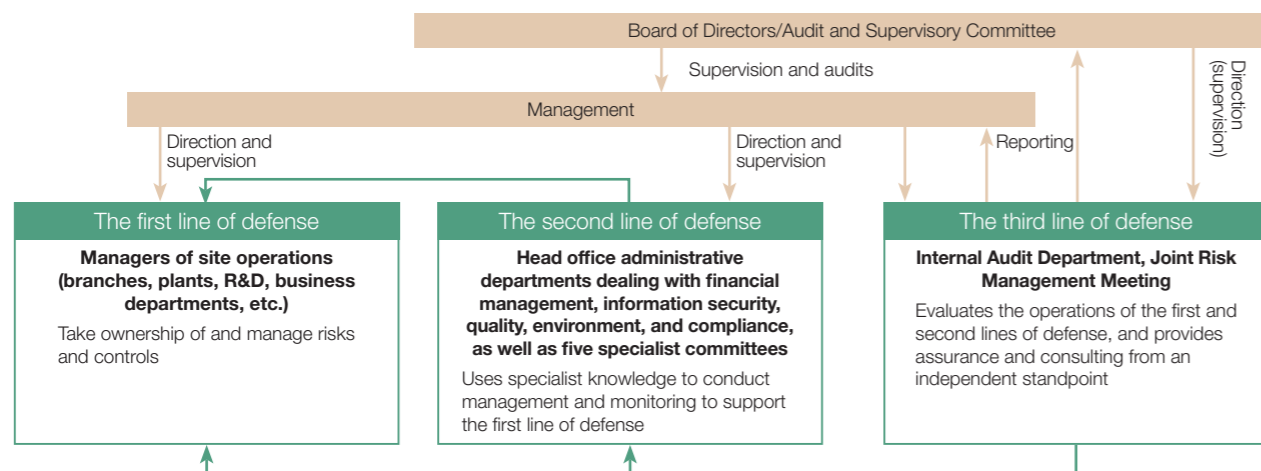
The Kagome Group leverages the internationally recognized “Three Lines of Defense” model and COSO Framework for internal control since it is expanding business domains and also broadening its operations globally to achieve the targets of the Mid-Term Management Plan. This approach enables us to systematically implement initiatives accordingly.

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

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

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

**Kagome’s “Three Lines of Defense” model**



**BCP-driven initiatives for the supply chain**

Kagome sustained significant damage from the Great East Japan Earthquake. As a result, like many other companies, we are working to strengthen company-wide communication infrastructure in the event of large-scale disasters or other contingencies. 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 we occupy an integral part of the lifeline of food. Based on the lessons learned 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). First actions from the time of occurrence of large-scale disaster until the time

of assembling the in-house Disaster Countermeasures Center headed by the president according to BCP\*1 are determined by management based on a consensus reached among relevant departments. In accordance with the guidelines, in the event of a disaster a distribution network is established under the SCM Division to achieve the quickest possible restoration of product supply. Development of BCM\*2 on a global scale in cooperation with overseas locations represents a challenge for the future, where we may face difficulties due to the difference in laws and regulations by country and other issues.

In addition, we established the Basic Policy on Kagome’s Response to COVID-19, in order to quickly respond to changes in the social environment taking place due to the pandemic. Under this policy, we are working to fulfill our responsibilities for employee safety and supplying products to customers.

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

**Our Responsibility to Shareholders and Investors**

**Information disclosure**

Kagome discloses information to shareholders and investors in a fair, simple and timely manner. We attach great importance to opportunities for two-way communication with shareholders and investors through IR events such as the General Meeting of Shareholders, Talks with the President, and production plant tours, among others.

**General Meeting of Shareholders**

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

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



**Management oversight**

Kagome recognizes that management oversight is enhanced through feedback on corporate activities and business performance from the perspective of numerous shareholders. As such, in 2001, we began working to attract 100,000 Kagome Fan shareholders. This initiative drove shareholder numbers past the 100,000 mark on September 30, 2005. Today, the number of shareholders stands at around 190,000. We will continue to appropriately reflect the valuable opinions and needs of our shareholders in all our corporate activities.

**Dividends for fiscal years 2019 and 2020**

Kagome recognizes that returning profits to its shareholders is one of its most important tasks of management.

Our policy on shareholder returns aims for a total return ratio of 40% based on consolidated business performance during the Mid-term Management Plan for the three-year period from 2019 to 2021. At the same time, we have committed to providing a stable cash annual dividend of at least 35 yen per share during the period.

For 2019, we paid out a dividend of 35 yen per share. In addition, for 2020, we plan to offer a dividend of 36 yen per share.

**Special shareholder benefits**

Kagome has established a Special Shareholder Benefits program that sends out Kagome products to shareholders throughout Japan. Unlike shareholder returns, the program’s main aim is to use Kagome products to provide shareholders with a better understanding of the company. Products are accompanied each time by a questionnaire which helps us to understand shareholders’ views and expectations; information which can then be utilized effectively in our business activities. In 2019, we launched a new program whereby we present commemorative gifts to shareholders who have owned our shares for 10 years or longer, with the aim of encouraging a buy-and-hold relationship with shareholders.

**Credit ratings**

Kagome has received the following credit ratings from Rating and Investment Information, Inc. (R&I) and Japan Credit Rating Agency, Ltd. (JCR).

**R&I (Rating and Investment Information, Inc.)**

Long-term credit rating

**A**

**JCR (Japan Credit Rating Agency, Ltd.)**

Long-term credit rating

**A**

Short-term credit rating

**J-1**