

Transforming into a “vegetable company” by encouraging innovation that drives growth

I would like to express our deepest sympathies to those infected by the COVID-19 pandemic and condolences to those who have lost their lives.

I would also like to express my heartfelt gratitude to all the healthcare workers involved in stopping the spread of the pandemic around the world.

The novel coronavirus has brought on many trials and tribulations among people around the world, and drastically changed our daily lives at an unprecedented speed. In particular, the changes around the food environment have caused a great impact on the sales structure of our company. As we are faced with a challenging situation that cannot be overcome by keeping the status quo, I rather believe this is an opportunity to rethink our business and organization. We reviewed the second Mid-Term Management Plan following these changes, but our efforts to achieve what Kagome strives for by 2025 remain unchanged as “To become a strong company capable of sustainable growth, using food as a means of resolving social issues.” In achieving this, we must realize our long-term vision of transforming from a tomato company into a vegetable company, which requires top line growth to secure investment resources. We promise to invigorate people's health and agriculture and contribute to regional revitalization through continued creation of new value based on agriculture with an aim to achieve what Kagome strives for by 2025.

Satoshi Yamaguchi

President & Representative Director



Our battle with the COVID-19 pandemic

A year that questioned Kagome's collective strengths

In the COVID-19 pandemic, we first prioritized thorough implementation of infection control measures among employees. In addition, we launched the COVID-19 Preventive Measures Council in April 2020 in order to fulfill our product supply responsibility as a food manufacturer. We responded quickly by identifying all perceived risks through grasping the situation of the entire supply chain, and took immediate actions to address issues as they occurred in Japan and overseas. In particular, our head office procurement and SCM departments worked collaboratively with overseas Group companies and affiliated companies in addressing the maintenance of raw materials procurement and distribution network around the world, and we were able to supply products continuously as a result. In doing so, we focused the most on maintaining our internal communication. As all departments faced many restrictions, in order to enhance our adaptability to changes in business activities, we used email and video messaging to share the latest policy on infection control and response status of each department with the whole company. I truly feel we were able to unite every employee's spirit as one by sharing our company's commitment to overcome this crisis with everybody working together. Furthermore, we began the voluntary provision of vegetable beverages by our employees to the frontline healthcare workers against the COVID-19 pandemic, and have given out a total of 90,000. We also felt encouraged and uplifted with the words of gratitude received from many people. Going forward, we will

continue our activities based on the philosophy of "mutual aid" as found in the Code of Conduct.

Prompt and nimble response to changes in the market environment

The rapid change in the awareness and spending behavior of consumers due to the COVID-19 has greatly changed our business environment. With the increase of staying home voluntarily, school closures, and working from home, there is more opportunity to eat and cook at home while opportunities for dining out drastically decreased. Also, the awareness of self-defense such that we should be on guard of our own health against COVID-19, which has no established treatment method, was rising, as the need to enhance one's own immunity has grown. Furthermore, the shift in purchasing behavior was noted such that people buy everything they need at the supermarket or via e-commerce. As all departments responded swiftly and nimbly to these ever-changing conditions, our revenue increased by 1.2% and core operating income increased by 10.5% in FY2020.

With the view of a post-COVID-19 world in sight, we are taking steps forward with a strong sense of urgency

As a result of COVID-19, many businesses have turned their attention to the field of food and health. With the expanded line up of new products and services, the competition is further intensified as we head into the post-COVID era. Meanwhile, technological innovation has accelerated beyond our expectations, such as AI and IoT, which also drastically changed the way we work. In such a rapidly evolving business environment, we must continue to create new value in order to remain as a business in the domain of food and health. Therefore,

instead of keeping the status quo, we must create innovation. We will strongly promote diversity within the company and open innovation with external partners and accelerate our strides towards achieving what Kagome strives for and long-term vision with a strong sense of urgency.

Progress for Second Mid-Term Management Plan

We are halfway to reaching what Kagome strives for.

Top-line growth is vital to reaching this goal

We announced our vision of transforming from a tomato company into a vegetable company by 2025. In the first Mid-Term Management Plan for 2016 to 2018, we put efforts into transforming into a profit structure, which had been an issue from the past, and in 2019 we saw prospects for achieving this goal. Meanwhile, top-line growth did not progress in the B-to-B segment as anticipated at the beginning of the second Mid-Term Management Plan due to COVID-19. As performance largely deviated from the targets, we made a revised the plan downward in July 2020. Moreover, aside from the impacts of COVID-19, it is clear that our top line has lacked growth power in the past 10 years. Since becoming President in January 2020, my mission has been to accumulate growth upon the foundation of profit-earning.

Launch of the Let's Eat Vegetables Campaign

We launched the Let's Eat Vegetables Campaign in January 2020 in aiming to address the lack of vegetable intake in Japan. In Japan, target daily vegetable intake is set at 350g^{*1}, while the reality of being 60g short of this target continues to persist. In order to change this situation, we are engaged in a wide range of activities, including our original public relations to promote self-awareness of the vegetable intake shortage and understanding of why we need to eat more vegetables, as well as conducting sales promotions by teaming up with distributors. In addition, we are implementing the Vegetable Intake Promotion Project with 19 corporate sponsors of the campaign. Starting in FY2021, we have added that "vitamin A^{*2} in vegetables is effective in maintaining immunity" in our information content and further enhanced dissemination of this message on media platforms such as TV commercials. As a result of these efforts, we have increased the intention of

purchasing our company's products among consumers who are aware of the Let's Eat Vegetables Campaign, and discovered that it has led to actual purchases. In addition, I have heard many of our employees say that they got a real sense of contributing to customers' health through the campaign's activities, which has made the path of sustainable growth through resolving social issues clearly visible.

We recognize that it is a priority to connect this activity to our top-line growth in the third Medium-Term Management Plan.

^{*1} Target value of Ministry of Health, Labour and Welfare's Health Japan 21
^{*2} Vitamin A contained in vegetables exists as carotene, which is converted into vitamin A in the human body.

Major progress with earnings structure reforms for the Domestic Agri-Business and the International Business

In FY2020, we made great progress in the earnings structure reform for these two businesses which were topics that were carried over.

One of them is to turn the Domestic Agri-Business into a profit generating business. Our continued efforts in strengthening the management of sales, supply and demand, and reducing fixed costs, after the business fell into the red in 2017, have contributed to bringing the business back to profitability. Even though the Domestic Agri-Business is currently generating profit, we need to implement further reforms in order for it to evolve into an advanced and sustainable business going forward. To this end, we have established a new company, Kagome Agri-Fresh Co., Ltd. (KAF), with the purpose of expediting decision-making, improving productivity and promoting alliances. This new company took over the Domestic Agri-Business in January 2021. Through this structural reform, we strive to further solidify our earnings generating foundation and realize a structure capable of reliably generating profits.

The other business to address is the International Business. At our Portuguese subsidiary Holding da Industria Transformadora do Tomate, SGPS S.A. (HIT), we have implemented earnings structure reforms and recorded an impairment loss on property, plant and equipment held in order to maintain an appropriate business scale. In addition, we recorded an impairment loss on goodwill at the time of investment in Ingomar Packing Company, LLC, an equity-method affiliate in the United States. Through these responses, we have established a foundation for future growth.

Summary of major responses

Changes in environment		Impact	Response
Increased opportunity to dine and cook at home	Rapid increase in home cooking demand	Rapid expansion of demand for household products (condiments and large containers)	Maintain supply chain and increase production
	Rapid decrease in food service demand	Rapid decrease in industrial product demand	Support for decreased production and proposals for take-out
Increasing health consciousness	Expectation of food (vegetables) in health maintenance and enhancing immunity	Increased demand for vegetable intake and vegetable drinks	Expansion of the Let's Eat Vegetables Campaign / Enhanced measures to instill drinking habits / enhanced Foods with Function Claims
Changes in customer purchasing patterns	Decline in opportunities to go out	Increased demand for mail orders and EC sites	Development of packaged products suitable for EC and strengthening the foundation of mail-order business
Restrictions on business activities	Response to the COVID-19 pandemic Stay-at-home	Thorough implementation of infection control measures Continuation of business activities in a new style	Centralized information and prompt response by the COVID-19 Preventive Measures Council
			Shift to working remotely
			Hybrid business operations
			Promotion of autonomous work styles

Creating the seeds for growth with the post-COVID economy in mind Development of a training infrastructure

In order to accumulate growth despite being exposed to drastic changes in the environment, it takes many times the effort than before to bring about new innovations and derive new businesses and ideas. This enhanced effort will also address our challenge of deficiency in growth power. In the past, our growth was largely dependent on the performance of the Beverage Business, which comprises 40% of our revenue. The growth strategy I have proposed aims to reform existing businesses and develop the next prospective growing businesses into reality in order to depart from the structure that relies on vegetable beverages. In October 2020, we established two dedicated units, namely the Business Development Office directly under the President and the New Business Development Lab within the Innovation Division whose purpose is to achieve this goal. The mission of these two units is to serve as a bridge that leads to business through promoting open innovation integrating knowledge between external research institutions and businesses. As one example, in April 2021, we concluded a business alliance agreement with TWO Inc., a start-up company involved in plant-based foods. Our two companies are looking into developing new businesses and products that leverage both our strengths in order to expand our market of plant-based foods.

In addition, the promotion of DX is another key factor for future growth. In response to the reduced appeal of retail flyers due to the decrease in purchasing frequency in the COVID-19 pandemic, we have established a specialized department in October 2020 with the goal of enhancing our digital marketing ability within existing businesses and promote sales utilizing SNS. Going forward, we will continue to invest where necessary.

Furthermore, in response to the change in consumer behaviors, we are also conducting drastic updates to our marketing channel policies. We are building a foundation so that we do not lose out on opportunities in growth channels, such as e-commerce and direct marketing. In addition, in response to the decline in the store visit rate at physical stores, we will take the lead in opportunities, such as sales promotion using SNS, and will implement ad hoc measures.

Activities aimed at achieving the long-term vision Formulation of the third Mid-Term Management Plan

Breaking through from deficient growth power and remaining competitive in the increasingly competitive domain of food and health

Currently, we are formulating the third Mid-Term Management Plan spanning until 2025. This Mid-Term Management Plan will be the final plan for reaching the long-term vision of “transforming from a tomato company into a vegetable company” Kagome has announced in 2016 on what it strives for by 2025 with the aim of achieving sustainable growth and finding solutions to social issues. In order to determine the strategy for the next four years, we are first looking at what Kagome will strive for in the future, and working our way back to establish how we should act today, and how it is different from the current situation. Our efforts are put into clearly establishing issues and devising their solutions. We will further evolve the Let's Eat Vegetables Campaign, which aims to resolve the shortfall in vegetable consumption in Japan, as the trump card of our strategy aimed at achieving the Long-term Vision. To support behavioral changes aimed at increasing vegetable consumption in people's diet, we will broaden activities by fully utilizing products and services mainly provided by the health business. Also, through collaboration with companies and local governments that endorse these activities, we will expand our approaches to consumers and markets otherwise inaccessible on our own. We will also consider using the new marketing issues found through these activities in the development of new products and services.

To further increase vegetable intake, we will need to diversify the breeds, formats, markets and opportunities for the vegetables we supply and expand contact points between consumers and vegetables. To that end, we will further enhance our strengths rooted in agriculture, build an open value chain that brings in necessary resources through alliances with outside parties, and strengthen our solution capabilities through vegetables.

On the other hand, as Japan's population declines, it is impossible to achieve sustainable growth in 10 or 20 years, if we pursue growth in the domestic market only. In FY2020, we promoted structural reform in the International Business, and optimized the scale of the

primary processing business that manufactures tomato paste and other products. Going forward, we will pursue growth in B to B while strengthening cooperation between the management resources of each subsidiary in the U.S. market, where multiple Group companies operate. Moreover, the Vegetable Beverages Business in Asia is directly under the President's management and cultivated at an accelerated speed for the B to C sector.

Enhancing measures on ESG in order to achieve a sustainable society

In response to sustainability related challenges, we recognize both risk reduction and creation of revenue opportunities as important management issues. We will proactively make efforts to address these challenges from the perspective of enhancing our corporate value over the medium to long term.

Climate change affects the lifeline of our company that relies on natural resources as raw materials of our business. As such, the reduction of environmental impacts is an important task with high priority. In 2019, we began climate change scenario analysis, identified risks and opportunities and reflected on their business impact. Additionally, we are revising the medium- to long-term CO₂ reduction goals established in 2018 to match the SBT 1.5°C* scenario as preventive measures against global warming will accelerate going forward. We are also striving to reduce plastic waste by introducing paper straws to a portion of our products, reducing petroleum-based plastic used in PET bottles and switching to plant-based materials. We will conduct environmental investment with a long-term perspective following an established road map.

Furthermore, it is important that employees work with a sense of vigor and satisfaction for the growth of the company. Our goal to become a company that is employee friendly and rewarding remains unchanged, while we will focus on creating a strong organization that is autonomous by increasing job satisfaction. In October 2020, we conducted an employee engagement survey which serves as a measure to assess employees' job satisfaction. Although the overall evaluation score was higher than the average for companies of the same size, we will continue to conduct surveys each year and further improve the job satisfaction of employees. In addition, we believe that diversity will give rise to the innovation needed for the company's future growth. We have established a diversity promotion policy for FY2021 that states “strengthening communication to foster a culture of taking on new challenges.” We are holding



seminars for officers and diversity committee activities on the theme of psychological safety in order to develop a workplace conducive for every employee to freely express their opinions and knowledge.

And to implement these activities, it is imperative to have a strong governance structure. Each year, we evaluate the effectiveness of the Board of Directors. In FY2021, we began incorporating effective evaluation through a third party to further enhance our governance.

*SBT: Science Based Targets

Continue to take on challenges in order to achieve new growth with an aspiration for advancement

At Kagome, we have the phrase “aspiration for advancement” which means to always stay one step ahead in anticipating and creating future changes. In order to continue to grow amidst the currently uncertain environment, it is necessary to foster expertise and innovative thinking as a company that brings together the individuality of every employee, and have the poise to embrace challenges towards new growth.

“To become a strong company capable of sustainable growth, using food as a means of resolving social issues.” To achieve this vision, we will strive to enhance shareholder value, brand value, and employee engagement in enhancing our corporate value.

Interview with Our Senior Managing Executive Officer

Becoming a strong company with autonomous management by responding to environmental changes with a greater sense of urgency



Yoshihide Watanabe

Director & Senior Managing Executive Officer

The COVID-19 pandemic not only brought on direct changes in our lives, as seen in people staying at home, but also made things that we had thought would happen sometime in the future, such as the rapid popularization of e-commerce, a reality in a short time. As the speed of changes in the business environment has increased, the conventional way of making decisions through a long review process is not keeping pace with the times, and there is an urgent need to create a system to speed up work within the company.

In terms of business performance in FY2020, sales of household beverages and food products in the Domestic Business were strong, with increased revenue and core operating income. At the same time, structural reforms in the Domestic Agri-business and International Business, which had been delayed, moved forward. In FY2021, the final year of the second Mid-Term Business Plan, we expect revenue will increase mainly in the Domestic Business because of increased vegetable intake achieved through advancements in the Let's Eat Vegetables Campaign. On the other hand, looking back at the second Mid-Term Management Plan implemented between 2019 and 2021, the slowdown in growth is evident. To break through this situation, it is essential to develop a structure

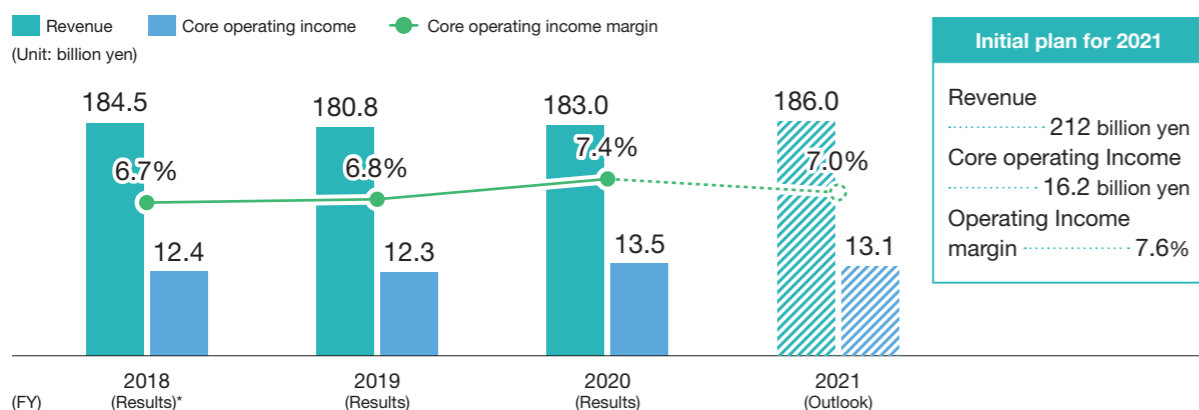
within the company and be agile in changing our work style.

We are currently implementing digital transformation (DX) within the company. In FY2020, we have moved away from the old core system and shifted into a new system (ERP). The promotion of DX focuses on changing the way and accelerating the speed of work.

In addition, we have introduced ROIC management started in FY2021 with a focus placed on the effective utilization of invested capital. We hope it will not only manage the profitability of individual projects, but also enable employees to visualize where they are making contributions to the company's finances while carrying out their work.

The type of teamwork through which members come together in fostering new ideas is also becoming important for work in the future. To cultivate this culture, we are actively adopting new ideas through incorporating diverse human resources and cooperation with other companies. Through these efforts, we aim to become a strong company with deepened corporate culture and autonomous management.

► Status of progress for Second Mid-Term Management Plan



*Figures based on Japanese accounting standards modified to reflect IFRS

Analysis of operating results for FY2020

■ **Revenue: 183,041 million yen**
(up 2,192 million yen year on year)

In the Domestic Processed Food Business, revenue increased on the growth in sales of beverages and products for home cooking due to demand spurred by the Let's Eat Vegetables Campaign and demand for stay-at-home consumption, despite the decline in sales of food service products due to weaker demand. The Domestic Agri-Business, too, recorded an increase in revenue on higher sales volume and expansion of sales channels. However, the International Business experienced a downturn in revenue on weaker food service demand at major subsidiary, Kagome Inc. in the United States. As a result, consolidated revenue increased.

■ **Core operating income: 13,599 million yen**
(up 1,295 million yen year on year)

Core operating income increased due to reduced promotion expenses and lower cost of sales in the domestic business, despite around 1,000 million yen in goodwill recorded at the time of equity investment in Ingomar Packing Company, LLC, an equity-method affiliate in the United States.

■ **Operating income: 10,682 million yen**
(down 3,397 million yen year on year)

Operating income declined due to the gain on transfer of business of around 1,700 million yen realized when merging Kagome Distribution Service Co., Ltd., our logistics subsidiary, into new logistics company F-LINE Corp. in FY2019 and the booking of approximately 3,000 million yen in impairment losses on fixed assets owned by HIT, our subsidiary in Portugal, in FY2020.

■ **Net income attributable to shareholders of parent: 7,425 million yen** (down 2,773 million yen year on year)

The effective corporate tax rate in FY2020 increased because there was no tax burden related to the above gain on business transfer in FY2019 and corporate tax expenses increased around 900 million yen, causing profits to decline.

(Unit: billion yen)	Results (FY2020)		Year on year	
	Amount	Ratio	Amount	Rate of change
Revenue	183.0	-	+2.1	+1%
Core operating income	13.5	7%	+1.2	+11%
Operating income	10.6	6%	(3.3)	-24%
Income attributable to shareholders of parent	7.4	4%	(2.7)	-27%

Financial Analysis for FY2020

As of December 31, 2020, total assets increased around 23,700 million yen compared to December 31, 2019.

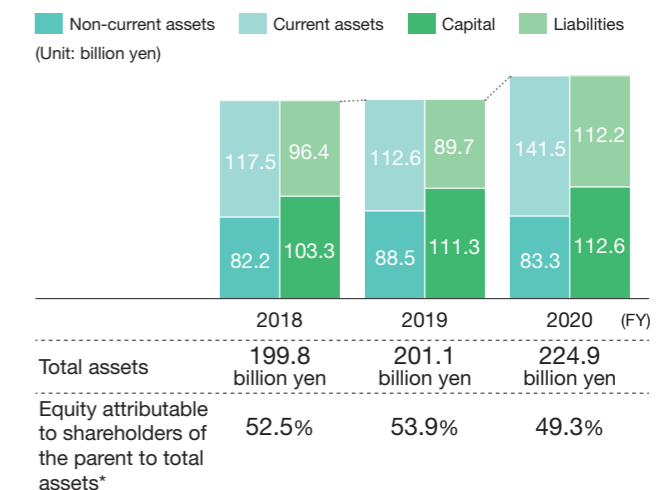
Current assets increased 29,500 million yen due to the increase in time deposits associated with the increase in borrowings to prepare for potential strains on the capital procurement environment due to the COVID-19 pandemic.

Non-current assets declined about 5,200 million yen compared to December 31, 2019. Property, plant and equipment declined about 1,100 million yen due to HIT's impairment losses.

Liabilities increased around 22,500 million yen compared to December 31, 2019 amid the increase in borrowings of about 18,300 million yen per above.

Furthermore, borrowings executed in FY2020 planned to be repaid in FY2021 considering stability of the capital procurement environment.

Capital increased around 1,300 million yen compared to December 31, 2019. This is attributed to the increase in net income attributable to owners of parent of around 7,400 million yen, which offset the declines of about 3,100 million yen due to dividends of surplus and about 1,400 million yen on the acquisition of treasury shares.



*Shareholders' equity ratio for FY2018

Earnings Forecast for FY2021

Revenue 186.0 billion yen
(Up 3 billion yen and 1.6% year on year)
Core operating income 13.1 billion yen
(Down 500 million yen and 3.7% year on year)

We will continue to implement the Let's Eat Vegetables Campaign to grow sales mainly in the Domestic Processed Food Business by spurring demand for vegetables. However, revenue is expected to decline due to expectations for increased costs, which had declined temporarily in FY2020 due to the COVID-19 pandemic, and to higher sales promotion expenses due to proactive promotions.

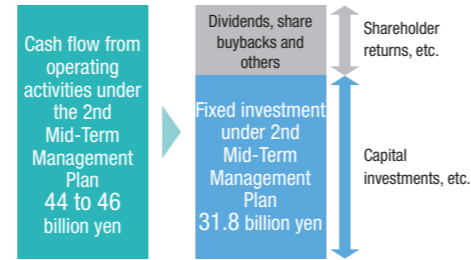
Growth investments during the second Mid-Term Management Plan period

Cash flows from operating activities in FY2020 totaled 20.4 billion yen, setting a new record high. As a result, we expect to roughly achieve the initial target for total cash flows from operating activities during the second Mid-Term Management Plan period of 44 to 46 billion yen. Total fixed investments up to FY2020 amounted to 16.8 billion yen due to suspension and postponement of certain plans. In contrast, we plan to make 15.1 billion yen in fixed investments during FY2021. Fixed investments during the second Mid-Term Management Plan period are expected to total 31.8 billion yen.

The main fixed investments during the second Mid-Term Management Plan include 3.3 billion yen for a new PET bottle line at the Nasu Plant, 8.6 billion yen for a new paper beverage line at the Fujimi Plant (7.9 billion yen of which will be made in FY2021), and 1.6 billion yen for renewal of our core IT system.

Investments in these facilities and businesses have been approved based on deliberation by the Investment Committee. We are now confirming the effectiveness of these investments through post-investment monitoring.

Use of cash during the 2nd Medium-Term Management Plan



(Unit: billion yen)	FY2019	FY2020	FY2021 (Outlook)	Total for 2nd Mid-Term Management Plan (Outlook)
Cash flows from operating activities	12.2	20.4	-	44.0-46.0
Fixed investment	8.0	8.6	15.1	31.8
Total dividend	3.1	3.2	3.4	9.8
Total share buybacks	0	1.2	-	1.2

* "-" indicates undisclosed.

Steps to deliberating investments



Investment monitoring system

- Covers 5-year period post-execution
- Reported annually to the Board of Directors/ Management Meeting

Target	Indicator	Basic requirements
Business investment	Internal Rate of Return (IRR)	10% +
Capital investments	Payback Period (PBP)	4 years

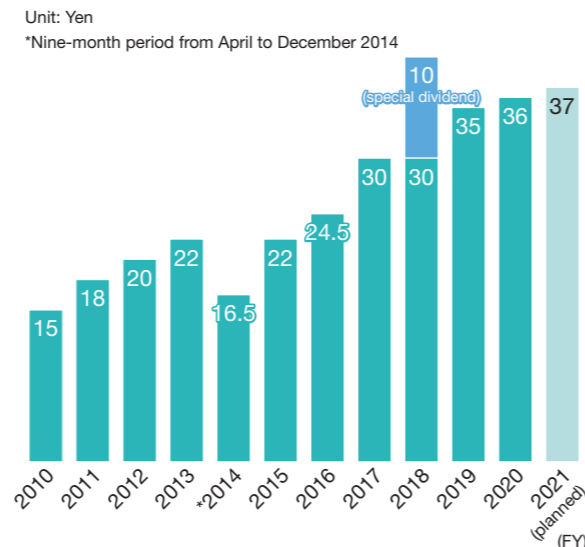
Measures for shareholder returns

Our dividend policy for the second Mid-Term Management Plan calls for providing an annual dividend per share of 35 yen and achieving a 40% total return ratio during the period of the plan. We have increased the dividend 1 yen per share each year from 35 yen offered in FY2019, as we plan to pay a dividend of 37 yen per share in FY2021. In addition, we expect to reach a total return ratio of 40% or higher during the second Mid-Term Management Plan period when combining dividends with the amount of share buybacks totaling 480,000 shares carried out in FY2020.

Trends in the number of treasury shares (thousand shares)

	Treasury shares	Shareholding ratio (%)	Change	Shares outstanding
June 2019	10,659	10.70%		99,617
December 2019	5,409	5.70%	-5,250	94,367
June 2020	5,890	6.24%	480	94,367
December 2020	4,946	5.24%	-944	94,367

Trend in dividends paid



Initiatives aimed at new growth

Using ROIC management to deepen recognition of assets and returns used in businesses to ensure all employees work toward increasing corporate value

We launched ROIC management in FY2021. ROIC measures the efficiency of invested capital generating profits as part of the bigger picture of managing various projects and monitoring their profitability, including capital investments and M&A. Compared to ROA and other indicators, our approach to ROIC involves asking ourselves where we will invest funds we currently have on hand, making it more user friendly.

Also, in rolling out ROIC management, we have broken down ROIC to visualize the contribution of each department and established KPIs for applicable departments. Through the concept of ROIC, we can make clearly grasp the impacts of increased sales and profits, streamlined assets, higher output generated from existing assets, and other results of our efforts. It is easy to take an interest in how our work is reflected in the three financial statements and how it contributes to financial activities.

The key in introducing ROIC management is to foster an ability to see through our business operations to gain greater insight. Without this, the introduction of ROIC management will have been for naught. We were able to introduce ROIC management with confidence in FY2021 because through monitoring at the Investment Committee, we have developed the ability to see the growth potential of our businesses, such as trends behind businesses that decline and fail over time and businesses that grow if we persevere for several years.

Pursuing Mode 2 by promoting DX to dramatically speed up work

In terms of DX promotion, we have renewed our core IT system to ERP in FY2020 by committing a great deal of money to development and operation. This has enabled us to consolidate and integrate individual systems used for each work process. We expect this will help us to reduce costs substantially. The Ministry of Economy, Trade and Industry's 2025 Digital Cliff is five years away and our future investment in systems has become easier.

Going forward, we will shift from our conventional approach to mass marketing to marketing tailored to individual consumers, while maintaining both Mode 1 and Mode 2. I believe the main focus of DX is to transform our

work styles and shorten processes that before took one year to three months, while taking a trial and error approach during short-term development.

Kagome will continue to promote diversity and inclusion. I feel like incorporating new DNA from outside the company will help to evolve our corporate culture. In terms of DX promotion, there are new discoveries awaiting through collaboration with outside talent and outside companies. We need to create more opportunities for collaboration, not just in DX, to speed up the evolution process through diligent cooperation with outside parties.

Toward a strong company with greater management discipline

Investor engagement, which forms the basis for disciplined management and knowing our future self with investor dialogue a mirror

Investor engagement is like a mirror that shows us Kagome's real life-sized appearance. Looking at our own reflection is very useful as it will allow us to notice what we should aim for and what we need to build upon. However, I believe that disciplined governance is where management does not just do as it is told by others, but rather follows its heart after identifying through dialogue what we really want to accomplish. I will manage the Company based on the conviction that disciplined governance is essential to becoming a strong company.