



BUSINESS REPORT

いつも となりに おいしいキヨクヨー



91st
Business Report

April 1, 2013 - March 31, 2014



President **Hisaki Tada**

Corporate Ideal

Aiming to grow together with society, contributing to a healthy and heart-enriched lifestyle and food culture based on management of human respect

I am pleased to present this business report for the 91st fiscal term (term ended March 2014). I would like to take this opportunity to thank our shareholders for their support.

During this year, the Kyokuyo Group implemented measures to create a solid foundation for the final year of its medium-term business plan “Power Up Kyokuyo 2015.” These include the launch of “Sea Marché,” a new retail-use brand, the release of the “Dandori Jozu” series for commercial use, and the decision to build a main plant for the Group. In addition, in January we made a full-fledged entry into the field of frozen foods for house use with the announcement of new products.

Meanwhile, we pressed ahead with enhancements of the financial base by issuing convertible bonds (CB) for the first time in 40 years.

The Kyokuyo Group will continue striving to achieve our goals under the three basic policies which include the “Processing Strategy,” “Global Strategy,” and “Synergy Strategy.”

We look forward to your continued support and cooperation.

June 2014

Towards Achievement of the Goals of the Medium-Term Business Plan “Power Up Kyokuyo 2015”

Overall performance in the fiscal year ended March 2014

In the consolidated fiscal year under review, the Japanese economy saw a trend toward improvement in corporate earnings and capital investment mainly among export related companies due to the effects of monetary easing and economic measures aimed at pulling out of deflation and the weakening yen. This, coupled with robust personal consumption, put the economy on a moderate recovery track.

In the marine products and food industries, there was a shift away from the previous trend towards a preference for lower prices as sales of high quality products grew even at slightly higher prices. However, the impact of the weaker yen drove up the cost of raw materials, and the situation remains challenging.

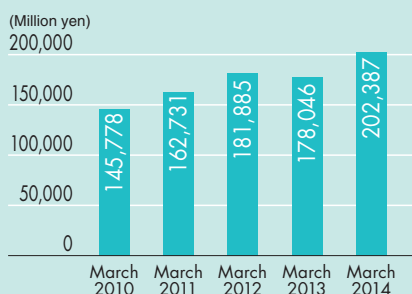
In these circumstances, for the second year of the medium-term business plan “Power Up Kyokuyo 2015,” the Group has worked toward its basic goal of “maximizing corporate value for the Group by strengthening and enhancing the Kyokuyo Group’s superiority and offering safe, secure, and competitive products.”

As a result, the Group posted net sales of ¥202,387 million (up 13.7% year on year), operating income of ¥2,915 million (up 25.4% year on year), ordinary income of ¥2,985 million (an increase of 32.0% year on year), and net income of ¥2,968 million (up 133.8% year on year).

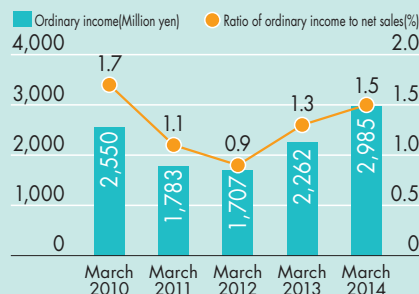
Status of each segment is as follows.

Key Consolidated Financial Data

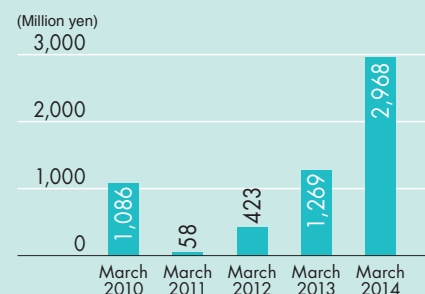
Net sales



Ordinary income / Ratio of ordinary income to net sales



Net income





In the Marine Products Purchasing segment, amid favorable conditions in the marine products market throughout the year, the Group worked to expand sales of more highly processed products with higher profit margins such as fillets, salted salmon fillets, stretched shrimp and products to be eaten raw. As a result, both sales and profit increased significantly from the previous fiscal year.

In the Frozen Foods segment, sales of products to be eaten raw, mainly sushi toppings, progressed favorably. We expanded sales for medical foods and company-provided meals by enhancing the lineup of items in the "Dandori Jozu" series of boneless fillet products that differentiate Kyokuyo from other companies, while expanding sales of imitation crab meat to volume retailers and the restaurant industry. Furthermore, in addition to launching the new brand "Sea Marché," we entered the field of frozen foods for house use, and expanded our sales channels to the retail sector. We are also moving ahead with construction plans for the Group's main plant in Shiogama City, Miyagi Prefecture. As a result, although sales for the segment grew compared to the previous fiscal year, profit was down year on year due to factors including the weak yen and high prices for raw materials, and rising production costs including labor costs at overseas plants.

In the Shelf-Stable Foods segment, we worked to expand sales through volume retailers and major convenience store channels for canned marine products such as saury and mackerel, as well as imported canned products, canned livestock and seafood delicacies. At the same time, the Group strove to develop new merchandise. As a result, although sales grew compared to the previous fiscal year, profit was down year on year

because higher product costs due to the weak yen and rising prices for raw materials were not sufficiently passed on to selling prices.

In the Cold Storage Business **in the Logistics segment**, we worked to strengthen the sales force and to streamline the business by actively carrying out capital investments. In the Refrigeration Ship Business, we strove for efficient shipping such as by allocating vessels mainly to yearly contracts in our significantly streamlined fleet make-up. In addition, we carried out an absorption-type merger of our consolidated subsidiary Kyokuyo Shipping Co., Ltd. in March 2014 in order to further improve the management efficiency of the Kyokuyo Group. As a result, although sales for this segment fell below those of the previous fiscal year, there was a year-on-year increase in profit.

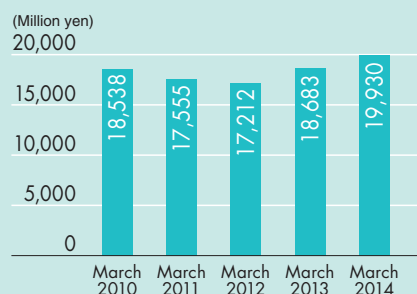
In the Processing and Sales Business **in the Tuna segment**, we utilized domestic and foreign sourcing channels for raw materials to expand sales channels for processed products, and worked to optimize inventory levels. In the Farming Business, the brand power of Hon-Maguro no Kiwami was established in the market, and sales progressed favorably. However, regulations on sourcing of wild caught juveniles are becoming more stringent, and we are working to raise incubated fish with a view to achieving a full-life cycle aquaculture system at an early date. In the Overseas Purse-Seine Fishing Business, although prices for fish were stable, catch volume was down from the previous year due to poor catches in inshore operations and a decrease in operating days owing to dock repairs. As a result, both sales and profit for this segment fell below those of the previous fiscal year.

Targets for the next fiscal year ending March 2015

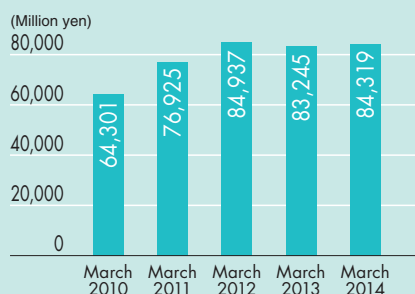
With regard to the Japanese economy in the next fiscal year, although a moderate recovery is expected to continue, there are matters for concern such as the risk of a downswing in emerging economies and a rebound against the last-minute demand associated with the hike in the consumption tax rate. The environment in the marine products and food industries is also expected to remain severe, amid rising prices for raw materials, the worsening environment in domestic sales, and other

matters. Under these circumstances, the Group will press ahead with business operations aimed at achieving the goals of the medium-term business plan "Power Up Kyokuyo 2015" as it enters its final year. For the next fiscal year, we expect consolidated results as follows: net sales of ¥205.0 billion, operating income of ¥3.7 billion, ordinary income of ¥3.7 billion, and net income of ¥2.3 billion.

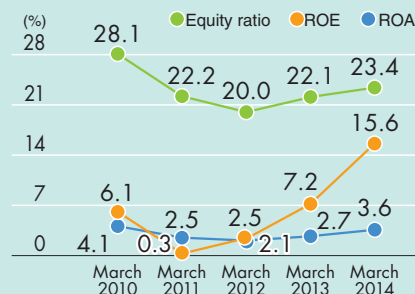
Net assets



Total assets



Equity ratio / Return on equity (ROE) / Return on asset (ROA)



TOPICS 2013-2014

Entry into the Frozen Foods for House Use Business

We have begun selling fish-based frozen foods for house use as products that respond to latent demand among people who want to eat delicious fish that is easy to prepare, as well as the growing need for convenient foods in a society with an aging population and where more women are working outside the home.



Salted grilled coho salmon

2014

Jan.

Construction of new plant announced, convertible bonds (CB) issued in December

Kyokuyo Group announced construction of a new plant in Shiogama City, Miyagi Prefecture to produce frozen foods for house use and commercial use with a target of starting operations in fiscal 2015. In December, we issued corporate bonds worth ¥3.0 billion earmarked mainly for the purpose of financing construction. These are yen-denominated convertible bonds with stock acquisition rights that will mature in 2018.

Announcement of "Dandori Jozu" series

We began selling this series of processed fillet products for commercial use that simplifies the cooking process by offering fish with the bones removed, eliminating the need for prep work. These are proving popular in places such as deli departments in supermarkets, in addition to nursing homes and hospitals, where demand is expected to grow in the future.



2013

Apr.

Announcement of retail brand "Sea Marché"

We announced "Sea Marché" as a brand that leverages Kyokuyo's comprehensive capabilities from raw materials sourcing to processing and sales with the aim of expanding our retail product initiatives. The brand name "Marché" ("market") suggests the idea of delivering the bounty of the world's oceans.



"Sea Marché" rollout

CSR

Environmental conservation activities

Talk between MSC Chief Executive and Kyokuyo President

Securing marine resources is becoming more difficult around the globe every year as a result of factors including overfishing and illegal fishing methods or operations. In order to continue its business activities that take into account ocean resources and the global environment into the future, the Kyokuyo Group has worked since 2006 to expand Marine Stewardship Council (MSC) certification, including at domestic and overseas subsidiaries and plants. Furthermore, Mr. Rupert Howes, the Chief Executive of the MSC, visited the Company in September 2013, where he met with Kyokuyo President Tada for a forward-looking discussion of future cooperation and proactive initiatives.



Mr. Rupert Howes and President Tada

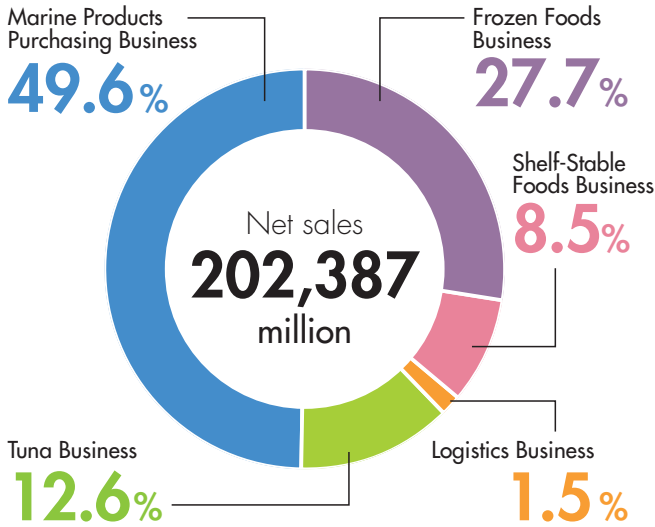
*MSC certification is a system to certify sustainable and appropriately managed fisheries as well as the logistics and processing operators that handle the marine products caught by those fisheries.

Kyokuyo Group Social and Environment Report 2013 published

In September 2013, we published the "Kyokuyo Group Social and Environment Report 2013" along with an easy-to-read digest version. The 2013 Report highlights the new brand "Sea Marché" that was launched in June 2013 as a retail brand to contribute to promoting the diffusion of fish consumption, and introduces the background of the brand's development as well as the key features and innovative design of the products.

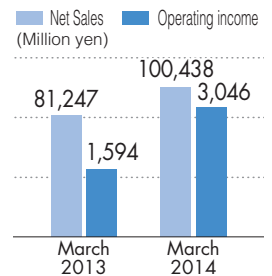


Composition ratio of sales by segment



Marine Products Purchasing Business

- Net sales **100,438 million**
- Operating income **3,046 million**



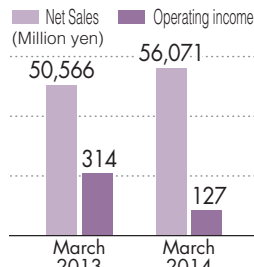
Through our domestic and foreign branches, business offices, representative offices, and mutual partnerships with subsidiaries, the Kyokuyo Group provides a stable source of high quality marine products from the oceans of the world, as well as products such as fillets, and shelled crab and shrimp meat. We also engage actively in export of seafood caught in Japan and in off-shore trade, striving to use marine products efficiently and to create a recycling society while responding to the globalization of fish consumption.



Example of a dish that features Shrimps as Fruits of the Sea

Frozen Foods Business

- Net sales **56,071 million**
- Operating income **127 million**



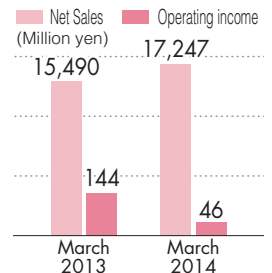
The Frozen Foods Business sells products to be eaten raw, mainly sushi toppings, to clients such as major conveyor belt sushi restaurant chains. We also sell products for heating such as the Dandori Jozu series of boneless fillet processed products, cooked fish and marinated fish as meals for nursing homes or for home delivery. We sell products ranging from fried marine products and imitation crab meat to live stock products and frozen vegetables to restaurant channels and deli departments at volume retailers. In the spring of 2014, we launched sales of frozen foods for house use under the brand "Sea Marché."



Dandori Jozu Pacific Ocean Perch Fillet

Shelf-Stable Foods Business

- Net sales **17,247 million**
- Operating income **46 million**



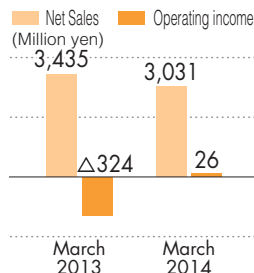
We offer canned seafood such as skipjack, salmon, and crab, as well as seafood delicacies, in addition to health food products such as glucosamine. We have enhanced our product appeal with a lineup that includes ready-meals in microwavable packaging that can be heated in a microwave right in the packet.



(Left) Ready-meals in microwavable packaging "Denshi Ranger Mackerel Cooked in Miso"/ (Right) DHA/EPA

Logistics Business

- Net sales **3,031 million**
- Operating income **26 million**



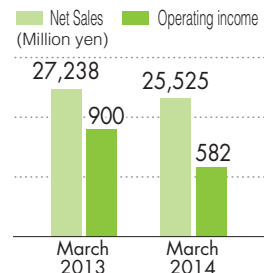
This segment consists of the Cold Storage Business and the Refrigeration Ship Business. The Cold Storage Business operates three plants in Tokyo, Osaka, and Fukuoka, in addition to the Jonanjima plant that will be opened in Tokyo in August 2014 in an effort to grow the business and enhance services by expanding storage capacity in the Keihin area. The Refrigeration Ship Business mainly engages in transport of bananas and vegetable produce. In March 2014, we carried out an absorption-type merger of our consolidated subsidiary Kyokuyo Shipping Co., Ltd. in order to improve our management efficiency by concentrating management resources.



Refrigeration ship

Tuna Business

- Net sales **25,525 million**
- Operating income **582 million**



The Tuna Business conducts integrated entire operations from fishing, farming and purchasing to processing and marketing of skipjack and tuna. We have independent sourcing capabilities for skipjack thanks to the Group's purse-seiners such as the "Wakaba Maru." As for tuna, in order to protect the limited marine resources and ensure a stable supply of them, we are developing a fish farming business in Shikoku, whose original brand "Hon-maguro no Kiwami" has been well received by customers. Furthermore, we are making efforts to realize full-life cycle aquaculture that does not rely on natural juvenile fish.



Hon-maguro no Kiwami

CORPORATE INFORMATION / STOCK INFORMATION

Corporate Profile (As of March 31, 2014)

Corporate name	Kabushiki Kaisha Kyokuyo
English corporate name	KYOKUYO CO., LTD.
Headquarters	3-5 Akasaka 3-chome, Minato-ku, Tokyo, 107-0052
Established	September 3, 1937
Stated capital	¥5,664 million
Major businesses	Exports, imports, domestic purchasing and sales of marine products, and manufacture and sales of processed and frozen foods
Employees	2,111 (consolidated) 564 (nonconsolidated)
Number of consolidated companies	21

Board of Directors (As of March 31, 2014)

Chairman CEO	Kiyokazu Fukui	Director	Masayuki Kumotsu
President	Hisaki Tada	Director	Makoto Inoue
Senior Managing Director	Kenji Imai	Director	Hisakazu Yazawa
Managing Director	Tokihiro Sudou	Supervisory Board Member	Takatoshi Hosokawa
Managing Director	Takashi Kamii	Supervisory Board Member	Masataka Nakayama
Managing Director	Yoshio Murakami	Supervisory Board Member	Yoshiaki Takahashi
Director	Masayoshi Hosaka	Supervisory Board Member	Mikio Ueshima
Director	Kenichi Matsuyuki		

*Chairman and CEO Kiyokazu Fukui resigned as of March 31, 2014.

Introduction of Shareholder Special Benefit Plan

We have a shareholder special benefit plan, which we operate as a token of our appreciation for the support of our shareholders and to increase the number of shareholders by enhancing the appeal of shares in the Company.

Details of Special Benefit Plan

● Targets:

Shareholders who hold a unit of shares (1,000 shares) or more on the record date (March 31) of each year.

● Benefit:

The target shareholders will be presented with our products valued at 5,000 yen.

● Shipment:

Gifts will be shipped in July.

Shareholders Information

Business year:	April 1 to March 31 next year
Ordinary general meeting of shareholders:	June of each year
Record date for exercising voting rights at the ordinary general meeting of shareholders:	March 31
Term-end dividend record date:	March 31
Media for public notice:	Nihon Keizai Shimbun
Shareholders list manager and special purpose bank accounts manager:	Mitsubishi UFJ Trust and Banking Corporation
Contact information:	Transfer Agency, Mitsubishi UFJ Trust and Banking Corporation 10-11 Higashisuna 7-chome, Koto-ku, Tokyo 137-8081 Phone: 0120-232-711 (toll-free in Japan)

(Note)

- 1.Procedures for shareholders' requests for changes of address and share purchases by stock companies shall, in principle, be performed by the account management agencies (securities firms etc.) for shareholders. Please ask the securities firm etc. where you have your account about the procedures. The shareholders list manager (Mitsubishi UFJ Trust and Banking Corporation) cannot handle the procedures.
- 2.For procedures concerning shares in your special purpose bank account, please ask Mitsubishi UFJ Trust and Banking Corporation, which is the special purpose bank accounts manager. Branches of Mitsubishi UFJ Trust and Banking Corporation nationwide are able to accept inquiries.
- 3.Dividends that you have not received will be paid at the head office or branches of Mitsubishi UFJ Trust and Banking Corporation.

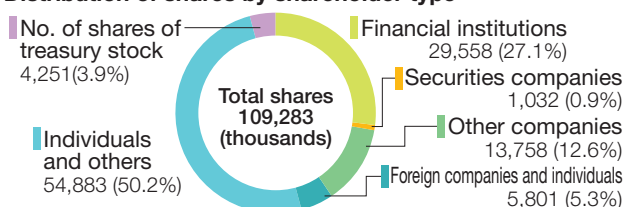
Stock Information (As of March 31, 2014)

Total number of shares the company is authorized to issue:	437,000,000
Total number of shares issued:	109,282,837
Number of shareholders:	28,882

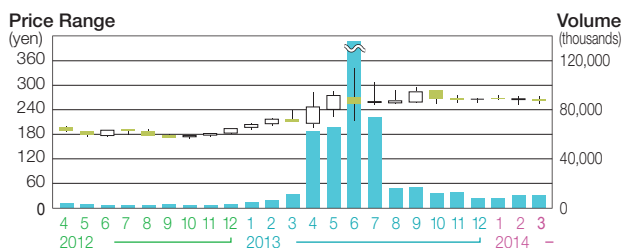
Major shareholders

Shareholder's name	No. of shares held (thousands)	Equity position (%)
Japan Trustee Services Bank, Ltd.	6,479	5.92
Resona Bank, Limited	5,234	4.78
Mitsui Sumitomo Insurance Co., Ltd.	4,501	4.11
The Norinchukin Bank	4,450	4.07
Toyo Seikan Group Holdings, Ltd.	3,150	2.88
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2,245	2.05
KAPPA-CREATE HOLDINGS CO., LTD.	2,100	1.92
Kyokuyo Akitsukai	1,672	1.53
The Chase Manhattan Bank, N.A. London SL Omnibus Account	1,518	1.38
Chuo Gyorui Co., Ltd.	1,399	1.28

Distribution of shares by shareholder type



Trends of Stock Prices and Trading Volume



Introduction to Our Web Site

Our website contains a top page (news and topics), information about the Company, IR information, product information, and the latest information from the Kyokuyo Group. The website also includes an inquiry form which you can use to send us your opinions and questions.



<http://www.kyokuyo.co.jp>

KYOKUYO

Internet Search



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