



BUSINESS REPORT

92nd
Business Report
April 1, 2014 - March 31, 2015



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おいしいキョクヨー



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

During this year, as the final year of the medium-term business plan “Power Up Kyokuyo 2015,” Kyokuyo Group actively worked to expand its market share in Japan and overseas, through various means, such as the expansion of sales for frozen foods for home use, the development of the bluefin tuna full-life cycle aquaculture business, the opening of the Jonanjima plant for the Cold Storage Business, and the establishment of two new sales subsidiaries overseas. In addition, in the Refrigeration Ship Business, which is an issue that we had to address, we improved the efficiency through streamlining the fleet and reorganizing of the Group, in an effort to improve profits.

The new medium-term business plan “Value Up Kyokuyo 2018” was also launched in April. Based on the basic policy of “aiming to be a company that creates new value by stabilizing the earnings base and improving our ability to respond to changes as a general food company, strong in fish,” we will further advance our “Global Strategy” and “Synergy Strategy,” while adding our new “Differentiation Strategy” in order to provide value-added products with an awareness of the customer’s perspective, and we will engage in these three strategies.

We look forward to your continued support and cooperation.

June 2015

From “Power Up Kyokuyo 2015” to “Value Up Kyokuyo 2018”

Overall performance in the fiscal year ended March 2015

In the consolidated fiscal year under review, the Japanese economy has been on a gradual recovery, as there are signs of improvement in corporate earnings and capital investments against a backdrop of continued yen depreciation and trend towards higher stock prices underpinned by financial and monetary policies by the government and the Bank of Japan. On the other hand, the outlook does not allow for optimism due to uncertainties including the impact of the consumption tax hike and inflation on consumer spending and trends in the economies of emerging nations. 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 situa-

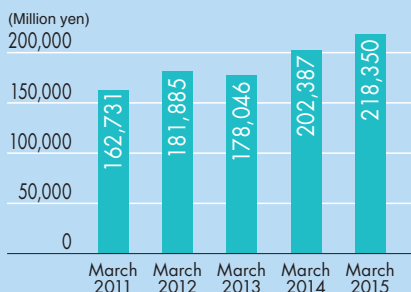
tion remains challenging due to several factors, including changes in the environment of our domestic market as a consequence of declining birth rates and the aging population along with the increase of any purchase costs for imported marine products due to the depreciating yen.

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

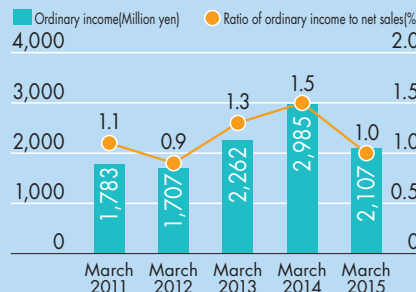
As a result, the Group posted net sales of ¥218,350 million (up 7.9% year on year), operating income of ¥2,460 million (down 15.6% year on year), ordinary in-

Key Consolidated Financial Data

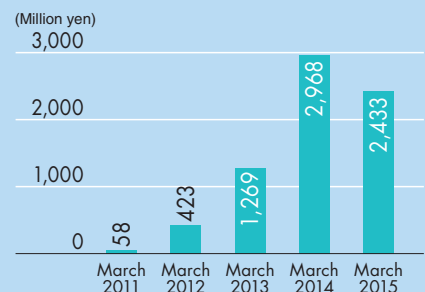
Net sales



Ordinary income / Ratio of ordinary income to net sales



Net income



come of ¥2,107 million (down 29.4% year on year), and net income of ¥2,433 million (down 18.0% year on year).

Status of each segment is as follows.

In the Marine Products Purchasing segment, sales were strong for processed frozen fish mainly consisting of fish from northern sea such as Pacific Ocean perch, Atka mackerel, and value-added products; such as salted salmon fillets and stretched shrimp. As a result, sales increased from the previous fiscal year. On the other hand, against a backdrop of continued challenges in purchasing due to the impact of yen depreciating, decreased profits from the previous fiscal year resulted from various factors including a decline in profit margins due to increased processing costs and a deterioration in market conditions for salmon since the end of the last year.

In the Frozen Foods segment, sales of boneless fillet mainly in the “Dandori Jozu” series and precooked products such as grilled fish and cooked fish were expanded for health care foods and company-provided meals, while sales of products to be eaten raw, mainly consisting of sushi toppings, were expanded for major conveyer belt sushi bar chains. In addition, sales of ready-meals such as fried white fleshed fish and imitation crab meat to volume retailers and convenience stores were expanded. Meanwhile, the decentralization of overseas production bases was promoted, and production volumes in areas outside of China such as Vietnam were increased. In frozen foods for home use consisting mainly of products under the retail brand “Sea Marché,” we proposed products leveraging our advantage as a marine products company and the number of retail stores handling these products has gradually increased. As a result, both sales and profit for the segment increased from the previous fiscal year.

In the Shelf-Stable Foods segment, we worked to expand sales of canned marine products such as tuna

and mackerel and products of “Sea Marché,” while implementing countermeasures in response to increased costs including price revisions, product consolidation, and change of product standards. In addition, seafood delicacies continued to perform strongly, particularly for PB products of major convenience stores. As a result, both sales and profit for this segment increased from the previous fiscal year.

In the Cold Storage Business in the Logistics segment, efforts were made to strengthen the sales force including the opening of the Jonanjima plant, while, in the Refrigeration Ship Business, we strove for efficient shipping by allocating two of our three vessels operated in the fiscal year under review to shipping routes for banana transportation on yearly contracts. As a result, both sales and profit for the segment increased from the previous fiscal year.

In the Processing and Sales Business for the Tuna segment, we utilized domestic and foreign sourcing channels for raw materials to expand our sales of processed products such as negitoro for major volume retailers and conveyer belt sushi bar chains. In the Farming Business, a strong brand reputation for “Hon-Maguro no Kiwami” was established in the market, and sales progressed favorably. While regulations on sourcing of wild caught juveniles remain stringent, we succeeded in transferring of bluefin tuna, cultivated through full-life cycle aquaculture to fish pen in the sea (this transferring is called Okidashi) last September. Thanks to this success, we aim for shipment of bluefin tuna cultivation through full-life cycle aquaculture in two years. In the Overseas Purse-Seine Fishing Business, although catch volume exceeded that of the previous fiscal year, profits declined due to such factors including a slow recovery in fish prices, soaring fishery fee and an increase in dock costs. 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 2016

With regards to the Japanese economy for the next fiscal year, although there are higher hopes for an economic recovery, the outlook remains unclear due to concerns such as those towards increasing prices caused by yen depreciation.

The environment in the marine products and food industries is also expected to remain severe as a result of several factors increased costs triggered by rising price for raw materials and intensified competition among companies.

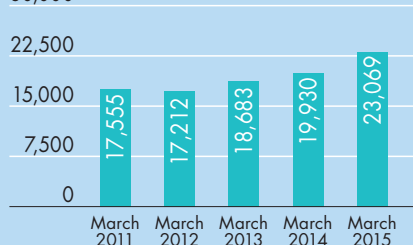
Under these circumstances, the Group has started the new medium-term business plan “Value Up Kyokuyo 2018.” The Group will work to achieve its goals under

the basic policy of “aiming to be a company that creates new value by stabilizing the earnings base and improving capabilities for responding to changes as a general food company, strong in fish,” based on the three pillars of the “Global Strategy,” the “Synergy Strategy,” and the “Differentiation Strategy.” In addition, we will also aim for starting the full-scale operations of the new plant in Shioyama, which is scheduled to be completed in December, 2015.

For the first year of the new medium-term business plan, we expect results as follows: net sales of ¥229.0 billion, operating income of ¥3.6 billion, ordinary income of ¥3.5 billion, and net income of ¥2.2 billion.

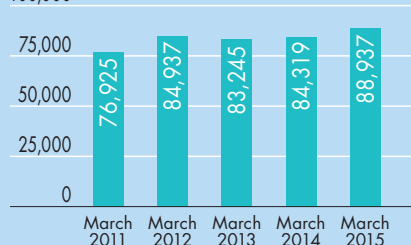
Net assets

(Million yen)

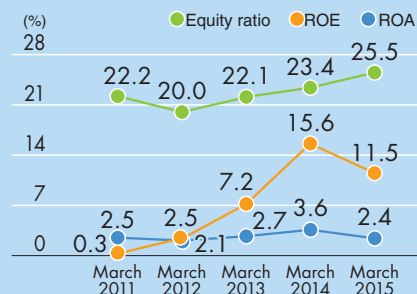


Total assets

(Million yen)



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



2014.4-2015.3

TOPICS

Apr. Newly Established Frozen Foods for Home Use Department

In the spring of 2014, we launched sales of frozen foods for home use as new products under the "Sea Marché" brand. In order to accelerate the distribution of these products in the market, the Frozen Foods for Home Use Department was established in April.



Sept. Success in Okidashi transferring of full-life cycle aquaculture bluefin tuna to fish pen in the sea

Kyokuyo Nippai Marine Co., Ltd. that conducts production of juveniles from parent fish incubated through artificial hatching succeeded in transferring larval fish to fish pen in the sea (this transferring is called Okidashi). We plan to raise these larval fish to adult fish and aim for the first shipment of bluefin tuna cultivated through full-life cycle aquaculture in 2017.



Apr. Establishment of Kyokuyo (Thailand) Co., Ltd.

A local subsidiary was established in Bangkok, Kingdom of Thailand, for the purpose of conducting sales focusing on Japanese foods for which demand is expanding in the ASEAN market that is undergoing significant economic development, and becoming a base for intra-regional trade by the ASEAN Economic Community (AEC) that is expected to be launched in 2015.

Aug. Establishment of K&H Food Impex GmbH

A joint venture company was established in Vienna, Republic of Austria in order to expand sales channels in the European market by improving sales capabilities and competitiveness in Europe through the synergy generated as a result of utilizing the Group's source for supply.

Aug. Opening of Jonanjima plant by KYOKUYO AKITSU REIZO CO., LTD.

A new plant was opened in Jonanjima, Ota-ku, Tokyo in an effort to grow the business and enhance services in the logistics segment by expanding storage capacity in the Keihin area. The plant will be managed by KYOKUYO AKITSU REIZO CO., LTD.

CSR Environmental conservation activities

Participation in Sustainable Seafood Week

In June 2014, the Company participated, as a sponsoring company, in a campaign called "Sustainable Seafood Week" held by MSC (Marine Stewardship Council) that works globally to spread sustainable fishery and WWF (World Wide Fund For Nature) Japan, which was aimed at raising awareness of the importance of the sustainable use of marine resources.

At the press conference held prior to the campaign, MSC certified products and ASC (Aquaculture Stewardship Council) certified products were served for a food sample testing. The Company provided two of the five products for the food sample testing, namely Russian salted sockeye salmon fillet and imitation crab meat.



Food samples provided at the press conference



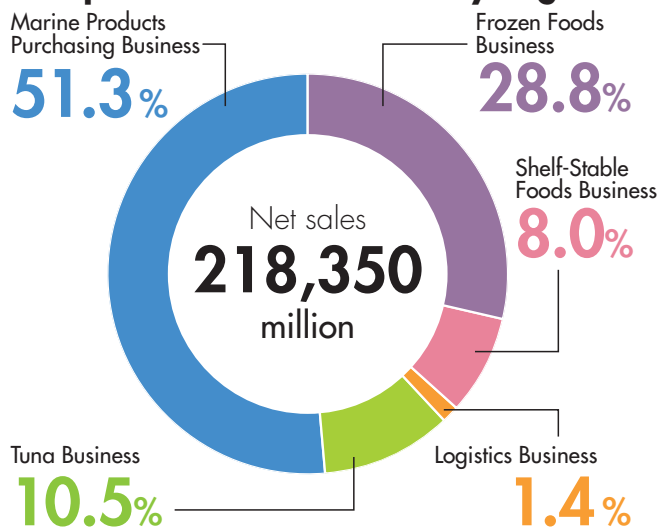
*MSC certification is a system to certify sustainable and appropriately managed fisheries as well as the logistics and processing operators that handle the marine products caught by those fisheries.

Kyokuyo Group Social and Environment Report 2014 published

In September 2014, we published the "Kyokuyo Group Social and Environment Report 2014" along with its digest version. The 2014 Report introduces activities and achievements mainly during fiscal 2013 concerning initiatives in the five fields of safety and security, contributions to food culture, a low-carbon society, a recycling society, and biodiversity that are common themes for food companies.



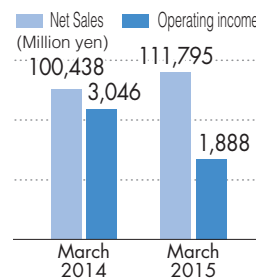
Composition ratio of sales by segment



Marine Products Purchasing Business

- Net sales **111,795** million
- Operating income **1,888** million

Through our domestic and foreign branches, business offices, representative offices, and mutual partnerships with subsidiaries, 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.



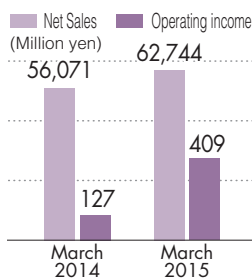
steamed crab in a bamboo steaming basket (example of cooking method)

Frozen Foods Business

- Net sales **62,744** million
- Operating income **409** million

The Frozen Foods Business sells products to be eaten raw, mainly sushi toppings, to clients such as conveyor belt sushi bar 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 facilities for the assisted living 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 home use under the brand "Sea Marché."

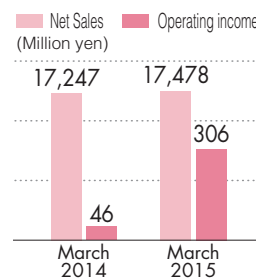


Dandori Jozu "Salted grilled Japanese Mackerel"

Shelf-Stable Foods Business

- Net sales **17,478** million
- Operating income **306** million

This segment has a long history that started from the production of canned foods in 1949. Currently we are working to enhance our product appeal with a lineup that includes not only canned seafood such as skipjack, salmon, and crab, but also products of "Sea Marché" brand. We also sell seafood delicacies and health food products such as glucosamine and DHA.



(left) Tuna Rich Coarsely Shredded Skipjack Flakes in Oil

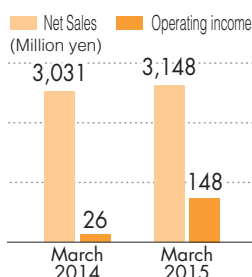


(right) Glucosamine from the Sea

Logistics Business

- Net sales **3,148** million
- Operating income **148** million

This segment consists of the Cold Storage Business and the Refrigeration Ship Business. The Cold Storage Business operates four plants in Ohi (Tokyo), Jonanjima (Tokyo), Osaka, and Fukuoka. The Refrigeration Ship Business mainly engages in transport of bananas and vegetable produce.



Refrigeration ship

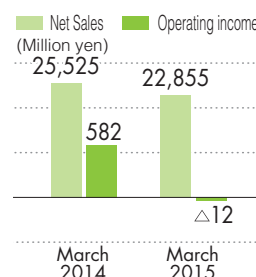


Jonanjima plant of KYOKUYO AKITSU REIZO CO., LTD.

Tuna Business

- Net sales **22,855** million
- Operating income **△12** million

The Tuna Business conducts integrated entire operations from fishing and farming to purchasing, processing, and marketing of skipjack and other 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 strive for a full-life cycle aquaculture business that does not rely on natural juvenile fish.



Landing adult bluefin tuna raised through aquaculture

Corporate Profile (As of March 31, 2015)

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	2,169 (consolidated) 578 (nonconsolidated)
Number of consolidated companies	24

Board of Directors (As of March 31, 2015)

President	Hisaki Tada	Director	Hisakazu Yazawa
Representative senior managing director	Kenji Imai	Director	Hitoshi Amari
Senior Managing Director	Yoshio Murakami	Director	Ken Sakai
Managing Director	Takashi Kamii	Supervisory Board Member	Masataka Nakayama
Managing Director	Masayuki Kumotsu	Supervisory Board Member	Jun Akutagawa
Director	Masayoshi Hosaka	Supervisory Board Member	Mikio Ueshima
Director	Kenichi Matsuyuki	Supervisory Board Member	Ikuo Muratani
Director	Makoto Inoue		

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)

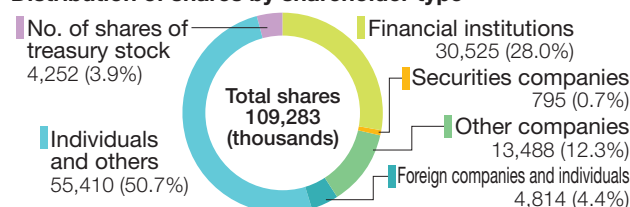
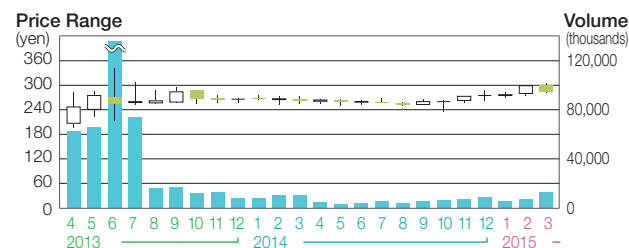
- 1.Procedures for shareholders' requests for changes of address and share purchases by stock companies shall, in principle, be performed by the account management agencies (securities firms etc.) for shareholders. Please ask the securities firm etc. where you have your account about the procedures. 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, 2015)

Total number of shares the company is authorized to issue:	437,000,000
Total number of shares issued:	109,282,837
Number of shareholders:	32,190

Major shareholders

Shareholder's name	No. of shares held (thousands)	Equity position (%)
Japan Trustee Services Bank, Ltd.	7,043	6.44
Resona Bank, Limited	5,234	4.78
The Norinchukin Bank	5,234	4.78
Mitsui Sumitomo Insurance Co., Ltd.	4,501	4.11
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	1,661	1.52
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,500	1.37
Chuo Gyorui Co., Ltd.	1,399	1.28

Distribution of shares by shareholder type**Trends of Stock Prices and Trading Volume****Information on Our Website Renewal**

Our corporate website was completely renewed and released again in late June of 2015. The website contains the latest information on topics such as Kyokuyo's unique features, corporate information, product introductions, and investor relations. The website also includes an inquiry form which you can use to send us your opinions and questions concerning the Company.

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

KYOKUYO

検索