



BUSINESS REPORT

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おいしいキョクヨー

93rd
Business Report
April 1, 2015 - March 31, 2016





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 93rd fiscal term (term ended March 2016). I would like to take this opportunity to thank our shareholders for their support.

In April last year, Kyokuyo Group launched the medium-term business plan entitled "Value Up Kyokuyo 2018."

In addition to the completion of the Group's new main production plant in Shiogama and the expansion of sales for frozen foods for home use, the Group has actively implemented measures towards business expansion both in Japan and overseas, including the newly opened sales office in Los Angeles. Furthermore, in a bid to expand production, the Group also established a new company in Western Japan, which is set to become a production base for skipjack products. 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, with our speciality being fish," the Group continues to work towards achieving its targets by further advancing its 3 strategies of "Global Strategy," "Synergy Strategy" and the additional "Differentiation Strategy" in order to provide value-added products with an awareness of the customer's perspective.

We look forward to your continued support and cooperation.

June 2016

Toward achieving the targets in the Medium Term Business Plan "Value Up Kyokuyo 2018"

Overall performance in the fiscal year ended March 2016

In the consolidated fiscal year under review, although the improved employment situation led to a modest recovery, a sense of uncertainty about the future of the Japanese economy has been growing, due to concerns such as the slowdown of the economies of China and other emerging nations and the rapid yen appreciation since the beginning of the year, as well as the trend going downward for profits and personal consumption resulting from declining stock prices.

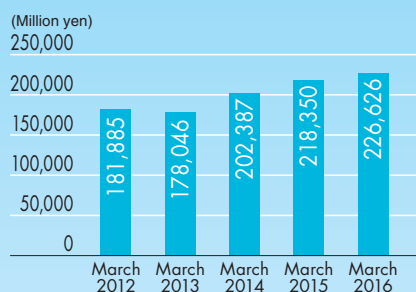
In the marine products and food industries, the situation remains challenging due to factors such as rising purchase costs triggered by a surge in demand for marine

products worldwide and increased awareness in food security and safety among the consumers, in addition to intensifying sales competition, manpower shortage and increase in labor costs.

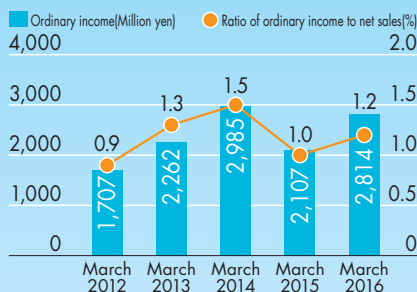
In these circumstances, the Group commenced its medium-term business plan "Value Up Kyokuyo 2018" in April 2015, and has been working towards its targets in line with the basic policy of "aiming to be a company that creates new value by stabilizing the earnings base and improving our ability to respond to changes as a general food company, with our speciality being fish."

Key Consolidated Financial Data

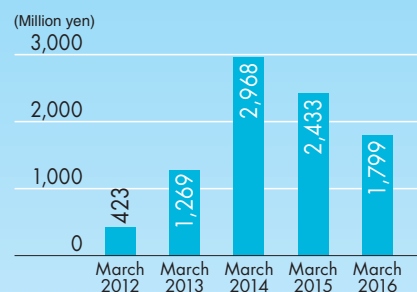
Net sales



Ordinary income / Ratio of ordinary income to net sales



Net income attributable to owners of parent





As a result, the Group posted net sales of ¥226,626 million (up 3.8% year on year), operating income of ¥2,433 million (down 1.1% year on year), ordinary income of ¥2,814 million (up 33.5% year on year), and net income attributable to owners of parent of ¥1,799 million (down 26.1% year on year).

Status of each segment is as follows.

In the Marine Products Purchasing segment, while processed frozen fish such as red fish and greenland halibut struggled in the market, the sales of value-added products such as salted salmon fillets, stretched shrimp, and peeled shrimp performed well. As a result, although segment sales increased from the previous fiscal year, profits were lower than the previous fiscal year, due to the continued high prices in raw materials, the rise in processing costs and fluctuations in the market for frozen fish from northern sea.

In the Frozen Foods segment, precooked products such as "Dandori Jozu" series were expanded for health care foods and company-provided meals, while sales of products to be eaten raw, mainly consisting of sushi toppings such as shrimp and squid, were expanded for major conveyor belt sushi bar chains. In addition, sales of fried marine products such as fried white fleshed fish and fried shrimps, and imitation crab meat have been growing steadily in fish and deli departments at volume retailers.

In frozen foods for home use consisting mainly of products under the consumer brand "Sea Marché," we have worked to expand sales of grilled fish and packed ready-meal products by introducing new items and reinforcing our sales promotion efforts toward major volume retailers. As a result, sales for the segment increased from previous fiscal year but profit went down due to a slump in overseas productions and higher costs for products from overseas.

In the Shelf-Stable Foods Segment, we worked to

expand sale of our differentiated products including canned tuna made from fish caught by the Group's purse-seiners, and also made efforts in improving profit margins through price revisions as well as aggregation of merchandise and transaction partners. In addition, seafood delicacies performed particularly well with products for 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 secure warehouse cargo and streamline operations in our 4 plants, including the Jonanjima plant which was opened last year.

In the Refrigeration Ship Business, we allocated all three of our vessels to banana transportation between Europe and Central and South America, ensuring operational efficiency in shipping. As a result, profit for the segment increased, while sales were lower than in the previous year.

In the Overseas Purse-seine Fishing Business **for the Tuna segment**, the decline in fuel prices and reduction in dock costs continued amid the continuously high fishery fees. In addition, even with the decline in volume due to the effects of El Niño, the catch volume and fish prices were stable overall, and there was an improvement in income and expenditures. In the Processing and Sales Business, the handling of Mediterranean bluefin and Australia southern bluefin tuna posted growth and processed products such as negitoro and katsuoataki products are being expanded toward restaurant channels and volume retailers. In the Farming Business, the cultivation through full-life cycle aquaculture has largely surpassed its numbers last year, indicating the progress in the accumulated results of our knowledge in developing stable supply systems. As a result, both sales and profit for this segment were higher than those of the previous fiscal year.

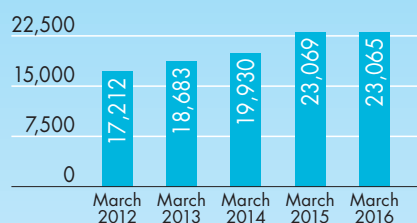
Targets for the next fiscal year ending March 2017

With regards to the Japanese economy for the next fiscal year, there is a growing uncertainty owing to signs of decline in corporate earnings and consumer spending. The business environment in the marine products and food industries is also expected to remain severe as raw material prices remain high, processing cost increase and competition between firms intensifies. Under these circumstances, the Group has a renewed

vigor as it enters its second year of the new medium-term business plan "Value Up Kyokuyo 2018." For the next fiscal year, we expect to achieve the following consolidated results: net sales of ¥244.0 billion, operating income of ¥3.5 billion, ordinary income of ¥3.3 billion, and net income attributable to owners of parent of ¥2.1 billion.

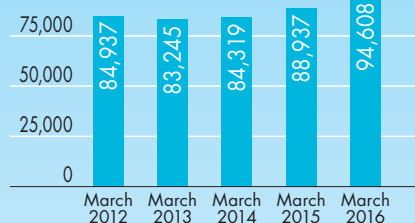
Net assets

(Million yen)
30,000

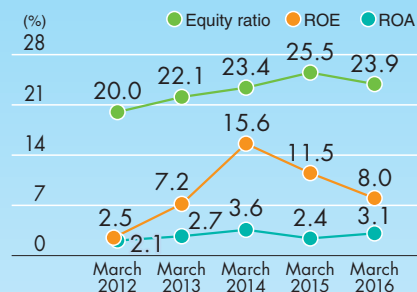


Total assets

(Million yen)
100,000



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



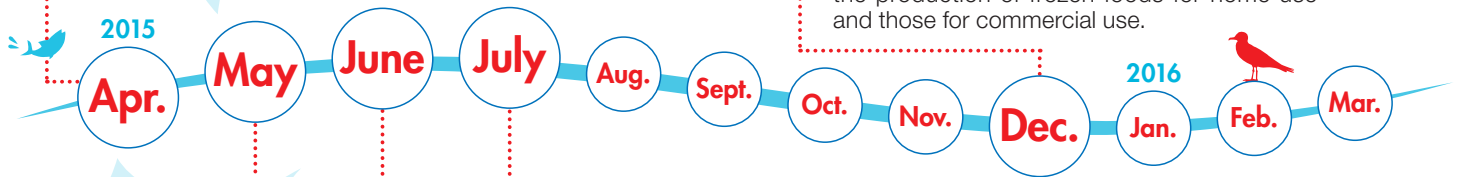
TOPICS 2015.4-2016.3

◎ "Value Up Kyokuyo 2018" Launched

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, with our speciality being fish," we will further advance our "Global Strategy" and "Synergy Strategy," while adding our new "Differentiation Strategy" as we engage in the pursuit of our targets.

◎ Completion of new Shiogama plant at Kyokuyo Shokuhin Co., Ltd

Within the premises of the Kyokuyo Shokuhin Co, Ltd. headquarters is a site where the newly completed "Shiogama Plant" stands. The new plant is being positioned as the Group's main manufacturer, and plans are being drawn up to broaden its scope of operations by enhancing the production of frozen foods for home use and those for commercial use.



◎ Kyokuyo America Corporation's opening of Los Angeles Sales Office

Los Angeles has one of the biggest Asian-based populations in North America and also serves as the location of the headquarters of many marine products wholesalers from Japan. In here, the Group seeks to expand sales of mainly the Company's raw food products by making use of its prowess in providing detailed customer service.

◎ Complete renewal of the corporate website

The website was completely revamped by adding more information and making it easier to view and use for general consumers, shareholders, investors or transaction partners and job applicants. We have added a section for recipes using the Company's products and also made the website compatible for smartphones.

◎ Establishment of Ibusuki Shokuhin Co., Ltd.

There has been progress in the decentralization steps to address the overconcentration of overseas purse-seiners at the landing sites of Yaizu by shifting the ships away into other areas such as Makurazaki and Yamagawa districts in Kyushu. Along with this move, Ibusuki Shokuhin Co., Ltd. was established in Yamagawa district of Ibusuki-shi, Kagoshima Prefecture. The new company will be the Group's prime spot in the manufacture of processed marine products, mainly with frozen katsuo-tataki, and its establishment is intended for the enhancement of the Group's supply capabilities in Western Japan.

CSR Environmental conservation activities

● Efforts to attain the blue MSC ecolabel

With the aim of promoting sustainable fishery, the Group has been striving to earn the MSC certification since 2006. The Group has been also making strides in attaining the aquaculture version of MSC called ASC certification since 2014, and has acquired the CoC certification for distributions and manufacturing processes in its 3 plants in Japan and 3 overseas locations (as of March 2016)

In November 2015, Global Commercial Director Nicolas Guichoux visited our office to have a meeting with Mr. Hisaki Tada, the Company's President and Mr. Murakami, the Senior Managing Director. They discussed about the state of affairs regarding MSC certifications overseas, and Mr. Tada expressed about the Company's commitment to proactively continue pursuing the relevant certifications.

*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. ASC is its counterpart for aquaculture.



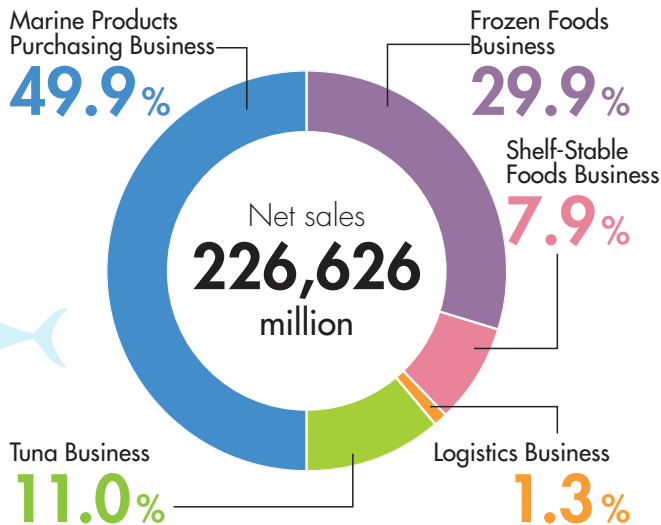
From left, Mr. Nicolas Guichoux and Regional Director, Asia Pacific Mr. Patric Caleo

● Kyokuyo Group Social and Environment Report 2015 published

In September 2015, we published the "Kyokuyo Group Social and Environment Report 2015" along with its digest version. The 2015 Report introduces activities and achievements mainly during fiscal 2014 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.



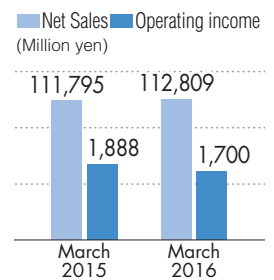
Composition ratio of sales by segment



Marine Products Purchasing Business

- Net sales **112,809** million
- Operating income **1,700** 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 peeled shrimp. 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.



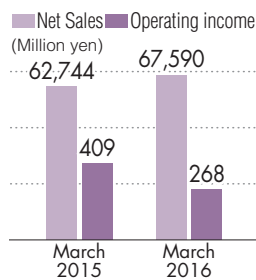
Salted red salmon fillet

Frozen Foods Business

- Net sales **67,590** million
- Operating income **268** 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" products for industrial use, 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. Under the "Sea Marché" brand of frozen foods for home use, we are expanding sales to major retailers, particularly in the metropolitan area.

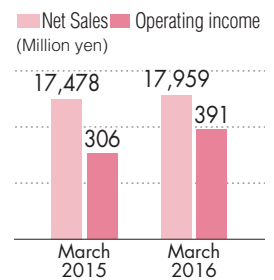


Dandori Jozu grilled Japanese mackerel in mirin (boneless)

Shelf-Stable Foods Business

- Net sales **17,959** million
- Operating income **391** 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 and even live stock products. We also sell seafood delicacies and health food products such as glucosamine and DHA supplements.

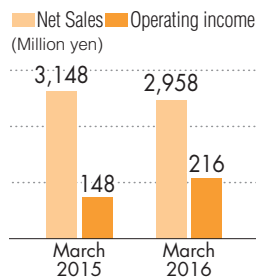


(left) crab innards and miso (with crab meat)
(right) DHA-EPA plus krill oil

Logistics Business

- Net sales **2,958** million
- Operating income **216** 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

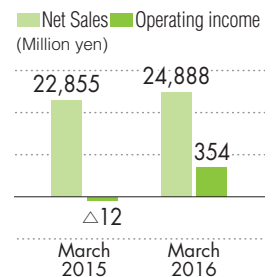


Jonanjima plant of KYOKUYO AKITSU REIZO CO., LTD.

Tuna Business

- Net sales **24,888** million
- Operating income **354** 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 with 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.



Hon-maguro no Kiwami

● Corporate Profile (As of March 31, 2016)

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	2,249 (consolidated) 599 (nonconsolidated)
Number of consolidated companies	25

Board of Directors (As of March 31, 2016)

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

● 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.

* We are considering a review of the program for 2017, in light of changes in shares per unit and the consolidation of shares on October 1, 2016.

● 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.

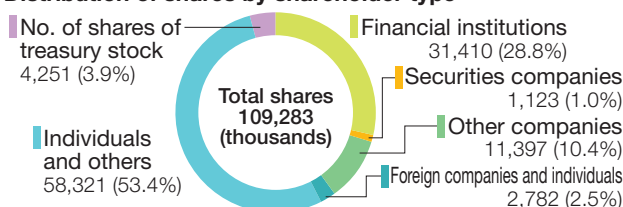
● Stock Information (As of March 31, 2016)

Total number of shares the company is authorized to issue:	437,000,000
Total number of shares issued:	109,282,837
Number of shareholders:	35,036

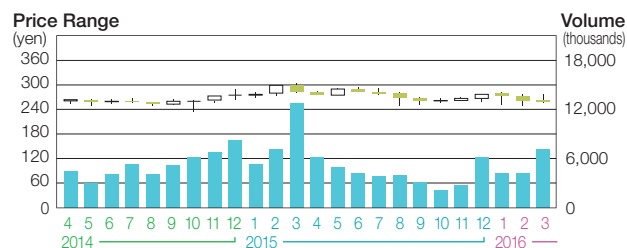
Major shareholders

Shareholder's name	No. of shares held (thousands)	Equity position (%)
Japan Trustee Services Bank, Ltd.	7,845	7.17
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
Kyokuyo Akitsukai	1,629	1.49
Chuo Gyorui Co., Ltd.	1,399	1.28
Sumitomo Mitsui Trust Bank, Limited	1,215	1.11
Mitsubishi UFJ Trust and Banking Corporation	1,200	1.09

Distribution of shares by shareholder type



Trends of Stock Prices and Trading Volume



Introduction to Our Website

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/en/>

KYOKUYO **Internet Search**