



BUSINESS REPORT

95th
Business Report

April 1, 2017 - March 31, 2018

Always nearby, always delicious. KYOKUYO



TO OUR SHAREHOLDERS



Chairman
Hisaki Tada

President
Kenji Imai

Corporate Philosophy

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 95th fiscal term (term ended March 2018). I would like to take this opportunity to thank our shareholders for their support.

In this year, the final year of the medium-term business plan entitled “Value Up Kyokuyo 2018,” we worked on stabilizing earnings by actively expanding markets in Japan and overseas through efforts including improving earnings of the foods business, starting sales of Pacific bluefin tuna produced by full-life cycle aquaculture, and overseas, newly establishing sales locations in New York, United States.

From April, based on the basic policy of “As a general foods company centered on fishery products, Kyokuyo is changing into a business entity with a high-profit structure, while in light of societal demands about resources, environment and labor, we aim to improve corporate value by saving people’s time and expanding business operations.” the Group started its new medium-term business plan “Change Kyokuyo 2021.” Going forward, through “ESG-focused business activities,” the Group will strive to provide better products by meeting the needs of consumers, through conducting initiatives regarding the strategies of “Expand,” “Strengthen,” and “Balance.”

We look forward to your continued support and cooperation.

June 2018

Working toward “Change Kyokuyo 2021” from “Value Up Kyokuyo 2018”

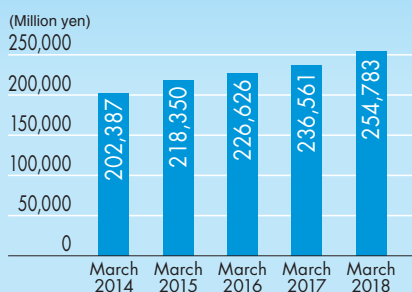
Overall performance in the fiscal year ended March 2018

In the consolidated fiscal year under review, although signs of a gradual recovery were seen in the Japanese economy as employment and income situations improved and share prices rose, the outlook for the economy remained uncertain with concerns about the effects of political trends in the U.S. and heightened geopolitical risks in the Middle East and Asian regions and other factors on the global real economy.

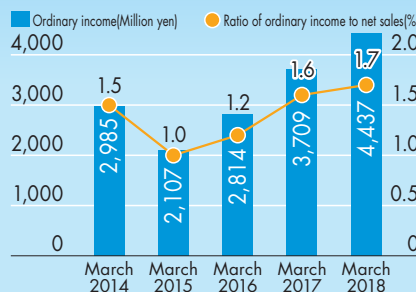
In the marine products and food industries, awareness in food security and safety among the consumers is high and the situation remains challenging due to factors such as rising purchase costs triggered by a surge in demand for marine products worldwide, in addition to the changes in domestic market environments due to a decreasing birthrate and aging population, and an increase in labor

Key Consolidated Financial Data

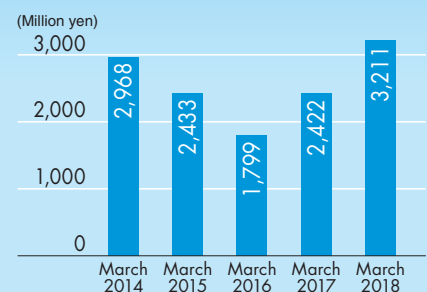
Net sales



Ordinary income / Ratio of ordinary income to net sales



Profit attributable to owners of parent





and logistics costs resulting from manpower shortage. In these circumstances, in the final year of its medium-term business plan "Value Up Kyokuyo 2018," the Group 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 specialty being fish."

As a result, the Group posted net sales of ¥254,783 million (up 7.7% year on year), operating income of ¥4,066 million (up 9.2% year on year), ordinary income of ¥4,437 million (up 19.6% year on year), and profit attributable to owners of parent of ¥3,211 million (up 32.5% year on year).

Status of each segment is as follows.

In the Marine Products Purchasing segment, sales of main fish species, such as salmon and trout, crab, shrimp and North Sea fish, performed well. As sales of fishery was also robust at overseas subsidiaries, sales for this segment increased from the previous fiscal year. On the other hand, as market conditions deteriorated after the year-end sales battle, there were adjustments in the prices of salmon and trout, shrimp and North Sea fish, and profit for this segment decreased from the previous fiscal year.

In the Frozen Foods segment, we have worked to expand the sales of products eaten raw, mainly consisting of sushi toppings, and products for heating such as "Dandori Jozu" series, and sales of fried marine products and imitation crab meat performed well. As sales of products manufactured in the Shiogama Plant such as the "Uma Shio Ebikara" were robust, the production volume of the plant increased and profitability of the plant improved. As a result, both sales and profit for this segment increased

from the previous fiscal year.

In the Shelf-Stable Foods segment, amid continued harsh business conditions due to increased product costs resulting from high fish prices, sales of canned seafood, mainly canned mackerel, increased. Regarding delicacy products, as the price of squid, a raw material, remained high, we implemented measures such as price revisions and regulation changes to counter cost increases. As a result, both sales and profit for this segment increased from the previous fiscal year.

In the Logistics segment, while sales decreased from the previous fiscal year due to our withdrawal from the Refrigeration Ship Business, in the Cold Storage Business, thanks to our efforts in securing warehouse cargo, strengthening the sales force and streamlining operations, profit increased from the previous fiscal year.

In the Tuna segment, we focused on increasing the sales of fatty products such as bluefin tuna and southern bluefin tuna, and red meat products such as yellowfin tuna and bigeye tuna. Sales of processed products including *negitoro* (minced tuna) and *katsuotataki* (roasted skipjack) also grew. In the Farming Business, amid increased restriction on fishing grounds and fishery, besides working to secure natural breeders, we made the first shipment of "Hon Maguro no Kiwami Tunagu" Pacific bluefin tuna produced by full-life cycle aquaculture, in November. In the Overseas Purse-seine Fishing Business, despite fishing fees remaining high and an increase in expenses including repair expenses, profitability improved significantly owing to efforts to secure a certain fish haul volume, and the trend of high fish prices. As a result, both sales and profit for this segment were higher than those of the previous fiscal year.

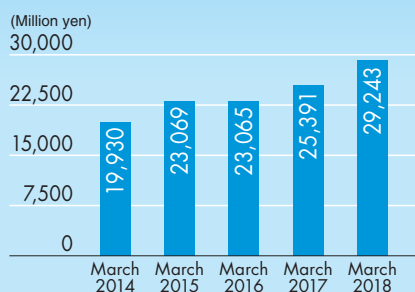
Targets for the next fiscal year ending March 2019

With regard to the Japanese economy for the next fiscal year, although a gradual recovery is expected, the future remains unclear due to factors such as uncertainty about the global economy.

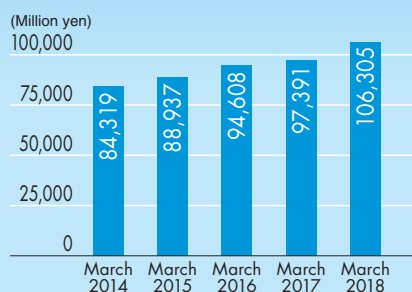
The business environment in the marine products and food industries is also expected to remain harsh as raw material prices remain high, labor costs increase due to manpower shortage, and competition between firms intensifies.

Under these circumstances, the Group will strive to achieve the targets as it starts the first year of the new medium-term business plan "Change Kyokuyo 2021." For the next fiscal year, we expect to achieve the following consolidated results: net sales of ¥267.0 billion, operating income of ¥4.8 billion, ordinary income of ¥4.6 billion, and profit attributable to owners of parent of ¥3.2 billion.

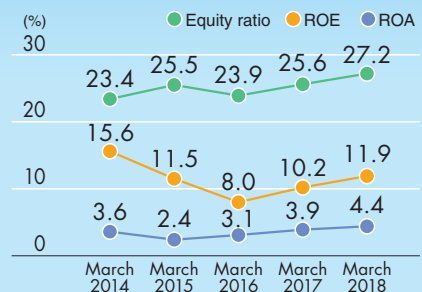
Net assets



Total assets



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



TOPICS

2017.4-2018.3

Title Sponsor of Canoe Slalom Japan Cup

As an official partner of the Japan Canoe Federation, a public interest incorporated association, we were the title sponsor of all seven matches of the "Kyokuyo Series" in the Canoe Slalom Japan Cup.

80th Anniversary of KYOKUYO CO., LTD.

On September 9, 2017, the Company celebrated its 80th anniversary. We would like to express our sincerest gratitude for the patronage of our customers, and for the support of our shareholders and the relevant parties.

Announcement of Implementation of Verification Experiments Utilizing AI for "Visualization" of Production Process

Through experiments that aim to develop "visualization" technologies for the production process of marine processed products, which utilize AI and can be implemented through a simple structure, we verified that such technologies lead to improved production efficiency.

Opened Kyokuyo America Corporation NY Sales Office

Centering on products eaten raw, in cooperation with the Los Angeles sales office in the West Coast of the United States, working toward expanding sales of the Company's products throughout the U.S., we newly established a sales office in New York in the East Coast.

Introduction of performance-based stock compensation plan

After a review of the officer compensation plan was conducted, at the 94th Ordinary General Meeting of Shareholders of the Company, it was resolved that a new performance-based stock compensation plan would be introduced for Directors (excluding Outside Directors).

Began Shipments of Pacific Bluefin Tuna Produced By Full-Life Cycle Aquaculture

KYOKUYO FEED ONE MARINE CO., LTD., the joint venture between KYOKUYO CO., LTD. and FEED ONE CO., LTD. started sales of Pacific bluefin tuna produced by full-life cycle aquaculture that have grown into adult fish, naming them "Hon Maguro no Kiwami Tunagu."

2017
Apr.

June

Sept.

Nov.

2018
Feb.

May

July Aug.

Oct.

Dec.

Jan.

Mar.

CSR

Environmental conservation activities

Participation in Seafood Business for Ocean Stewardship (SeaBOS)

In April 2017, Chairman Tada was invited to the dinner party held by Her Royal Highness Crown Princess Victoria of Sweden, and as a representative of the Company, signed and authorized the Company's participation in SeaBOS.

SeaBOS is an initiative where major marine companies worldwide become leaders to achieve the sustainable development of oceans worldwide and the marine products industry, so as to cooperate and determine the best method to contribute not only to oceans and fishing resources, but also to humanity as a whole and to the Earth's environment. Including the Company, there are currently 10 companies participating in SeaBOS.

Furthermore, SeaBOS aims to contribute to the Sustainable Development Goals (SDGs) advocated by the United Nations, particularly Goal 14: "Conserve and sustainably use the oceans, seas and marine resources for sustainable development."



Chairman Tada signing

Photo by Antony Tran

In the dialogue held in Stockholm in May, it was agreed that the following four items were the priority items to work on.

1. Improve transparency and traceability
2. Reduce IUU* fishing
3. Improve fisheries and aquaculture management
4. Eliminate any form of modern slavery

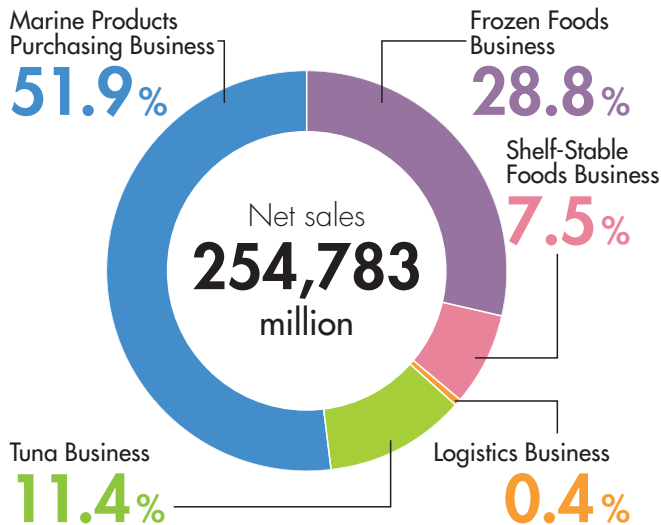
*IUU refers to fishing activities that are "Illegal," "Unreported" or "Unregulated."



Release of CSR Report 2017

The "Kyokuyo Group CSR Report 2017" was released in September 2017. By changing the name of the report from "Social and Environment Report" to the current name, we aim to fulfill our corporate social responsibility more actively, and to allow readers to better understand the Group's stance toward social contribution.

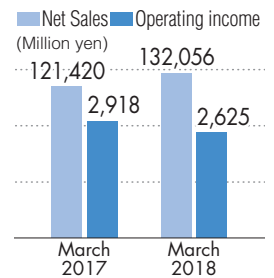
Composition ratio of sales by segment



Marine Products Purchasing Business

- Net sales **132,056 million**
- Operating income **2,625 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 achieve a recycling society while responding to the globalization of fish consumption.

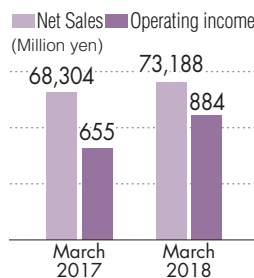


Salted red salmon fillet

Frozen Foods Business

- Net sales **73,188 million**
- Operating income **884 million**

The Frozen Foods Business sells products to be eaten raw, mainly sushi toppings, to clients such as restaurant chains. We also sell products for heating such as the "Dandori Jozu" products for industrial use 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 livestock products and frozen vegetables to restaurant channels and deli departments at volume retailers. Including the "Sea Marché" brand of frozen foods for home use, we are expanding sales to major retailers, particularly in the metropolitan area.

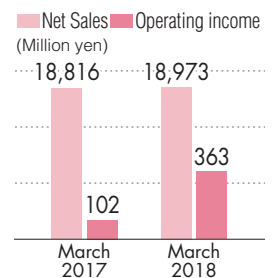


Dandori Jozu cooked red fish with grated Japanese radish (boneless)

Shelf-Stable Foods Business

- Net sales **18,973 million**
- Operating income **363 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 mackerel, skipjack, and sardine, 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.

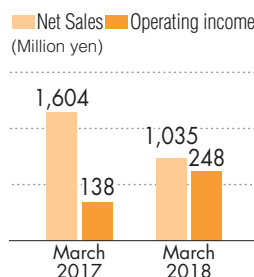


(left) Glucosamine Supplement
(right) Sea Marché cooked mackerel (material from Norway)

Logistics Business

- Net sales **1,035 million**
- Operating income **248 million**

Centered on the Cold Storage Business, this segment provides logistics services with four plants in Ohi (Tokyo), Jonanjima (Tokyo), Osaka, and Fukuoka.

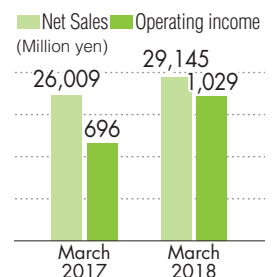


Jonanjima plant of KYOKUYO AKITSU REIZO CO., LTD.

Tuna Business

- Net sales **29,145 million**
- Operating income **1,029 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 conserve 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 started sales of pacific bluefin tuna produced by full-life cycle aquaculture.



Pacific bluefin tuna produced by full-life cycle aquaculture

Corporate Profile (As of March 31, 2018)

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	2,257 (consolidated) 639 (nonconsolidated)
Number of consolidated companies	24

Board of Directors (As of March 31, 2018)

Chairman	Hisaki Tada	Director	Shuichi Kiyama
President	Kenji Imai	Director	Masayo Miura
Senior Managing Director	Makoto Inoue	Director	Kazuo Obata
Senior Managing Director	Ken Sakai	Supervisory Board Member	Masataka Nakayama
Managing Director	Jun Akutagawa	Supervisory Board Member	Masaji Tamura
Director	Kenichi Matsuyuki	Supervisory Board Member	Takashi Kamii
Director	Tatsuji Matsuo	Supervisory Board Member	Hitoshi Amari
Director	Shigeru Kondo		

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 and Benefit:**
- Shareholders on the Company's register of shareholders who hold a unit of shares (100 shares) or more and less than three units of shares (300 shares) on March 31 of each year will be presented with our products valued at ¥2,500.
 - Shareholders on the Company's register of shareholders who hold three units of shares (300 shares) or more on March 31 of each year will be presented with our products valued at ¥6,000.

Shipment: Gifts will be shipped each year 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 1-1 Nikko-cho, Fuchu-shi, Tokyo Phone: 0120-232-711 (toll-free in Japan) Mailing Address: Transfer Agency, Mitsubishi UFJ Trust and Banking Corporation 137-8081, New Tokyo Post Office P.O.B. No. 29

(Note)

- 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.
- 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.
- Dividends that you have not received will be paid at the head office or branches of Mitsubishi UFJ Trust and Banking Corporation.

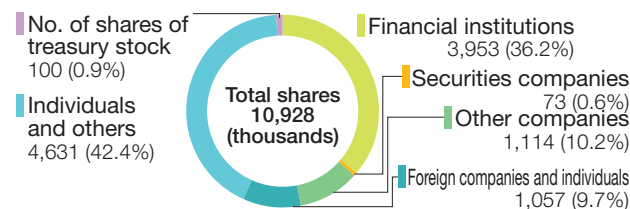
Stock Information (As of March 31, 2018)

Total number of shares the company is authorized to issue:	43,700,000
Total number of shares issued:	10,928,283
Number of shareholders:	26,975

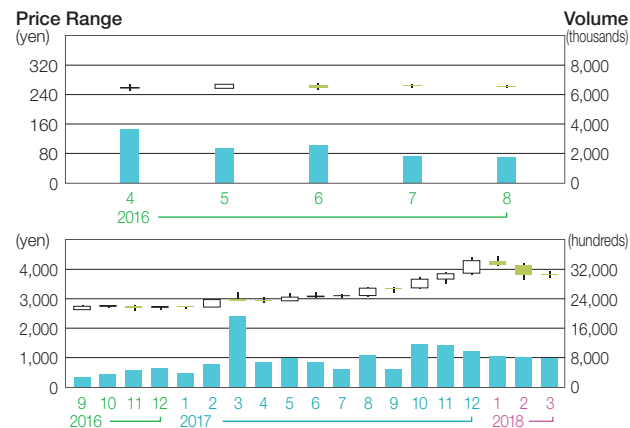
Major shareholders

Shareholder's name	No. of shares held (thousands)	Equity position (%)
Japan Trustee Services Bank, Ltd. (Trust account)	1,671	15.43
Resona Bank, Limited	523	4.83
The Norinchukin Bank	523	4.83
Toyo Seikan Group Holdings, Ltd.	315	2.90
Mitsui Sumitomo Insurance Co., Ltd.	250	2.30
Tokio Marine & Nichido Fire Insurance Co., Ltd.	224	2.07
The Master Trust Bank of Japan, Ltd. (Trust account)	214	1.97
Kyokuyo Akitsukai	164	1.51
Chuo Gyorui Co., Ltd.	139	1.29
JP MORGAN CHASE BANK 385151	125	1.16

Distribution of shares by shareholder type



Trends of Stock Prices and Trading Volume



*Consolidation of shares was implemented on October 1, 2016.

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.



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

KYOKUYO **Internet Search**