

Affiliated Business Division

Become a manufacturer that can supply high-value-added products in Japan and abroad by enhancing procurement and production



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Reflecting on the Previous Medium-Term Management Plan

The Affiliated Business Division comprises three core companies, centered on marine and dairy products. Marine Foods Corporation specializes in raw fish products for sushi and processed marine products. Hoko Co., Ltd. handles cheeses, canned foods, frozen foods, and freeze-dried foods. Nippon Luna, Inc. offers yogurt and lactic acid probiotic beverages.

During the three years of the previous Medium-Term Plan (New Medium-Term Management Plan Part 5), we increased both net sales and operating income compared with the previous management plan. That said, the operating margin remained around 2%, largely owing to fluctuations in raw ingredients and some operational issues. We must therefore urgently reinforce our management structure

through structural reforms. In the dairy products business, we have taken advantage of surging demand by opening a cheese plant in Kanagawa Prefecture. We are also building a yogurt plant in Takasaki City, Gunma Prefecture. In the final year of New Medium-Term Management Plan Part 5, ended March 31, 2018, sales increased to ¥163.5 billion, while operating income declined to ¥1.6 billion.

Toward Sustainable Growth (Risks and Opportunities)

The global consumption of marine products has continued to grow. The current annual fish catch and production volume is around 200 million tons. Fish farming production volume has rocketed owing to progress in farming technology. In recent years, farmed fish have accounted for more than half of the global catch and production volume. At the same time, fishery catches by fishing boats have leveled out. Owing partly due to increased fish catches by foreign fleets operating in seas adjacent to Japan's exclusive economic zone, fish catches in Japan have declined. At the same time, the Japanese are eating less fish. Annual

expenditure per household on marine products has decreased 10% since 2009. On the other hand, global demand for fish is growing, and raw materials costs are expected to climb. For Group marine products business to grow sustainably, we must urgently convert into a manufacturer offering high-added-value products in Japan and overseas by enhancing our procurement and production capabilities.

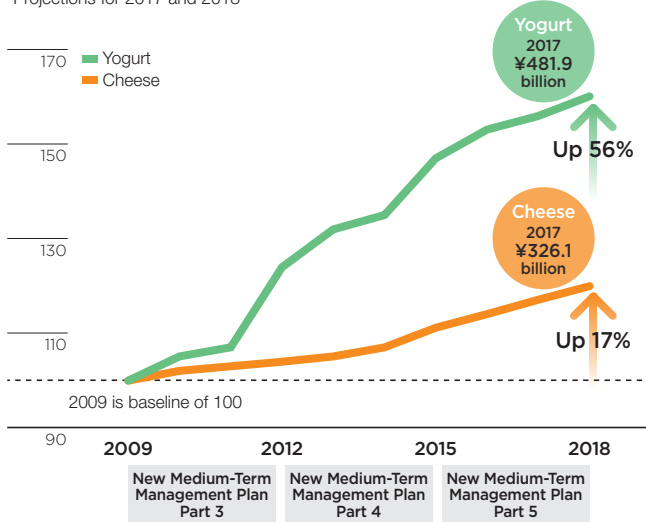
Complementing the steady growth of the cheese market since 2009, the yogurt market has also expanded significantly due to the rising health consciousness of consumers. We will bolster our procurement routes and production capabilities for stable supply and business expansion, as we expect continuous growth in the domestic market and a dairy ingredient price surge due to consumption increases in Southeast Asia, China, and other markets.

Medium-Term Management Plan 2020 Initiatives

Under Medium-Term Management Plan 2020, we will promote our conversion into a manufacturer in this area by improving our profitability and strengthening procurement and production in

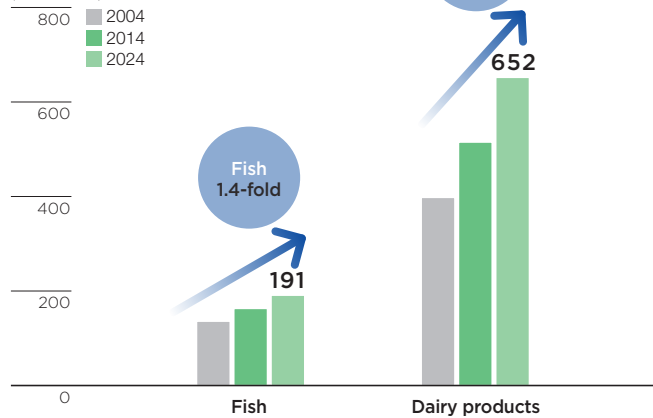
DAIRY PRODUCT MARKET SIZE GROWTH

*Projections for 2017 and 2018



PREDICTIONS FOR GLOBAL RISE IN CONSUMPTION

(million tons)



Source: OECD-FAO Agricultural Outlook 2015-2024

the marine and dairy businesses. At the same time, we will promote saving and reducing personnel at our own plants by applying artificial intelligence (AI), Internet of Things (IoT), robotics and other technologies. This is an urgent task considering the tighter labor supply in Japan. In addition, to provide safe and reliable foods, we will promote acquisition of FSSC22000 certification for a food safety management framework and other international certifications at all plants.

● Strengthening Marine Business Profitability

We will reinforce the profitability of our marine business by establishing raw materials procurement channels to Japan and by reinforcing sales in overseas markets. We will set up those channels by taking advantage of the expansion of global cultivation, procuring Black Sea cultured salmon from Turkey and by engaging in shrimp farming through a joint venture in Thailand. We will undertake initiatives to establish our own worldwide raw materials procurement routes. As part of those efforts, we will open an office in Russia, where we will reinforce

existing channels, and establish a marine product processing company in Vietnam.

To drive medium- to long-term growth, we handle more environmentally sound cultured fish and natural fish caught from sustainable fishing grounds.

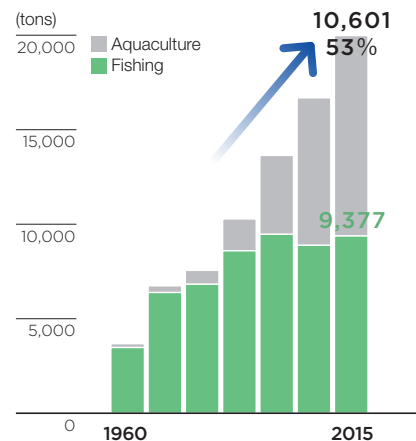
● Reinforcing Dairy Product Business Profitability

In the dairy product business, we will assess new procurement partner countries in line with the government's Economic Partnership Agreements. The goal is to reinforce raw materials procurement for cheese. While improving our cheese production setup and creating unmanned lines, for yogurt production we plan to make the Takasaki Plant fully operational from April 2019. This should basically double production capacity in eastern Japan, enabling us to concentrate production of such major brands as *Vanilla Yogurt* and pursue more effective marketing in that region. Trends in the yogurt market are volatile, and we aim to create new categories by developing unique products through engagement with consumers.

● Achieving Sustainable Growth through Extensive Investments

Under Medium-Term Management Plan 2020, we plan to undertake around ¥26 billion in capital investments that include approximately ¥13.3 billion in growth investments. For the marine products business, we will invest in restructuring production facilities at existing plants, improving procurement platforms in Japan and overseas, and expanding sales in overseas markets. For the dairy product business, we will invest in operations at the new Takasaki Plant and improve our cheese production structure.

WORLD FISHING PRODUCTION VOLUME



Source: "White Paper on Fisheries 2017", Fisheries Agency