

1. Qualitative Information on the Consolidated Business Results for the Three Months Ended December 31, 2017

(1) Consolidated Operating Performance

In the first three months of the fiscal year ending September 30, 2018 (October 1, 2017 – December 31, 2017), despite growing pressure on earnings from higher personnel expenses amid labor shortages, the Japanese economy continued to demonstrate gradual recovery owing to improvements in corporate earnings and employment conditions. While the global economy also demonstrated a recovery trend, concerns over geopolitical risks precipitated a sense of uncertainty regarding future global economic growth and remained a factor for instability regarding the outlook.

In food industries related to the Yokohama Reito Group's business, while price increases by food manufacturers and retailers have bolstered earnings, the business climate remained severe due to soaring raw materials prices and higher logistics costs.

In this environment, the Yokohama Reito Group executed its Sixth Medium-Term Management Plan (three-year plan), "Growing Value 2020," which began in October 2017. Under this plan, the Refrigerated Warehousing Business is aiming for innovation and advancement reflective of market needs. The Food Sales Business is aiming to establish a stable food supply structure through the development of food resources and food production. The Group executed various initiatives during the period on the basis of these business operational policies.

As a result, the Group's consolidated net sales for the first three months of the fiscal year totaled ¥44,224 million, a 4.7% increase compared to the same period of the previous fiscal year. Operating income totaled ¥1,765 million, a year-on-year decrease of 15.6%, and ordinary income totaled ¥1,844 million, a year-on-year decrease of 27.3%. Profit attributable to owners of the parent totaled ¥1,010 million, a year-on-year decrease of 39.9% due in part to an extraordinary loss of ¥280 million for the demolition of the Kobe Logistics Center, which was closed in the previous fiscal year due to aged facilities.

(Results by business segment)

Refrigerated Warehousing Business

The Refrigerated Warehousing Business posted year-on-year increases in sales and profit in the first three months. The Satte Logistics Center opened in June 2017 was fully operational, covering negative effects from two centers closed in the previous fiscal year and helping to boost the business's storage fees. Inbound and outbound cargo fees declined, however, due to sluggish inbound and outbound cargo movements compared to the brisk movements a year earlier. Consolidated subsidiary Thai Yokorei Co., Ltd. achieved improved performance at its distribution and logistics centers, including higher operating rates at its Bangpakong 2nd Distribution Center, to post significant revenue and profit increases and contribute to the segment's earnings.

As a result, segment sales amounted to ¥6,798 million, an increase of 1.7% compared with the same period of the previous fiscal year, and operating income totaled ¥1,779 million, a year-on-year increase of 1.1%.

Food Sales Business

The Food Sales Business posted higher sales and lower profit in the first three months. While the overseas business continued to perform well, a slump in the domestic business weighed on profits.

The marine products category posted higher sales and profit. While lower scallop production and poor catches of Pacific saury and chum salmon weighed on profitability, the Norway Atlantic salmon business and the trout cultivation business both performed steadily in line with the initial business plans.

The livestock products category posted lower sales and profit. Sales of chicken, which buoyed category performance in the previous fiscal year, increased while profit declined due to a deterioration in the supply-demand balance. Pork trading volumes also declined.

The agricultural products category also posted lower sales and profit. While squash trading volumes

increased, trading volumes of mainstay potatoes declined due to stagnant cargo movements.

As a result, segment sales amounted to ¥37,410 million, an increase of 5.2% compared with the same period of the previous fiscal year, and operating income totaled ¥634 million, a year-on-year decrease of 34.1%.

(2) Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at December 31, 2017 amounted to ¥191,229 million, an increase of ¥17,530 million compared with the previous fiscal year-end (September 30, 2017). This change was mainly attributable to increases of ¥8,810 million in merchandise, ¥4,765 million in notes and accounts receivable-trade, and ¥3,354 million in investment securities.

Total liabilities amounted to ¥117,727 million, an increase of ¥13,716 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥13,007 million in loans payable.

Total net assets amounted to ¥73,501 million, an increase of ¥3,813 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the period amounted to ¥5,343 million, a decrease of ¥1,056 million compared with the previous fiscal year-end (September 30, 2017). The main factors affecting cash flows during the first three months of the fiscal year are summarized as follows.

(Cash flows from operating activities)

Net cash used in operating activities amounted to ¥7,009 million compared with ¥10,729 million used in the same period of the previous fiscal year. This net outflow was mainly attributable to increases of ¥8,680 million in inventories and ¥4,698 million in accounts receivable - trade, which were partially offset by income before income taxes of ¥1,564 million, depreciation and amortization of ¥1,191 million, a decline of ¥1,319 million in advance payments, and an increase of ¥2,463 million in accounts payable - trade.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥6,534 million, compared with ¥2,719 million used in the same period of the previous fiscal year. The main investment outflows were ¥3,749 million used for the purchase of property, plant and equipment and ¥2,359 million for purchase of investment securities.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥12,294 million, compared with ¥12,955 million provided in the previous fiscal year. This net inflow was mainly derived from a net increase in loans payable from financial institutions of ¥12,863 million, which was partly offset by dividends paid to shareholders of ¥531 million.

(3) Consolidated Earnings Forecast

There is no change to the earnings forecast for the fiscal year ending September 30, 2018 announced on November 14, 2017 with the financial results for the fiscal year ended September 30, 2017.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Millions of yen)	
	As of September 30, 2017	As of December 31, 2017
	Amount	Amount
Assets		
Current assets		
Cash and deposits	6,409	5,353
Notes and accounts receivable - trade	21,866	26,631
Merchandise	26,647	35,458
Advance payments	8,883	7,548
Deferred tax assets	635	538
Other	2,068	1,938
Allowance for doubtful accounts	(20)	(20)
Total current assets	66,490	77,448
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	40,239	39,928
Machinery, equipment and vehicles, net	7,019	7,065
Land	27,833	27,867
Leased assets, net	651	755
Construction in progress	1,516	4,169
Other, net	887	879
Total property, plant and equipment	78,147	80,666
Intangible fixed assets		
Goodwill	7,553	7,848
Overseas aquaculture business license	7,182	7,639
Other	1,734	1,727
Total intangible fixed assets	16,470	17,215
Investments and other assets		
Investment securities	9,399	12,754
Long-term loans receivable	2,397	2,355
Other	871	874
Allowance for doubtful accounts	(78)	(85)
Total investments and other assets	12,590	15,899
Total noncurrent assets	107,208	113,780
Total assets	173,699	191,229

	As of September 30, 2017 Amount	(Millions of yen) As of December 31, 2017 Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,886	8,384
Short-term loans payable	30,334	40,190
Current portion of convertible bonds	6,064	4,844
Current portion of long-term loans payable	5,503	5,865
Lease obligations	87	107
Income taxes payable	1,719	960
Accrued employees' bonuses	737	136
Accrued bonuses for directors and corporate auditors	35	8
Other	7,159	7,437
Total current liabilities	<u>57,527</u>	<u>67,935</u>
Noncurrent liabilities		
Long-term loans payable	41,944	44,734
Lease obligations	264	340
Deferred tax liabilities	2,897	3,313
Provision for Executive Compensation BIP Trust	147	161
Net defined benefit liability	730	765
Asset retirement obligations	105	105
Other	393	371
Total noncurrent liabilities	<u>46,483</u>	<u>49,792</u>
Total liabilities	<u>104,010</u>	<u>117,727</u>
Net assets		
Shareholders' equity		
Common stock	11,533	12,143
Capital surplus	11,600	12,210
Retained earnings	41,773	42,254
Treasury stock	(539)	(539)
Total shareholders' equity	<u>64,369</u>	<u>66,069</u>
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	3,061	3,756
Deferred gain (loss) on derivatives under hedge accounting	(87)	(260)
Foreign currency translation adjustments	1,325	2,679
Remeasurements of defined benefit plans	(165)	(152)
Total accumulated other comprehensive income	<u>4,133</u>	<u>6,022</u>
Non-controlling interests	<u>1,185</u>	<u>1,409</u>
Total net assets	<u>69,688</u>	<u>73,501</u>
Total liabilities and net assets	<u>173,699</u>	<u>191,229</u>

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

	(Millions of yen)	
	Three months ended December 31, 2016	Three months ended December 31, 2017
	Amount	Amount
Net sales	42,246	44,224
Cost of sales	37,726	39,866
Gross profit	4,519	4,357
Selling, general and administrative expenses	2,427	2,591
Operating income	2,092	1,765
Other income		
Interest income	17	42
Dividend income	42	44
Insurance dividends	29	37
Foreign exchange gains	371	10
Purchase discounts	35	119
Other	63	53
Total other income	560	308
Other expenses		
Interest expense	105	198
Other	10	31
Total other expenses	115	229
Ordinary income	2,536	1,844
Extraordinary losses		
Loss on removal of offices	-	280
Total extraordinary losses	-	280
Income before income taxes	2,536	1,564
Income taxes—Current	678	208
Income taxes—Deferred	172	151
Total income taxes	850	359
Profit	1,685	1,204
Profit attributable to non-controlling interests	5	194
Profit attributable to owners of the parent	1,680	1,010

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Three months ended December 31, 2016	Three months ended December 31, 2017
	Amount	Amount
Profit	1,685	1,204
Other comprehensive income		
Unrealized gain on available-for-sale securities	729	694
Deferred gain (loss) on derivatives under hedge accounting	(242)	(173)
Foreign currency translation adjustments	270	1,378
Remeasurements of defined benefit plans	27	13
Total other comprehensive income	784	1,914
Comprehensive income	2,470	3,119
Breakdown:		
Comprehensive income attributable to owners of the parent	2,469	2,899
Comprehensive income attributable to non-controlling interests	0	219

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Three months ended December 31, 2016	Three months ended December 31, 2017
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	2,536	1,564
Depreciation and amortization	1,095	1,191
Amortization of goodwill	150	167
Increase (decrease) in accrued employees' bonuses	(556)	(600)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(25)	(26)
Increase (decrease) in allowance for doubtful accounts	2	8
Increase (decrease) in net defined benefit liability	66	48
Loss on removal of offices	-	280
Increase (decrease) in provision for Executive Compensation BIP Trust	14	13
Interest and dividend income	(60)	(86)
Interest expenses	105	198
Decrease (increase) in accounts receivable - trade	(6,270)	(4,698)
Decrease (increase) in inventories	(7,968)	(8,680)
Decrease (increase) in advance payments	(2,060)	1,319
Increase (decrease) in accounts payable - trade	1,924	2,463
Increase (decrease) in accrued expenses	833	221
Other - net	605	461
Sub total	(9,607)	(6,156)
Interest and dividend income received	63	75
Interest paid	(104)	(132)
Income taxes paid	(1,081)	(796)
Net cash provided by (used in) operating activities	(10,729)	(7,009)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,204)	(3,749)
Proceeds from sales of property, plant and equipment	0	0
Purchase of investment securities	(614)	(2,359)
Payments of loans receivable	-	(449)
Collection of loans receivable	120	31
Other - net	(22)	(7)
Net cash provided by (used in) investing activities	(2,719)	(6,534)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	14,528	9,810
Proceeds from long-term loans payable	-	4,142
Repayments of long-term loans payable	(1,025)	(1,089)
Purchase of treasury stock	(0)	(0)
Dividends paid to shareholders	(521)	(531)
Other - net	(26)	(37)
Net cash provided by (used in) financing activities	12,955	12,294
Effect of exchange rate changes on cash and cash equivalents	42	193
Net increase (decrease) in cash and cash equivalents	(451)	(1,056)
Cash and cash equivalents, beginning of period	5,200	6,399
Cash and cash equivalents, end of period	4,748	5,343

(4) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

Segment Information

I. Three months ended December 31, 2016 (October 1, 2016 – December 31, 2016)

1. Net sales and profit/loss by reportable segment

(Millions of yen)

	Reportable segment				Adjustments *1	Amounts reported on consolidated statements of income*2
	Refrigerated Warehousing	Food Sales	Other Businesses	Total		
Net sales						
Sales to outside customers	6,684	35,547	14	42,246	-	42,246
Intersegment sales or transfers	461	-	10	472	(472)	-
Total	7,146	35,547	25	42,719	(472)	42,246
Segment profit	1,759	964	15	2,739	(647)	2,092

Notes: 1. The minus 647 million yen adjustment for segment profit was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.

2. Segment profit was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.

II. Three months ended December 31, 2017 (October 1, 2017 – December 31, 2017)

1. Net sales and profit/loss by reportable segment

(Millions of yen)

	Reportable segment				Adjustments *1	Amounts reported on consolidated statements of income*2
	Refrigerated Warehousing	Food Sales	Other Businesses	Total		
Net sales						
Sales to outside customers	6,798	37,410	14	44,224	-	44,224
Intersegment sales or transfers	469	-	10	479	(479)	-
Total	7,268	37,410	24	44,703	(479)	44,224
Segment profit	1,779	634	12	2,426	(661)	1,765

Notes: 1. The minus 661 million yen adjustment for segment profit was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.

2. Segment profit was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.