

1. Qualitative Information on the Consolidated Business Results for the Nine Months Ended June 30, 2018

(1) Consolidated Operating Performance

In the first nine months of the fiscal year ending September 30, 2018 (October 1, 2017 – June 30, 2018), the Japanese economy saw imports and production continue to gradually recover against the backdrop of steady recovery in overseas economies. There were also signs of a rebound in personal consumption owing to an upturn in employment and income conditions. However, there is a growing risk of a medium- to long-term economic downturn because of heightened tensions in the world economy caused by the trade war between the U.S. and other major economies.

In food industries related to the Yokohama Reito Group's business, the business climate remained severe due partly to the fact that households are increasingly tightening their purse strings amid the continued grim employment conditions due to the labor shortage.

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 has 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 nine months of the fiscal year totaled ¥129,969 million, a 10.4% increase compared to the same period of the previous fiscal year. Operating income totaled ¥3,463 million, a year-on-year decrease of 17.5%, and ordinary income totaled ¥3,742 million, a year-on-year decrease of 18.3%. Profit attributable to owners of the parent totaled ¥2,354 million, a year-on-year decrease of 15.8%.

(Results by business segment)

Refrigerated Warehousing Business

The Refrigerated Warehousing Business posted year-on-year increases in sales and profit in the first nine months of the fiscal year. One-time expenses and increase in depreciation and amortization associated with starting up new logistics centers and effects of the closure of two logistics centers in the previous fiscal year were negative for profit. However, all logistics centers opened in the past few years steadily increased their operation rates to make solid contributions to earnings. In addition, existing centers expanded services centering on customer needs and cargo operation initiatives in line with the major policies in our Sixth Medium-Term Management Plan. These activities resulted in an increase in storage fees. Consolidated subsidiary Thai Yokorei Co., Ltd. recorded strong earnings growth that contributed to segment earnings amid the recent stabilization of the political and economic situation in Thailand, which led to a recovery in production activity and high inventory levels for agricultural products, fruit, and fruit juice.

As a result, segment sales amounted to ¥19,567 million, an increase of 3.5% compared with the same period of the previous fiscal year, and operating income totaled ¥4,678 million, a year-on-year increase of 4.9%.

Food Sales Business

In the first nine months of the fiscal year, the Food Sales Business posted higher sales and lower profit. The domestic business faced a severe business environment, with an increase in the prices of mainstay products resulting in slow cargo movement, although the overseas business and exports were relatively brisk.

Exports of salmon/trout and mackerel contributed to earnings of the marine products category, but ongoing high prices of shrimp/prawn, squid, and crab were negative for profit because higher costs could not be passed onto sales prices. The marine products category posted higher sales and profit due to solid performance of the Norway trout cultivation business, but profit excluding the Norway business was sharply lower year-on-year.

The livestock products category posted lower sales and profit, depressed by the collapse of the supply-demand balance of pork and chicken. The profitability of chicken had deteriorated sharply in the second quarter, but inventory has recently normalized and earnings are beginning to recover.

The agricultural products category also posted lower sales and profit as a result of a decline in the unit price of mainstay potatoes due to the bumper harvest.

As a result, segment sales amounted to ¥110,358 million, an increase of 11.8% compared with the same period of the previous fiscal year, and operating income totaled ¥693 million, a year-on-year decrease of 58.1%.

(2) Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at June 30, 2018 amounted to ¥192,119 million, an increase of ¥18,420 million compared with the previous fiscal year-end (September 30, 2017). This change was mainly attributable to increases of ¥6,711 million in merchandise, ¥5,718 million in notes and accounts receivable-trade, ¥3,766 million in property, plant, and equipment, and ¥3,075 million in investment securities.

Total liabilities amounted to ¥115,227 million, an increase of ¥11,217 million compared with the previous fiscal year-end. This change was mainly attributable to increases of ¥10,000 million in bonds and ¥8,587 million in loans payable, and a decrease of ¥4,778 million in current portion of bonds.

Net assets amounted to ¥76,891 million, an increase of ¥7,203 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the third quarter amounted to ¥4,432 million, a decrease of ¥1,966 million compared with the previous fiscal year-end (September 30, 2017). The main factors affecting cash flows during the first nine months of the fiscal year are summarized as follows.

(Cash flows from operating activities)

Net cash used in operating activities amounted to ¥5,299 million compared with ¥7,182 million used in the same period of the previous fiscal year. This net outflow was mainly attributable to increases of ¥6,667 million in inventories and ¥5,696 million in accounts receivable-trade, which were partially offset by income before income taxes of ¥3,462 million and depreciation and amortization of ¥3,750 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥13,932 million, compared with ¥6,715 million used in the same period of the previous fiscal year. The main investment outflows were ¥8,860 million used for the purchase of property, plant, and equipment and ¥3,377 million for the payments of loans receivable.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥17,221 million, compared with ¥13,970 million provided in the same period of the previous fiscal year. This net inflow was mainly derived from proceeds from issuance of bonds of ¥10,000 million and a net increase in loans payable from financial institutions of ¥8,444 million, which were partly offset by dividends paid to shareholders of ¥1,102 million.

(3) Consolidated Earnings Forecast

The Company revised its full year earnings forecast for the fiscal year ending September 30, 2018 announced on November 14, 2017 in the financial results for the fiscal year ended September 30, 2017, as follows.

The Company forecasts net sales of ¥163,000 million, operating income of ¥5,000 million, ordinary income of ¥5,100 million, and profit of ¥3,000 million. Please refer to “Notice regarding earnings forecast revision” dated August 10, 2018 for details.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of September 30, 2017	As of June 30, 2018	(Millions of yen)
	Amount	Amount	
Assets			
Current assets			
Cash and deposits	6,409	4,442	
Notes and accounts receivable - trade	21,866	27,584	
Merchandise	26,647	33,359	
Advance payments	8,883	7,740	
Deferred tax assets	635	466	
Other	2,068	3,155	
Allowance for doubtful accounts	(20)	(20)	
Total current assets	<u>66,490</u>	<u>76,729</u>	
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	40,239	42,489	
Machinery, equipment and vehicles, net	7,019	7,145	
Land	27,833	27,855	
Leased assets, net	651	988	
Construction in progress	1,516	2,477	
Other, net	887	957	
Total property, plant and equipment	<u>78,147</u>	<u>81,914</u>	
Intangible fixed assets			
Goodwill	7,553	7,169	
Overseas aquaculture business license	7,182	7,279	
Other	1,734	1,791	
Total intangible fixed assets	<u>16,470</u>	<u>16,240</u>	
Investments and other assets			
Investment securities	9,399	12,475	
Long-term loans receivable	2,397	4,066	
Other	871	782	
Allowance for doubtful accounts	(78)	(88)	
Total investments and other assets	<u>12,590</u>	<u>17,236</u>	
Total noncurrent assets	<u>107,208</u>	<u>115,390</u>	
Total assets	<u>173,699</u>	<u>192,119</u>	

	As of September 30, 2017	As of June 30, 2018	(Millions of yen)
	Amount	Amount	
Liabilities			
Current liabilities			
Notes and accounts payable - trade	5,886	6,376	
Short-term loans payable	30,334	34,517	
Current portion of convertible bonds	6,064	1,286	
Current portion of long-term loans payable	5,503	6,043	
Lease obligations	87	143	
Income taxes payable	1,719	172	
Accrued employees' bonuses	737	186	
Accrued bonuses for directors and corporate auditors	35	26	
Other	7,159	5,375	
Total current liabilities	57,527	54,127	
Noncurrent liabilities			
Bonds	-	10,000	
Long-term loans payable	41,944	45,810	
Lease obligations	264	536	
Deferred tax liabilities	2,897	3,297	
Provision for Executive Compensation BIP Trust	147	154	
Net defined benefit liability	730	836	
Asset retirement obligations	105	91	
Other	393	372	
Total noncurrent liabilities	46,483	61,099	
Total liabilities	104,010	115,227	
Net assets			
Shareholders' equity			
Common stock	11,533	13,922	
Capital surplus	11,600	13,989	
Retained earnings	41,773	43,026	
Treasury stock	(539)	(506)	
Total shareholders' equity	64,369	70,432	
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	3,061	3,609	
Deferred gain (loss) on derivatives under hedge accounting	(87)	18	
Foreign currency translation adjustments	1,325	1,692	
Remeasurements of defined benefit plans	(165)	(124)	
Total accumulated other comprehensive income	4,133	5,195	
Non-controlling interests			
Total net assets	1,185	1,264	
Total liabilities and net assets	69,688	76,891	
	173,699	192,119	

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

	(Millions of yen)	
	Nine months ended June 30, 2017	Nine months ended June 30, 2018
	Amount	Amount
Net sales	117,699	129,969
Cost of sales	106,460	118,706
Gross profit	11,239	11,263
Selling, general and administrative expenses	7,043	7,799
Operating income	4,196	3,463
Other income		
Interest income	50	145
Dividend income	129	184
Insurance dividends	30	37
Subsidy income	117	0
Foreign exchange gains	398	-
Purchase discounts	154	362
Other	170	328
Total other income	1,051	1,059
Other expenses		
Interest expenses	325	591
Commission fee	299	2
Other	41	185
Total other expenses	666	779
Ordinary income	4,580	3,742
Extraordinary losses		
Loss on removal of offices	-	280
Total extraordinary losses	-	280
Income before income taxes	4,580	3,462
Income taxes—Current	1,835	827
Income taxes—Deferred	(211)	233
Total income taxes	1,624	1,060
Profit	2,956	2,402
Profit attributable to non-controlling interests	161	48
Profit attributable to owners of the parent	2,795	2,354

Consolidated Statements of Comprehensive Income

	Nine months ended June 30, 2017	Nine months ended June 30, 2018	(Millions of yen)
	Amount	Amount	
Profit	2,956	2,402	
Other comprehensive income			
Unrealized gain on available-for-sale securities	1,065	548	
Deferred gain (loss) on derivatives under hedge accounting	(110)	105	
Foreign currency translation adjustments	1,287	397	
Remeasurements of defined benefit plans	81	41	
Total other comprehensive income	<u>2,324</u>	<u>1,092</u>	
Comprehensive income	<u>5,281</u>	<u>3,495</u>	
Breakdown:			
Comprehensive income attributable to owners of the parent	5,029	3,416	
Comprehensive income attributable to non-controlling interests	252	78	

(3) Consolidated Statements of Cash Flows

	Nine months end June 30, 2017	Nine months ended June 30, 2018
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	4,580	3,462
Depreciation and amortization	3,429	3,750
Amortization of goodwill	468	481
Increase (decrease) in accrued employees' bonuses	(500)	(550)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(8)	(8)
Increase (decrease) in allowance for doubtful accounts	5	10
Increase (decrease) in net defined benefit liability	237	146
Loss on removal of offices	-	280
Increase (decrease) in provision for Executive Compensation BIP Trust	42	6
Interest and dividend income	(180)	(330)
Interest expenses	325	591
Decrease (increase) in accounts receivable - trade	(698)	(5,696)
Decrease (increase) in inventories	(8,999)	(6,667)
Decrease (increase) in advance payments	(3,995)	1,159
Increase (decrease) in accounts payable - trade	(116)	482
Increase (decrease) in accrued expenses	9	230
Other - net	784	52
Sub total	<u>(4,616)</u>	<u>(2,599)</u>
Interest and dividend income received	182	281
Interest paid	(326)	(508)
Income taxes paid	<u>(2,421)</u>	<u>(2,473)</u>
Net cash provided by (used in) operating activities	<u>(7,182)</u>	<u>(5,299)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,666)	(8,860)
Proceeds from sales of property, plant and equipment	23	2
Purchase of investment securities	(617)	(2,364)
Proceeds from sales of investment securities	-	168
Payments of loans receivable	(4)	(3,377)
Collection of loans receivable	635	640
Other - net	(86)	(140)
Net cash provided by (used in) investing activities	<u>(6,715)</u>	<u>(13,932)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,356)	4,127
Proceeds from long-term loans payable	20,819	8,335
Repayments of long-term loans payable	(3,345)	(4,018)
Proceeds from issuance of bonds	-	10,000
Purchase of treasury stock	(0)	(1)
Dividends paid to shareholders	(1,051)	(1,102)
Other - net	(94)	(118)
Net cash provided by (used in) financing activities	<u>13,970</u>	<u>17,221</u>
Effect of exchange rate changes on cash and cash equivalents	<u>137</u>	<u>43</u>
Net increase (decrease) in cash and cash equivalents	<u>208</u>	<u>(1,966)</u>
Cash and cash equivalents, beginning of period	<u>5,200</u>	<u>6,399</u>
Cash and cash equivalents, end of period	<u>5,409</u>	<u>4,432</u>

(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. Nine months ended June 30, 2017 (October 1, 2016 – June 30, 2017)

1. Net sales and profit/loss by reportable segment

	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	18,906	98,747	45	117,699	-	117,699
Intersegment sales or transfers	1,276	-	30	1,306	(1,306)	-
Total	20,183	98,747	76	119,006	(1,306)	117,699
Segment profit	4,458	1,655	43	6,157	(1,961)	4,196

Notes: 1. The minus 1,961 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. Nine months ended June 30, 2018 (October 1, 2017 – June 30, 2018)

1. Net sales and profit/loss by reportable segment

	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	19,567	110,358	42	129,969	-	129,969
Intersegment sales or transfers	1,488	-	30	1,519	(1,519)	-
Total	21,056	110,358	73	131,488	(1,519)	129,969
Segment profit	4,678	693	41	5,413	(1,950)	3,463

Notes: 1. The minus 1,950 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.