

1. Qualitative Information on the Consolidated Business Results for the Six Months Ended March 31, 2017

(1) Qualitative Information on the Consolidated Operating Performance

(Operating environment)

In the first six months of the fiscal year ending September 30, 2017 (October 1, 2016 – March 31, 2017), the Japanese economy continued to demonstrate gradual recovery owing to improvements in corporate earnings and employment conditions. Economic growth was constrained, however, by persistent sluggishness in personal consumption and a tightened supply-demand balance in the labor market caused by labor shortages. Reviewing the global economy, latent factors for instability remained, including uncertainties about U.S. government policies following the change in government and geopolitical risks in regions around the world.

In food industries related to the Yokohama Reito Group's business, while price increases by food manufacturers and retailers helped bolster earnings, the business climate remained severe due to rising logistics costs caused by truck driver shortages and other factors.

In this environment, the Yokohama Reito Group executed its Fifth Medium-Term Management Plan (three-year plan), "Flap The Wings 2017," which began in October 2014 and ends in the current year under review. Through this plan, the Group is aiming to become a leading "COOL" network company in the Refrigerated Warehousing Business. In the Food Sales Business, the Group is aiming to generate stable profits while expanding its mainstay products across the Group. The Group is taking various initiatives on the basis of these business operation policies to meet the targets for the final year of the plan.

The Refrigerated Warehousing Business continued to enjoy brisk cargo movement from the start of the current fiscal year, and inbound and outbound cargo volumes surpassed the business plan. Inventory volume, however, remained at average levels from the start of the fiscal year, declining in comparison with high volumes experienced at the start of the previous fiscal year. As a result, refrigerated warehousing fees declined year on year. In the Food Sales Business, profit margins in the livestock products category rebounded from a decline in the previous fiscal year due to a deterioration in the supply-demand balance. Additionally, the Norway salmon/trout cultivation business, which was integrated into the consolidated results from the fiscal year under review, bolstered earnings.

As a result, the Group's consolidated net sales for the first six months of the fiscal year totaled ¥79,167 million, a 4.8% increase compared to the same period of the previous fiscal year. Operating income totaled ¥3,160 million, a year-on-year increase of 10.8%, and ordinary income totaled ¥3,430 million, a year-on-year increase of 11.3%. Profit attributable to owners of the parent totaled ¥1,976 million, a year-on-year decrease of 0.4%, due to increased profit attributable to non-controlling interests representing the equity interests of a comprehensive business alliance partner Hofseth International AS in the Norway salmon/trout cultivation business, which was integrated into the consolidated results from the fiscal year under review.

(Results by business segment)

Refrigerated Warehousing Business

The Refrigerated Warehousing Business posted year-on-year declines in sales and profits. Cargo movement was brisk from the start of the fiscal year, while logistics centers opened successively in recent years achieved higher operation rates to contribute to earnings. The segment's performance was impacted, however, by a decline in inventory levels at the start of the fiscal year compared with the previous fiscal year, an increase in depreciation expenses, and the loss of revenues from the Koyasu Logistics Center, which the Group decided to close.

In terms of cargo handling, the volume of inbound cargo increased by approx. 17,000 tons, an increase of 2.7% compared with the same period of the previous fiscal year, and the volume of outbound cargo rose by approx. 15,000 tons, a year-on-year increase of 2.3%. The average inventory volume decreased by approx. 115,000 tons, or 6.4% year on year.

As a result, segment sales amounted to ¥12,596 million, a decline of 0.5% compared with the same period of the previous fiscal year, and operating income totaled ¥3,065 million, a year-on-year decrease of 6.1%.

Food Sales Business

In the first six months of the fiscal year, the Food Sales Business posted a year-on-year increase in sales and profit, as marine products exports increased and profit margins in the livestock category rebounded.

The marine products category posted higher earnings on increased exports of mainstay salmon/trout, which bolstered the category's overall performance. Trading volumes for mackerel and Atka mackerel also rose, contributing to higher earnings. Profit margins declined for crab, due to soaring prices, and for scallops, due to poor weather.

In the livestock products category, the chicken business posted a strong improvement in profit margin through accurate management of trading volumes, rebounding from a deterioration in the supply-demand balance in the previous fiscal year. Strong sales of pork to the food service industry also contributed to category performance.

In the agricultural products category, sales declined while profit were on level with the previous fiscal year. Although production of mainstay potatoes and onions declined significantly due to typhoon damage in Hokkaido growing regions last year, the business made opportunistic and efficient sales at market upswings.

As a result, segment sales amounted to ¥66,540 million, an increase of 5.8% compared with the same period of the previous fiscal year, and operating income totaled ¥1,262 million, a year-on-year increase of 86.0%.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at March 31, 2017 amounted to ¥165,755 million, an increase of ¥20,523 million compared with the previous fiscal year-end (September 30, 2016). This change was mainly attributable to increases of ¥7,263 million in merchandise, ¥2,757 million in cash and deposits, ¥2,468 million in property, plant, and equipment, and ¥2,310 million in investment securities.

Total liabilities amounted to ¥97,187 million, an increase of ¥14,982 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥15,494 million in loans payable and a decrease of ¥864 million in convertible bonds.

Total net assets amounted to ¥68,568 million, an increase of ¥5,540 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the second quarter amounted to ¥7,957 million, an increase of ¥2,757 million compared with the previous fiscal year-end (September 30, 2016). The main factors affecting cash flows during the period under review are summarized as follows.

(Cash flows from operating activities)

Net cash used in operating activities amounted to ¥7,945 million compared with ¥502 million provided in the same period of the previous fiscal year. This net outflow was mainly attributable to an increase of ¥7,061 million in inventories, an increase of ¥4,577 million in advance payments, and income taxes paid of ¥1,400 million, which were partially offset by income before income taxes of ¥3,430 million and depreciation and amortization of ¥2,248 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥4,245 million, compared with ¥10,646 million used in the same period of the previous fiscal year. The main investment outflows were

¥3,812 million used for the purchase of property, plant and equipment and ¥615 million for the purchase of investment securities.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥14,740 million, compared with ¥9,411 million provided in the same period of the previous fiscal year. This net inflow was mainly derived from a net increase in loans payable from financial institutions of ¥15,329 million, which was partly offset by dividends paid to shareholders of ¥521 million.

(3) Consolidated Earnings Forecast

There is no change to the earnings forecast for the fiscal year ending September 30, 2017 announced on November 14, 2016 with the financial results for the fiscal year ended September 30, 2016.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

	As of September 30, 2016	As of March 31, 2017
	Amount	Amount
Assets		
Current assets		
Cash and deposits	5,210	7,967
Notes and accounts receivable - trade	18,107	19,076
Merchandise	18,691	25,954
Deferred tax assets	435	565
Other	6,615	10,483
Allowance for doubtful accounts	(6)	(6)
Total current assets	49,055	64,040
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	36,486	36,788
Machinery, equipment and vehicles, net	6,353	6,774
Land	26,407	26,601
Leased assets, net	564	704
Construction in progress	1,011	2,341
Other, net	769	851
Total property, plant and equipment	71,593	74,061
Intangible fixed assets		
Goodwill	7,556	7,977
Overseas aquaculture business license	6,601	7,284
Other	1,703	1,731
Total intangible fixed assets	15,861	16,993
Investments and other assets		
Investment securities	7,120	9,431
Long-term loans receivable	719	401
Other	995	945
Allowance for doubtful accounts	(112)	(118)
Total investments and other assets	8,722	10,659
Total noncurrent assets	96,177	101,715
Total assets	145,232	165,755

	As of September 30, 2016	As of March 31, 2017	(Millions of yen)
	Amount	Amount	
Liabilities			
Current liabilities			
Notes and accounts payable - trade	5,344	5,146	
Short-term loans payable	30,601	27,202	
Current portion of long-term loans payable	4,446	5,582	
Lease obligations	74	89	
Income taxes payable	1,642	1,760	
Accrued employees' bonuses	692	517	
Accrued bonuses for directors and corporate auditors	34	17	
Other	6,023	5,928	
Total current liabilities	48,859	46,245	
Noncurrent liabilities			
Convertible bonds	6,995	6,131	
Long-term loans payable	21,885	39,642	
Lease obligations	166	276	
Deferred tax liabilities	1,864	2,794	
Provision for Executive Compensation BIP Trust	91	119	
Net defined benefit liability	1,431	1,471	
Asset retirement obligations	105	105	
Other	805	401	
Total noncurrent liabilities	33,345	50,942	
Total liabilities	82,205	97,187	
Net assets			
Shareholders' equity			
Common stock	11,068	11,500	
Capital surplus	11,135	11,567	
Retained earnings	39,465	40,920	
Treasury stock	(538)	(539)	
Total shareholders' equity	61,130	63,449	
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	1,923	3,093	
Deferred gain (loss) on derivatives under hedge accounting	(29)	(97)	
Foreign currency translation adjustments	(172)	1,633	
Remeasurements of defined benefit plans	(813)	(758)	
Total accumulated other comprehensive income	907	3,871	
Non-controlling interests	989	1,247	
Total net assets	63,027	68,568	
Total liabilities and net assets	145,232	165,755	

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

	Six months ended March 31, 2016	Six months ended March 31, 2017	(Millions of yen)
	Amount	Amount	
Net sales	75,572	79,167	
Cost of sales	69,045	71,336	
Gross profit	6,527	7,830	
Selling, general and administrative expenses	3,674	4,670	
Operating income	2,853	3,160	
Other income			
Interest income	23	37	
Dividend income	45	51	
Insurance dividends	36	29	
Settlement received	85	-	
Subsidy income	87	117	
Foreign exchange gains	-	398	
Other	182	181	
Total other income	458	815	
Other expenses			
Interest expenses	194	218	
Commission fee	-	299	
Other	34	27	
Total other expenses	229	545	
Ordinary income	3,082	3,430	
Income before income taxes	3,082	3,430	
Income taxes—Current	868	1,496	
Income taxes—Deferred	225	(214)	
Total income taxes	1,094	1,282	
Profit	1,987	2,147	
Profit attributable to non-controlling interests	2	171	
Profit attributable to owners of the parent	1,984	1,976	

Consolidated Statements of Comprehensive Income

	Six months ended March 31, 2016	Six months ended March 31, 2017
	Amount	Amount
Profit	1,987	2,147
Other comprehensive income		
Unrealized gain on available-for-sale securities	(71)	1,170
Deferred gain (loss) on derivatives under hedge accounting	17	(67)
Foreign currency translation adjustments	(291)	1,894
Remeasurements of defined benefit plans	15	54
Total other comprehensive income	<u>(330)</u>	<u>3,052</u>
Comprehensive income	<u>1,657</u>	<u>5,200</u>
Breakdown:		
Comprehensive income attributable to owners of the parent	1,728	4,940
Comprehensive income attributable to non-controlling interests	(71)	259

(3) Consolidated Statements of Cash Flows

	Six months ended March 31, 2016	Six months ended March 31, 2017
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	3,082	3,430
Depreciation and amortization	2,053	2,248
Amortization of goodwill	52	321
Increase (decrease) in accrued employees' bonuses	(155)	(174)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(16)	(17)
Increase (decrease) in allowance for doubtful accounts	(2)	5
Increase (decrease) in net defined benefit liability	(15)	92
Increase (decrease) in provision for Executive Compensation BIP Trust	19	28
Interest and dividend income	(68)	(88)
Interest expenses	194	218
Decrease (increase) in accounts receivable - trade	2,893	(933)
Decrease (increase) in inventories	(5,280)	(7,061)
Decrease (increase) in advance payments	234	(4,557)
Increase (decrease) in accounts payable - trade	(615)	(224)
Increase (decrease) in accrued expenses	(293)	144
Other - net	(735)	150
Sub total	1,347	(6,417)
Interest and dividend income received	69	91
Interest paid	(196)	(219)
Income taxes paid	(717)	(1,400)
Net cash provided by (used in) operating activities	502	(7,945)
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,008)	(3,812)
Proceeds from sales of property, plant and equipment	3	0
Purchase of investment securities	(1,537)	(615)
Proceeds from sales of investment securities	7	-
Payments of loans receivable	(223)	(4)
Collection of loans receivable	159	238
Other - net	(47)	(51)
Net cash provided by (used in) investing activities	(10,646)	(4,245)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	4,242	(3,228)
Proceeds from long-term loans payable	7,564	20,819
Repayments of long-term loans payable	(1,806)	(2,260)
Purchase of treasury stock	(1)	(0)
Dividends paid to shareholders	(521)	(521)
Other - net	(66)	(67)
Net cash provided by (used in) financing activities	9,411	14,740
Effect of exchange rate changes on cash and cash equivalents	(35)	208
Net increase (decrease) in cash and cash equivalents	(767)	2,757
Cash and cash equivalents, beginning of period	3,887	5,200
Cash and cash equivalents, end of period	3,120	7,957

(4) Notes on the Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Additional Information)

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) has been applied, effective the first quarter of the fiscal year ending September 30, 2017.

Segment Information

I. Six months ended March 31, 2016 (October 1, 2015 – March 31, 2016)

1. Net sales and income/loss by reportable segment

	Reportable segment				Adjustments *1	(Millions of yen) Amounts reported on consolidated statements of income*2
	Refrigerated Warehousing	Food Sales	Other Businesses	Total		
Net sales						
Sales to outside customers	12,663	62,879	29	75,572	-	75,572
Intersegment sales or transfers	876	-	21	898	(898)	-
Total	13,540	62,879	51	76,471	(898)	75,572
Segment income (loss)	3,263	678	16	3,958	(1,105)	2,853

Notes: 1. The minus 1,105 million yen adjustment for segment income (loss) was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.
2. Segment income (loss) was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.

II. Six months ended March 31, 2017 (October 1, 2016 – March 31, 2017)

1. Net sales and income/loss by reportable segment

	Reportable segment				Adjustments *1	(Millions of yen) Amounts reported on consolidated statements of income*2
	Refrigerated Warehousing	Food Sales	Other Businesses	Total		
Net sales						
Sales to outside customers	12,596	66,540	30	79,167	-	79,167
Intersegment sales or transfers	850	-	20	870	(870)	-
Total	13,446	66,540	50	80,038	(870)	79,167
Segment income (loss)	3,065	1,262	28	4,355	(1,195)	3,160

Notes: 1. The minus 1,195 million yen adjustment for segment income (loss) was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.
2. Segment income (loss) was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.

(Business Combinations, etc.)
Business combinations through acquisitions

(Syvde Eiendom AS)

1. Finalization of provisional accounting treatment of business combination

Regarding the acquisition of Syvde Eiendom AS conducted on June 30, 2016, a provisional accounting treatment was used for the consolidated financial statements for fiscal year ended September 30, 2016 and for the consolidated financial statements for the first quarter of the fiscal year under review. This treatment was finalized in the second quarter of the fiscal year under review. There is no revision to the goodwill value.

2. Goodwill value resulting from acquisition, source, amortization method and period

(1) Goodwill value resulting from acquisition	¥579 million
(2) Source	The source is the expectation for Syvde to generate even higher earnings from future business activities.
(3) Amortization method and period	10 years, straight-line method

(Fjordlaks Aqua AS)

1. Finalization of provisional accounting treatment of business combination

Regarding the acquisition of Fjordlaks Aqua AS conducted on June 30, 2016, a provisional accounting treatment was used for the consolidated financial statements for fiscal year ended September 30, 2016 and for the consolidated financial statements for the first quarter of the fiscal year under review. This treatment was finalized in the second quarter of the fiscal year under review.

As a result, the comparative information in the consolidated financial statements for the second quarter of the fiscal year under review reflects significant revisions to the initial allocation of the cost of this acquisition. Revisions to the provisionally determined goodwill value are shown below.

Goodwill value (before revision)	¥11,455 million
Revised value	
• Intangible fixed assets (llicenses for overseas aquaculture business)	(¥6,539 million)
• Non-controlling interests	¥42 million
• Deferred tax liabilities	¥1,634 million
Total amount of revision	(¥4,862 million)
Goodwill value (after revision)	¥6,593 million

2. Goodwill value resulting from acquisition, source, amortization method and period

(1) Goodwill value resulting from acquisition	¥6,593 million
(2) Source	The source is the expectation for Fjordlaks Aqua to generate even higher earnings from future business activities.
(3) Amortization method and period	15 years, straight-line method