

## **1. Qualitative Information on the Consolidated Business Results for the Three Months Ended December 31, 2016**

### **(1) Qualitative Information on the Consolidated Operating Performance**

#### **(Operating environment)**

In the first three months of the fiscal year ending September 30, 2017 (October 1, 2016 - December 31, 2016), the Japanese economy continued to demonstrate gradual recovery owing to improvements in corporate earnings and employment conditions. Reviewing the global economy, there were concerns over the impact of certain factors on the Japan's economic outlook, particularly slowing growth in emerging economies and uncertainties about government policies in the United States following the change in government.

In food industries related to the Yokohama Reito Group's business, while price increases by food manufacturers and retailers leveled off, the business climate remained severe due to yen depreciation and rising logistics costs.

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 cargo movement surpassed its business plan. Inventory levels declined, however, in comparison with the same period of the previous fiscal year, when levels soared. As a result, storage fees declined year on year. In the Food Sales Business, profitability in the livestock products category, which declined in the previous fiscal year due to softer prices, rebounded in the first three months. Additionally, the Norway salmon/trout cultivation business, which was integrated into the consolidated results from the end of the previous fiscal year, contributed significantly to performance.

As a result, the Group's consolidated net sales for the first three months of the fiscal year totaled ¥42,246 million, a 0.5% increase compared to the same period of the previous fiscal year. Operating income totaled ¥2,009 million, a year-on-year increase of 10.4%, ordinary income totaled ¥2,453 million, a year-on-year increase of 22.9%, and profit attributable to owners of the parent totaled ¥1,597 million, a year-on-year increase of 21.0%.

#### **(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 current 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 compared with the same period of the previous 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. 8,000 tons, an increase of 2.2% compared with the same period of the previous fiscal year, and the volume of outbound cargo rose by approx. 14,000 tons, a year-on-year increase of 4.1%. The average inventory volume decreased by approx. 55,000 tons, or 6.1% year on year.

As a result, segment sales amounted to ¥6,684 million, a decline of 0.5% compared with the same period of the previous fiscal year, and operating income totaled ¥1,759 million, a year-on-year decrease of 5.4%.

### **Food Sales Business**

In the first three months of the fiscal year, the Food Sales Business posted a year-on-year increase in profit as all the product categories achieved higher profit margin, including the livestock category, where market prices rebounded.

The marine products category posted higher sales and a large increase in profit. Sales and profits for mainstay salmon/trout rose. The Norway salmon/trout cultivation business, which was newly added in the previous fiscal year, made a strong contribution to profit and boosted the category's overall results. Trading volumes for mackerel and Atka mackerel rose, contributing to higher profits. Sales and profits declined for scallops, due to lower production, and crab, due to soaring prices.

In the livestock products category, sales declined while profits increased. While the chicken business suffered losses in the previous fiscal year due to lower prices, trading volume was rationalized in the first three months of the current fiscal year, leading to lower sales but a strong rebound in profit. Pork sales and profit increased owing to expanded sales routes for branded pork items, one of the business's strengths.

The agricultural products category posted lower sales and higher profits. Although trading volumes for mainstay potatoes and onions declined due to typhoon damage in Hokkaido growing regions in the previous fiscal year, the business increased profit by making opportunistic sales at market upswings.

As a result, segment sales amounted to ¥35,547 million, an increase of 0.7% compared with the same period of the previous fiscal year, and operating income totaled ¥881 million, a year-on-year increase of 82.3%.

### **(2) Qualitative Information on the Consolidated Financial Position**

#### **Assets, Liabilities and Net Assets**

Total assets at December 31, 2016 amounted to ¥160,166 million, an increase of ¥16,612 million compared with the previous fiscal year-end (September 30, 2016). This change was mainly attributable to increases of ¥8,101 million in merchandise, ¥6,269 million in notes and accounts receivable-trade, and ¥1,705 million in investment securities.

Total liabilities amounted to ¥95,311 million, an increase of ¥14,740 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥13,488 million in loans payable.

Total net assets amounted to ¥64,855 million, an increase of ¥1,871 million compared with the previous fiscal year-end.

#### **Cash Flows**

Cash and cash equivalents (hereinafter, "cash") at the end of the period amounted to ¥4,748 million, a decrease of ¥451 million compared with the previous fiscal year-end. 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 ¥10,729 million compared with ¥5,492 million used in the same period of the previous fiscal year. This net outflow was mainly attributable to increases of ¥7,968 million in inventories, ¥6,270 million in accounts receivable-trade, and ¥2,060 million in advance payments, which were partially offset by income before income taxes of ¥2,453 million, depreciation and amortization of ¥1,095 million, and an increase of ¥1,924 million in accounts payable-trade.

##### **(Cash flows from investing activities)**

Net cash used in investing activities amounted to ¥2,719 million, compared with ¥7,620 million used in the same period of the previous fiscal year. The main investment outflows were ¥2,204

million used for the purchase of property, plant and equipment and ¥614 million used for the purchase of investment securities.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥12,955 million, compared with ¥12,860 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 ¥13,503 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. Other Information**

**(1) Changes in consolidation status of major subsidiaries during the period:**

Not applicable

**(2) Use of accounting methods specific to the preparation of quarterly consolidated financial statements:**

Not applicable

**(3) 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.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

	As of September 30, 2016	As of December 31, 2016	(Millions of yen)
	Amount	Amount	
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	5,210	4,758	
Notes and accounts receivable - trade	18,107	24,377	
Merchandise	18,691	26,792	
Deferred tax assets	435	395	
Other	6,615	7,795	
Allowance for doubtful accounts	(6)	(8)	
<b>Total current assets</b>	<b>49,055</b>	<b>64,111</b>	
<b>Noncurrent assets</b>			
Property, plant and equipment			
Buildings and structures, net	36,486	36,663	
Machinery, equipment and vehicles, net	6,353	6,302	
Land	26,407	26,513	
Leased assets, net	564	553	
Construction in progress	1,011	730	
Other, net	769	750	
<b>Total property, plant and equipment</b>	<b>71,593</b>	<b>71,515</b>	
Intangible fixed assets			
Goodwill	12,418	12,450	
Other	1,764	1,780	
<b>Total intangible fixed assets</b>	<b>14,183</b>	<b>14,230</b>	
Investments and other assets			
Investment securities	7,120	8,825	
Long-term loans receivable	719	621	
Other	995	974	
Allowance for doubtful accounts	(112)	(112)	
<b>Total investments and other assets</b>	<b>8,722</b>	<b>10,309</b>	
<b>Total noncurrent assets</b>	<b>94,499</b>	<b>96,055</b>	
<b>Total assets</b>	<b>143,554</b>	<b>160,166</b>	

	As of September 30, 2016	As of December 31, 2016	(Millions of yen)
	Amount	Amount	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable - trade	5,344	7,275	
Short-term loans payable	30,601	45,122	
Current portion of long-term loans payable	4,446	4,463	
Lease obligations	74	73	
Income taxes payable	1,642	1,157	
Accrued employees' bonuses	692	135	
Accrued bonuses for directors and corporate auditors	34	8	
Other	6,023	6,180	
<b>Total current liabilities</b>	<b>48,859</b>	<b>64,416</b>	
<b>Noncurrent liabilities</b>			
Convertible bonds	6,995	6,989	
Long-term loans payable	21,885	20,836	
Lease obligations	166	166	
Deferred tax liabilities	229	641	
Provision for Executive Compensation BIP Trust	91	105	
Net defined benefit liability	1,431	1,469	
Asset retirement obligations	105	105	
Other	805	578	
<b>Total noncurrent liabilities</b>	<b>31,710</b>	<b>30,894</b>	
<b>Total liabilities</b>	<b>80,570</b>	<b>95,311</b>	
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Common stock	11,068	11,071	
Capital surplus	11,135	11,138	
Retained earnings	39,465	40,541	
Treasury stock	(538)	(539)	
<b>Total shareholders' equity</b>	<b>61,130</b>	<b>62,212</b>	
<b>Accumulated other comprehensive income</b>			
Unrealized gain on available-for-sale securities	1,923	2,652	
Deferred gain (loss) on derivatives under hedge accounting	(29)	(272)	
Foreign currency translation adjustments	(172)	101	
Remeasurements of defined benefit plans	(813)	(786)	
<b>Total accumulated other comprehensive income</b>	<b>907</b>	<b>1,695</b>	
<b>Non-controlling interests</b>	<b>946</b>	<b>947</b>	
<b>Total net assets</b>	<b>62,984</b>	<b>64,855</b>	
<b>Total liabilities and net assets</b>	<b>143,554</b>	<b>160,166</b>	

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

	(Millions of yen)	
	Three months ended December 31, 2015	Three months ended December 31, 2016
	Amount	Amount
Net sales	42,035	42,246
Cost of sales	38,296	37,726
Gross profit	3,738	4,519
Selling, general and administrative expenses	1,918	2,510
Operating income	1,820	2,009
Other income		
Interest income	11	17
Dividend income	37	42
Insurance dividends	36	29
Settlement received	85	-
Foreign exchange gains	1	371
Other	107	98
Total other income	278	560
Other expenses		
Interest expense	90	105
Other	12	10
Total other expenses	102	115
Ordinary income	1,996	2,453
Income before income taxes	1,996	2,453
Income taxes—Current	275	678
Income taxes—Deferred	395	172
Total income taxes	670	850
Profit	1,326	1,603
Profit attributable to non-controlling interests	5	5
Profit attributable to owners of the parent	1,320	1,597

## Consolidated Statements of Comprehensive Income

	Three months ended December 31, 2015	Three months ended December 31, 2016	(Millions of yen)
	Amount	Amount	
Profit	1,326	1,603	
Other comprehensive income			
Unrealized gain on available-for-sale securities	541	729	
Deferred gain (loss) on derivatives under hedge accounting	19	(242)	
Foreign currency translation adjustments	(343)	269	
Remeasurements of defined benefit plans	8	27	
Total other comprehensive income	225	783	
Comprehensive income	1,551	2,386	
Breakdown:			
Comprehensive income attributable to owners of the parent	1,633	2,385	
Comprehensive income attributable to non-controlling interests	(82)	0	

### (3) Consolidated Statements of Cash flows

	Three months ended December 31, 2015	Three months ended December 31, 2016	(Millions of yen)
	Amount	Amount	
<b>Cash flows from operating activities</b>			
Income before income taxes	1,996	2,453	
Depreciation and amortization	1,017	1,095	
Amortization of goodwill	29	233	
Increase (decrease) in accrued employees' bonuses	(532)	(556)	
Increase (decrease) in accrued bonuses for directors and corporate auditors	(21)	(25)	
Increase (decrease) in allowance for doubtful accounts	1	2	
Increase (decrease) in net defined benefit liability	(13)	66	
Increase (decrease) in provision for Executive Compensation BIP Trust	14	14	
Interest and dividend income	(48)	(60)	
Interest expenses paid on loans and bonds	90	105	
Decrease (increase) in accounts receivable - trade	(1,561)	(6,270)	
Decrease (increase) in inventories	(6,396)	(7,968)	
Decrease (increase) in advance payments	(220)	(2,060)	
Increase (decrease) in accounts payable - trade	1,065	1,924	
Increase (decrease) in accrued expenses	446	833	
Other - net	(608)	605	
Sub total	<u>(4,741)</u>	<u>(9,607)</u>	
Interest and dividend income received	45	63	
Interest paid	(89)	(104)	
Income taxes paid	(707)	(1,081)	
<b>Net cash provided by (used in) operating activities</b>	<u>(5,492)</u>	<u>(10,729)</u>	
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(6,511)	(2,204)	
Proceeds from sales of property, plant and equipment	0	0	
Purchase of investment securities	(1,038)	(614)	
Proceeds from sales of investment securities	7	-	
Payments of loans receivable	(156)	-	
Collection of loans receivable	96	120	
Other – net	(18)	(22)	
<b>Net cash provided by (used in) investing activities</b>	<u>(7,620)</u>	<u>(2,719)</u>	
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term loans payable	6,581	14,528	
Proceeds from long-term loans payable	7,561	-	
Repayments of long-term loans payable	(708)	(1,025)	
Purchase of treasury stock	(1)	(0)	
Dividends paid to shareholders	(521)	(521)	
Other – net	(51)	(26)	
<b>Net cash provided by (used in) financing activities</b>	<u>12,860</u>	<u>12,955</u>	
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(41)</u>	<u>42</u>	
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(295)</u>	<u>(451)</u>	
<b>Cash and cash equivalents, beginning of period</b>	<u>3,887</u>	<u>5,200</u>	
<b>Cash and cash equivalents, end of period</b>	<u>3,592</u>	<u>4,748</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. Three months ended December 31, 2015 (October 1, 2015 – December 31, 2015)

1. Net sales and income/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	6,718	35,305	11	42,035	-	42,035
Intersegment sales or transfers	487	-	10	498	(498)	-
Total	7,206	35,305	22	42,534	(498)	42,035
Segment income (loss)	1,859	483	12	2,355	(535)	1,820

Notes: 1. The minus 535 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. Three months ended December 31, 2016 (October 1, 2016 – December 31, 2016)

1. Net sales and income/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	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 income (loss)	1,759	881	15	2,657	(647)	2,009

Notes: 1. The minus 647 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.