

1. Qualitative Information on the Consolidated Business Results for the Three Months Ended December 31, 2019

(1) Consolidated Operating Performance

In the first three months of the fiscal year ending September 30, 2020 (October 1, 2019 – December 31, 2019), the Japanese economy remained in a moderate recovery, with employment and income conditions firm. However, the future outlook is clouded by uncertainties related to worsening of U.S.-China trade friction, an economic slowdown in China, and escalating geopolitical risks in the Middle East, Southeast Asia, and elsewhere.

Food industries related to the Yokohama Reito Group's business continue to face a challenging operating environment, with rising material costs and personnel expenses being passed into product sales prices while the October 2019 consumption tax hike still weighs on consumer sentiment.

In this environment, the Yokohama Reito Group has entered the final year of its Sixth Medium-Term Management Plan (three-year plan), "Growing Value 2020." 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 ¥31,667 million, a 15.5% decrease compared to the same period of the previous fiscal year. Operating income totaled ¥1,156 million, a year-on-year decrease of 5.0%, and ordinary income totaled ¥1,333 million, a year-on-year decrease of 1.9%. Profit attributable to owners of the parent totaled ¥764 million, a year-on-year decrease of 15.9%.

On January 1, 2020, consolidated subsidiaries Alliance Seafoods Inc. and Clover Trading Co., Ltd., were absorbed in an absorption-type merger intended to further strengthen procurement, development, and sales capabilities and to facilitate quicker strategic and operational decision-making.

(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. Loading/unloading fee revenues fell amid a continued slump in cargo movement, but overall sales growth was driven considerably by an increase in storage fees fueled by sustained high inventory levels, especially for livestock products. Consolidated subsidiary Thai Yokorei Co., Ltd., saw its profit decline as inventories fell from the high levels of recent periods.

As a result, overall segment sales amounted to ¥7,452 million, an increase of 0.4% compared with the same period of the previous fiscal year, and operating income totaled ¥1,951 million, a year-on-year increase of 8.7%.

Food Sales Business

The Food Sales Business posted large declines in sales and profit in the first three months of the fiscal year.

The marine products category saw its sales and profit fall in the first quarter. The continued reduction of squid inventories and strong domestic and export sales of scallops were offset by lower market prices for salmon and trout owing to increased domestic inventories and by a sudden drop in crab prices. Overall, marine product sales and profit fell sharply.

The livestock products category achieved higher profit despite lower sales. The profit growth was driven by higher market prices for pork as supply decreased amid an outbreak of infectious disease among livestock in China, which offset lower profit contribution from chicken sales as large domestic

inventories depressed profit margin.

The agricultural products category posted moderate increases in sales and profit on solid shipments of squash, carrots and other products to food processors.

The Norway trout cultivation business achieved growth in sales and profit as the haul went according to plan after having been delayed in the previous period by unfavorable weather. The reduction of domestic inventories also contributed to the positive results.

As a result, segment sales amounted to ¥24,201 million, down 19.4% year on year, and the segment posted an operating loss of ¥84 million, down from a profit of ¥107 million a year earlier.

(2) Consolidated Financial Position

Assets, Liabilities, and Net Assets

Total assets as of December 31, 2019, amounted to ¥182,365 million, an increase of ¥3,118 million compared with the previous fiscal year-end (September 30, 2019). This change was mainly attributable to increases of ¥2,058 in investment securities and ¥1,496 million in loans receivable.

Total liabilities amounted to ¥101,379 million, an increase of ¥2,712 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥2,607 million in loans payable.

Total net assets amounted to ¥80,986 million, an increase of ¥405 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the period amounted to ¥3,703 million, an increase of ¥326 million compared with the previous fiscal year-end (September 30, 2019). 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 provided by operating activities amounted to ¥2,847 million compared with ¥4,083 million provided in the same period of the previous fiscal year. Cash inflow was mainly attributable to ¥1,333 million in income before income taxes, depreciation and amortization of ¥1,389 million, and an increase of ¥933 million in accounts payable – trade, which offset cash outflow mainly attributable to an increase of ¥1,545 million in accounts receivable-trade.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥4,418 million, compared with ¥8,810 million used in the previous fiscal year. The main investment outflows were ¥2,837 million used for the purchase of property, plant and equipment and ¥1,938 million in payments of loans receivable.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥1,976 million, compared with ¥6,251 million provided in the previous fiscal year. This net inflow was mainly derived from a net increase in loans payable from financial institutions of ¥2,716 million, which was partly offset by dividends paid to shareholders of ¥679 million.

(3) Consolidated Earnings Forecast

There is no change to the earnings forecast for the fiscal year ending September 30, 2020, announced on November 14, 2019, with the financial results for the fiscal year ended September 30, 2019.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of September 30, 2019 Amount	(Millions of yen) As of December 31, 2019 Amount
Assets		
Current assets		
Cash and deposits	3,387	3,713
Notes and accounts receivable - trade	17,284	18,691
Merchandise	17,888	17,367
Advance payments	974	169
Short-term loans receivable, net	17,734	19,236
Other	945	877
Allowance for doubtful accounts	(19)	(20)
Total current assets	58,195	60,036
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	46,738	45,985
Machinery, equipment and vehicles, net	7,003	6,849
Land	29,017	28,999
Leased assets, net	1,419	1,314
Construction in progress	3,418	4,612
Other, net	1,117	1,103
Total property, plant and equipment	88,715	88,866
Intangible fixed assets		
Goodwill	6,060	5,580
Overseas aquaculture business license	6,816	6,391
Other	2,317	2,281
Total intangible fixed assets	15,194	14,253
Investments and other assets		
Investment securities	12,790	14,849
Long-term loans receivable	3,951	3,945
Deferred tax assets	24	15
Other	778	795
Allowance for doubtful accounts	(403)	(396)
Total investments and other assets	17,141	19,209
Total noncurrent assets	121,052	122,329
Total assets	179,247	182,365

	As of September 30, 2019 Amount	(Millions of yen) As of December 31, 2019 Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,011	5,963
Short-term loans payable	16,238	19,774
Current portion of long-term loans payable	4,640	5,810
Lease obligations	226	255
Income taxes payable	1,373	694
Accrued employees' bonuses	757	158
Accrued bonuses for directors and corporate auditors	32	7
Other	6,109	6,077
Total current liabilities	34,389	38,742
Noncurrent liabilities		
Bonds	20,000	20,000
Long-term loans payable	39,071	36,972
Lease obligations	889	779
Deferred tax liabilities	2,592	3,267
Provision for Executive Compensation BIP Trust	221	221
Net defined benefit liability	829	736
Asset retirement obligations	91	91
Other	580	566
Total noncurrent liabilities	64,277	62,636
Total liabilities	98,666	101,379
Net assets		
Shareholders' equity		
Common stock	14,303	14,303
Capital surplus	14,370	14,370
Retained earnings	45,956	46,043
Treasury stock	(507)	(507)
Total shareholders' equity	74,122	74,209
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	3,697	5,063
Deferred gain (loss) on derivatives under hedge accounting	75	37
Foreign currency translation adjustments	489	(679)
Remeasurements of defined benefit plans	(74)	5
Total accumulated other comprehensive income	4,187	4,426
Non-controlling interests	2,269	2,350
Total net assets	80,580	80,986
Total liabilities and net assets	179,247	182,365

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

	(Millions of yen)	
	Three months ended December 31, 2018	Three months ended December 31, 2019
	Amount	Amount
Net sales	37,348	31,667
Cost of sales	33,559	27,886
Gross profit	3,918	3,781
Selling, general and administrative expenses	2,701	2,624
Operating income	1,217	1,156
Other income		
Interest income	151	264
Dividend income	44	44
Insurance dividends	39	31
Purchase discounts	116	57
Other	117	86
Total other income	469	484
Other expenses		
Interest expenses	208	164
Other	120	143
Total other expenses	328	308
Ordinary income	1,358	1,333
Income before income taxes	1,358	1,333
Income taxes - Current	137	304
Income taxes - Deferred	236	189
Total income taxes	373	493
Profit	984	839
Profit attributable to non-controlling interests	75	74
Profit attributable to owners of the parent	909	764

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Three months ended December 31, 2018	Three months ended December 31, 2019
	Amount	Amount
Profit	984	839
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(1,407)	1,365
Deferred gain on derivatives under hedge accounting	152	(38)
Foreign currency translation adjustments	823	(1,188)
Remeasurements of defined benefit plans	4	79
Total other comprehensive income	(426)	217
Comprehensive income	558	1,056
Breakdown:		
Comprehensive income attributable to owners of the parent	432	1,002
Comprehensive income attributable to non-controlling interests	126	54

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Three months ended December 31, 2018	Three months ended December 31, 2019
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	1,358	1,333
Depreciation and amortization	1,373	1,389
Amortization of goodwill	150	139
Increase (decrease) in accrued employees' bonuses	(623)	(598)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(24)	(24)
Increase (decrease) in allowance for doubtful accounts	(1)	(5)
Increase (decrease) in net defined benefit liability	27	(13)
Increase (decrease) in provision for Executive Compensation BIP Trust	13	-
Interest and dividends income	(195)	(308)
Interest expenses	208	164
Loss (gain) on valuation of derivatives	-	47
Decrease (increase) in accounts receivable - trade	(219)	(1,545)
Decrease (increase) in inventories	(3,923)	414
Decrease (increase) in advance payments	2,992	774
Increase (decrease) in accounts payable - trade	3,235	993
Increase (decrease) in accrued expenses	(8)	383
Other - net	56	282
Sub total	4,418	3,424
Interest and dividend income received	198	307
Interest paid	(136)	(110)
Income taxes paid	(396)	(774)
Net cash provided by (used in) operating activities	4,083	2,847
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,094)	(2,837)
Proceeds from sales of property, plant and equipment	1	0
Purchase of intangible fixed assets	(645)	(14)
Purchase of investment securities	(2)	(101)
Payments of loans receivable	(3,813)	(1,938)
Collection of loans receivable	746	481
Other - net	(2)	(7)
Net cash provided by (used in) investing activities	(8,810)	(4,418)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	7,882	3,522
Proceeds from long-term loans payable	486	-
Repayments of long-term loans payable	(1,288)	(805)
Purchase of treasury stock	(0)	(0)
Dividends paid to shareholders	(766)	(679)
Other - net	(61)	(60)
Net cash provided by (used in) financing activities	6,251	1,976
Effect of exchange rate changes on cash and cash equivalents	28	(79)
Net increase (decrease) in cash and cash equivalents	1,552	326
Cash and cash equivalents, beginning of period	2,907	3,377
Cash and cash equivalents, end of period	4,460	3,703

(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, 2018 (October 1, 2018 – December 31, 2018)

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	7,420	30,044	14	37,478	-	37,478
Intersegment sales or transfers	466	-	10	477	(477)	-
Total	7,887	30,044	24	37,956	(477)	37,478
Segment profit (loss)	1,795	107	14	1,917	(699)	1,217

- Notes: 1. The minus 699 million yen adjustment for segment profit (loss) was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.
2. Segment profit (loss) was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.

II. Three months ended December 31, 2019 (October 1, 2019 – December 31, 2019)

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	7,452	24,201	14	31,667	-	31,667
Intersegment sales or transfers	343	-	7	351	(351)	-
Total	7,795	24,201	21	32,019	(351)	31,667
Segment profit (loss)	1,951	(84)	12	1,879	(722)	1,156

- Notes: 1. The minus 722 million yen adjustment for segment profit (loss) was unallocated corporate expenses, consisting principally of general administrative expenses that are not attributable to reportable segments.
2. Segment profit (loss) was adjusted based on operating income reported on the consolidated statements of income for the corresponding period.