

1. Qualitative Information on the Consolidated Business Results for the Three Months Ended December 31, 2018

(1) Consolidated Operating Performance

In the first three months of the fiscal year ending September 30, 2019 (October 1, 2018 – December 31, 2018), the Japanese economy continued to demonstrate gradual recovery owing to improvements in corporate earnings and employment conditions as conditions returned to normal after natural disasters such as typhoons and earthquakes. Although consumer spending has also started to recover, the risk remains of the global economy underperforming overall if external factors such as the U.S.–China trade friction were to increase.

In food industries related to the Yokohama Reito Group's business, the business climate remained severe due to soaring raw materials prices and higher labor costs, while households continue to keep tight control on spending.

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 ¥37,478 million, a 15.3% decrease compared to the same period of the previous fiscal year. Operating income totaled ¥1,217 million, a year-on-year decrease of 31.1%, and ordinary income totaled ¥1,358 million, a year-on-year decrease of 26.4%. Profit attributable to owners of the parent totaled ¥909 million, a year-on-year decrease of 10.0%.

(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 Tokyo Haneda Logistics Center opened in February 2018 and Meiko Logistics Center in November 2018, and both helped to increase the business's storage fees and loading/unloading fees. Existing logistics centers continued to commercialize value-added services and provide one-stop storage and transportation solutions in keeping with the main initiatives of the Sixth Medium-Term Management Plan, helping to increase earnings. Consolidated subsidiary Thai Yokorei Co., Ltd. continued to record high inventory levels of livestock products and fruit juice, which contributed to segment profit growth.

As a result, segment sales amounted to ¥7,420 million, an increase of 9.1% compared with the same period of the previous fiscal year, and operating income totaled ¥1,795 million, a year-on-year increase of 0.9%.

Food Sales Business

The Food Sales Business posted lower sales and profit in the first three months.

The marine products category posted lower sales and profit. While the domestic mackerel export business and crab sales (the profit margin for which recovered) were positive for earnings, weak demand for squid due to high prices stemming from poor catches and a sharp profit margin decline for Atka mackerel weighed on earnings. The decline in sales of salmon and trout is due to a change in transaction method of the Norway export business to Europe and North America, as stated in the November 14, 2018 release titled “Notice of revision of our Medium-Term Management Plan.”

. The livestock products category posted a sharp profit increase on lower sales. Although sales and profit declined for pork due to a deterioration in the supply-demand balance, chicken market prices recovered from the year-ago slump.

The agricultural products category posted lower sales and flat profit. Sales were down, because trading volumes of mainstay potatoes declined due to stagnant cargo movements.

The Norway trout cultivation business posted sales and profit declines, because hauling was delayed due to poor growth in unseasonable weather.

As a result, segment sales amounted to ¥30,044 million, a decrease of 19.7% compared with the same period of the previous fiscal year, and operating income totaled ¥107 million, a year-on-year decrease of 83.0%.

(2) Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at December 31, 2018 amounted to ¥196,519 million, an increase of ¥9,728 million compared with the previous fiscal year-end (September 30, 2018). This change was mainly attributable to increases of ¥5,245 million in property, plant and equipment and ¥4,010 million in merchandise.

Total liabilities amounted to ¥117,868 million, an increase of ¥9,936 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥7,330 million in loans payable and ¥3,253 million in notes and accounts payable – trade.

Total net assets amounted to ¥78,650 million, a decrease of ¥207 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the period amounted to ¥4,460 million, an increase of ¥1,552 million compared with the previous fiscal year-end (September 30, 2018). 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 ¥4,083 million compared with ¥7,009 million used in the same period of the previous fiscal year. Cash inflow was mainly attributable to ¥1,358 million in income before income taxes, depreciation and amortization of ¥1,373 million, a decrease of ¥2,992 million in advance payments, and an increase of ¥3,235 million in accounts payable – trade, which offset cash outflow mainly attributable to an increase of ¥3,923 million in inventories.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥8,810 million, compared with ¥6,534 million used in the same period of the previous fiscal year. The main investment outflows were ¥5,094 million used for the purchase of property, plant and equipment and ¥3,813 million in payments of loans receivable.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥6,251 million, compared with ¥12,294 million provided in the previous fiscal year. This net inflow was mainly derived from a net increase in loans payable from financial institutions of 7,079 million, which was partly offset by dividends paid to shareholders of ¥766 million.

(3) Consolidated Earnings Forecast

There is no change to the earnings forecast for the fiscal year ending September 30, 2019 announced on November 14, 2018 with the financial results for the fiscal year ended September 30, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of September 30, 2018	As of December 31, 2018	(Millions of yen)
	Amount	Amount	
Assets			
Current assets			
Cash and deposits	2,917	4,470	
Notes and accounts receivable - trade	21,014	21,296	
Merchandise	24,608	28,619	
Advance payments	6,708	3,716	
Short-term loans receivable, net	10,862	13,973	
Other	1,179	1,278	
Allowance for doubtful accounts	(19)	(20)	
Total current assets	67,272	73,333	
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	41,719	45,880	
Machinery, equipment and vehicles, net	7,051	7,582	
Land	28,157	29,946	
Leased assets, net	1,062	1,506	
Construction in progress	6,233	4,405	
Other, net	1,014	1,162	
Total property, plant and equipment	85,239	90,484	
Intangible fixed assets			
Goodwill	7,032	7,099	
Overseas aquaculture business license	7,263	7,494	
Other	1,813	2,386	
Total intangible fixed assets	16,109	16,979	
Investments and other assets			
Investment securities	12,839	10,804	
Long-term loans receivable	4,023	3,942	
Deferred tax assets	634	309	
Other	762	751	
Allowance for doubtful accounts	(88)	(86)	
Total investments and other assets	18,170	15,721	
Total noncurrent assets	119,518	123,186	
Total assets	186,791	196,519	

	As of September 30, 2018	As of December 31, 2018	(Millions of yen)
	Amount	Amount	
Liabilities			
Current liabilities			
Notes and accounts payable - trade	4,158	7,412	
Short-term loans payable	27,841	35,810	
Current portion of long-term loans payable	8,152	7,878	
Lease obligations	157	204	
Income taxes payable	760	288	
Accrued employees' bonuses	764	140	
Accrued bonuses for directors and corporate auditors	32	8	
Other	7,358	7,933	
Total current liabilities	49,227	59,676	
Noncurrent liabilities			
Bonds	10,000	10,000	
Long-term loans payable	43,485	43,121	
Lease obligations	584	973	
Deferred tax liabilities	3,418	2,841	
Provision for Executive Compensation BIP Trust	167	181	
Net defined benefit liability	583	607	
Asset retirement obligations	91	91	
Other	373	374	
Total noncurrent liabilities	58,705	58,191	
Total liabilities	107,932	117,868	
Net assets			
Shareholders' equity			
Common stock	14,303	14,303	
Capital surplus	14,370	14,370	
Retained earnings	44,014	44,157	
Treasury stock	(507)	(507)	
Total shareholders' equity	72,181	72,324	
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	3,710	2,303	
Deferred gain (loss) on derivatives under hedge accounting	(43)	108	
Foreign currency translation adjustments	1,593	2,367	
Remeasurements of defined benefit plans	33	38	
Total accumulated other comprehensive income	5,294	4,817	
Non-controlling interests			
Total net assets	78,858	78,650	
Total liabilities and net assets	186,791	196,519	

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

	(Millions of yen)	
	Three months ended December 31, 2017	Three months ended December 31, 2018
	Amount	Amount
Net sales	44,224	37,478
Cost of sales	39,866	33,559
Gross profit	4,357	3,918
Selling, general and administrative expenses	2,591	2,701
Operating income	1,765	1,217
Other income		
Interest income	42	151
Dividend income	44	44
Insurance dividends	37	39
Foreign exchange gains	10	-
Purchase discounts	119	116
Other	53	117
Total other income	308	469
Other expenses		
Interest expense	198	208
Other	31	120
Total other expenses	229	328
Ordinary income	1,844	1,358
Extraordinary losses		
Loss on removal of refrigerated warehouses	280	-
Total extraordinary losses	280	-
Income before income taxes	1,564	1,358
Income taxes—Current	208	137
Income taxes—Deferred	151	236
Total income taxes	359	373
Profit	1,204	984
Profit attributable to non-controlling interests	194	75
Profit attributable to owners of the parent	1,010	909

Consolidated Statements of Comprehensive Income

	Three months ended December 31, 2017	Three months ended December 31, 2018	(Millions of yen)
	Amount	Amount	
Profit	1,204	984	
Other comprehensive income			
Unrealized gain on available-for-sale securities	694	(1,407)	
Deferred gain (loss) on derivatives under hedge accounting	(173)	152	
Foreign currency translation adjustments	1,378	823	
Remeasurements of defined benefit plans	13	4	
Total other comprehensive income	1,914	(426)	
Comprehensive income	3,119	558	
Breakdown:			
Comprehensive income attributable to owners of the parent	2,899	432	
Comprehensive income attributable to non-controlling interests	219	126	

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Three months ended December 31, 2017	Three months ended December 31, 2018
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	1,564	1,358
Depreciation and amortization	1,191	1,373
Amortization of goodwill	167	150
Increase (decrease) in accrued employees' bonuses	(600)	(623)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(26)	(24)
Increase (decrease) in allowance for doubtful accounts	8	(1)
Increase (decrease) in net defined benefit liability	48	27
Loss on removal of refrigerated warehouses	280	-
Increase (decrease) in provision for Executive Compensation BIP Trust	13	13
Interest and dividend income	(86)	(195)
Interest expenses	198	208
Decrease (increase) in accounts receivable - trade	(4,698)	(219)
Decrease (increase) in inventories	(8,680)	(3,923)
Decrease (increase) in advance payments	1,319	2,992
Increase (decrease) in accounts payable - trade	2,463	3,235
Increase (decrease) in accrued expenses	221	(8)
Other - net	461	56
Sub total	<u>(6,156)</u>	<u>4,418</u>
Interest and dividend income received	75	198
Interest paid	(132)	(136)
Income taxes paid	(796)	(396)
Net cash provided by (used in) operating activities	<u>(7,009)</u>	<u>4,083</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,749)	(5,094)
Proceeds from sales of property, plant and equipment	0	1
Purchase of intangible fixed assets	(8)	(645)
Purchase of investment securities	(2,359)	(2)
Payments of loans receivable	(449)	(3,813)
Collection of loans receivable	31	746
Other - net	1	(2)
Net cash provided by (used in) investing activities	<u>(6,534)</u>	<u>(8,810)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	9,810	7,882
Proceeds from long-term loans payable	4,142	486
Repayments of long-term loans payable	(1,089)	(1,288)
Purchase of treasury stock	(0)	(0)
Dividends paid to shareholders	(531)	(766)
Other - net	(37)	(61)
Net cash provided by (used in) financing activities	<u>12,294</u>	<u>6,251</u>
Effect of exchange rate changes on cash and cash equivalents	<u>193</u>	<u>28</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,056)</u>	<u>1,552</u>
Cash and cash equivalents, beginning of period	<u>6,399</u>	<u>2,907</u>
Cash and cash equivalents, end of period	<u>5,343</u>	<u>4,460</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

(Additional Information)

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. has been applied, effective from the first quarter of the fiscal year ending September 30, 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

Segment Information

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

II. Three months ended December 31, 2018 (October 1, 2018 – December 31, 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	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	1,795	107	14	1,917	(699)	1,217

Notes:

1. The minus 699 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.