

1. Qualitative Information on the Consolidated Business Results for the Six Months Ended March 31, 2019

(1) Consolidated Operating Performance

In the first six months of the fiscal year ending September 30, 2019 (October 1, 2018 – March 31, 2019), the Japanese economy continued to demonstrate a moderate recovery on the back of firm domestic demand driven mainly by consumer spending and capital investment even though external demand remained weak owing to the impact of the slowdown in the global economy. However, exports began to decline from 2019, sparking concerns of an economic downturn. Indications of a global economic slowdown gradually intensified due to uncertainties such as the U.S.-China trade friction and the U.K.'s exit from the European Union.

In food industries related to the Yokohama Reito Group's business, conditions remained severe due to sharply rising labor and distribution costs reflecting raw material prices and labor shortages.

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 six months of the fiscal year totaled ¥72,091 million, a 12.9% decrease compared to the same period of the previous fiscal year. Operating income totaled ¥2,629 million, a year-on-year increase of 1.4%, and ordinary income totaled ¥2,872 million, a year-on-year increase of 7.3%. Profit attributable to owners of the parent totaled ¥1,798 million, a year-on-year increase of 9.4%.

(Results by business segment)

Refrigerated Warehousing Business

The Refrigerated Warehousing Business posted year-on-year increases in sales and profit in the first six months. Although earnings were weighed down by one-off expenses and an increase in depreciation and amortization when the Meiko Logistics Center opened in November 2018, together with the Tokyo Haneda Logistics Center that opened in February 2018 the two facilities helped to increase the business's storage fees and loading/unloading fees. Consolidated subsidiary Thai Yokorei Co., Ltd. continued to record high inventory levels of mainly livestock products, which contributed to segment profit growth.

As a result, segment sales amounted to ¥14,070 million, an increase of 8.8% compared with the same period of the previous fiscal year, and operating income totaled ¥3,475 million, a year-on-year increase of 7.9%.

Food Sales Business

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

The marine products category posted lower sales and profit. Even though positive earnings contributions came from mackerel for export and domestic markets, as well as timely crab purchases, profit margins deteriorated on sales losses for squid and Atka mackerel. The sales decline owes to a change in accounting standard for the Norway salmon and trout export business to Europe and North America.

The livestock products category posted lower sales and profit due to the ongoing depreciation of market prices for pork as a result of excess domestic inventories, even though earnings from chicken recovered.

The agricultural products category also posted lower sales and profit because the business struggled to pass on costs to retail prices for mainstay potatoes.

The Norway trout cultivation business posted higher sales and profit after domestic inventories were successfully reduced, even though hauling was delayed because of slow trout growth.

As a result, segment sales amounted to ¥57,993 million, a decrease of 16.9% compared with the same period of the previous fiscal year, and operating income totaled ¥414 million, a year-on-year decrease of 29.5%.

(2) Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at March 31, 2019 amounted to ¥189,411 million, an increase of ¥2,620 million compared with the previous fiscal year-end (September 30, 2018). This change was mainly attributable to an increase of ¥5,278 million in property, plant and equipment and a decrease of ¥1,504 million in investment securities.

Total liabilities amounted to ¥111,271 million, an increase of ¥3,339 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥5,173 million in loans payable and a decrease of ¥810 million in deferred tax liabilities.

Total net assets amounted to ¥78,139 million, a decrease of ¥718 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the period amounted to ¥3,664 million, an increase of ¥756 million compared with the previous fiscal year-end (September 30, 2018). The main factors affecting cash flows during the first six months of the fiscal year are summarized as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥11,946 million compared with ¥4,070 million used in the same period of the previous fiscal year. Cash inflow was mainly attributable to ¥2,872 million in income before income taxes, depreciation and amortization of ¥2,773 million, and a decrease of ¥5,048 million in advance payments.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥15,483 million, compared with ¥10,130 million used in the same period of the previous fiscal year. The main investment outflows were ¥10,284 million used for the purchase of property, plant and equipment and ¥5,475 million in payments of loans receivable.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥4,331 million, compared with ¥15,091 million provided in the same period of previous fiscal year. This net inflow was mainly derived from a net increase in loans payable from financial institutions of ¥5,220 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	(Millions of yen) As of March 31, 2019
	Amount	Amount
Assets		
Current assets		
Cash and deposits	2,917	3,674
Notes and accounts receivable - trade	21,014	20,157
Merchandise	24,608	25,340
Advance payments	6,708	1,678
Short-term loans receivable, net	10,862	15,276
Other	1,179	1,092
Allowance for doubtful accounts	(19)	(17)
Total current assets	<u>67,272</u>	<u>67,201</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	41,719	44,953
Machinery, equipment and vehicles, net	7,051	9,494
Land	28,157	29,911
Leased assets, net	1,062	1,472
Construction in progress	6,233	3,456
Other, net	1,014	1,230
Total property, plant and equipment	<u>85,239</u>	<u>90,518</u>
Intangible fixed assets		
Goodwill	7,032	6,331
Overseas aquaculture business license	7,263	6,811
Other	1,813	2,349
Total intangible fixed assets	<u>16,109</u>	<u>15,491</u>
Investments and other assets		
Investment securities	12,839	11,335
Long-term loans receivable	4,023	4,068
Deferred tax assets	634	141
Other	762	743
Allowance for doubtful accounts	(88)	(86)
Total investments and other assets	<u>18,170</u>	<u>16,200</u>
Total noncurrent assets	<u>119,518</u>	<u>122,210</u>
Total assets	<u>186,791</u>	<u>189,411</u>

	As of September 30, 2018	(Millions of yen) As of March 31, 2019
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,158	5,254
Short-term loans payable	27,841	34,303
Current portion of long-term loans payable	8,152	7,520
Lease obligations	157	220
Income taxes payable	760	840
Accrued employees' bonuses	764	558
Accrued bonuses for directors and corporate auditors	32	16
Other	7,358	4,937
Total current liabilities	49,227	53,653
Noncurrent liabilities		
Bonds	10,000	10,000
Long-term loans payable	43,485	42,829
Lease obligations	584	947
Deferred tax liabilities	3,418	2,608
Provision for Executive Compensation BIP Trust	167	194
Net defined benefit liability	583	570
Asset retirement obligations	91	91
Other	373	375
Total noncurrent liabilities	58,705	57,618
Total liabilities	107,932	111,271
Net assets		
Shareholders' equity		
Common stock	14,303	14,303
Capital surplus	14,370	14,370
Retained earnings	44,014	45,047
Treasury stock	(507)	(507)
Total shareholders' equity	72,181	73,213
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	3,710	2,669
Deferred gain (loss) on derivatives under hedge accounting	(43)	75
Foreign currency translation adjustments	1,593	429
Remeasurements of defined benefit plans	33	76
Total accumulated other comprehensive income	5,294	3,250
Non-controlling interests	1,382	1,675
Total net assets	78,858	78,139
Total liabilities and net assets	186,791	189,411

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

	(Millions of yen)	
	Six months ended March 31, 2018	Six months ended March 31, 2019
	Amount	Amount
Net sales	82,780	72,091
Cost of sales	75,012	64,275
Gross profit	7,768	7,816
Selling, general and administrative expenses	5,175	5,186
Operating income	2,593	2,629
Other income		
Interest income	92	330
Dividend income	99	56
Insurance dividends	37	39
Purchase discounts	237	195
Other	193	249
Total other income	660	871
Other expenses		
Interest expense	401	411
Commission fee	2	2
Other	173	214
Total other expenses	577	628
Ordinary income	2,676	2,872
Extraordinary losses		
Loss on removal of refrigerated warehouses	280	-
Total extraordinary losses	280	-
Income before income taxes	2,396	2,872
Income taxes—Current	459	520
Income taxes—Deferred	98	275
Total income taxes	558	796
Profit	1,838	2,075
Profit attributable to non-controlling interests	193	276
Profit attributable to owners of the parent	1,644	1,798

Consolidated Statements of Comprehensive Income

	Six months ended March 31, 2018	(Millions of yen) Six months ended March 31, 2019
	Amount	Amount
Profit	1,838	2,075
Other comprehensive income		
Unrealized gain on available-for-sale securities	346	(1,041)
Deferred gain (loss) on derivatives under hedge accounting	338	118
Foreign currency translation adjustments	695	(1,147)
Remeasurements of defined benefit plans	27	42
Total other comprehensive income	1,407	(2,027)
Comprehensive income	3,245	48
Breakdown:		
Comprehensive income attributable to owners of the parent	3,007	(245)
Comprehensive income attributable to non-controlling interests	238	293

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Six months ended March 31, 2018	Six months ended March 31, 2019
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	2,396	2,872
Depreciation and amortization	2,452	2,773
Amortization of goodwill	324	275
Increase (decrease) in accrued employees' bonuses	(186)	(206)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(17)	(16)
Increase (decrease) in allowance for doubtful accounts	6	(3)
Increase (decrease) in net defined benefit liability	62	30
Loss on removal of refrigerated warehouses	280	-
Increase (decrease) in provision for Executive Compensation BIP Trust	(7)	27
Interest and dividend income	(191)	(386)
Interest expenses	401	411
Decrease (increase) in accounts receivable - trade	(1,343)	773
Decrease (increase) in inventories	(9,580)	(885)
Decrease (increase) in advance payments	1,283	5,048
Increase (decrease) in accounts payable - trade	1,315	1,130
Increase (decrease) in accrued expenses	132	123
Other - net	100	311
Sub total	(2,569)	12,279
Interest and dividend income received	160	373
Interest paid	(389)	(392)
Income taxes paid	(1,271)	(314)
Net cash provided by (used in) operating activities	(4,070)	11,946
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,246)	(10,284)
Proceeds from sales of property, plant and equipment	2	1
Purchase of investment securities	(2,362)	(3)
Purchase of intangible fixed assets	(118)	(673)
Proceeds from sales of investment securities	35	-
Payments of loans receivable	(1,576)	(5,475)
Collection of loans receivable	169	969
Other - net	(34)	(18)
Net cash provided by (used in) investing activities	(10,130)	(15,483)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	4,419	6,421
Proceeds from long-term loans payable	4,137	2,022
Repayments of long-term loans payable	(2,894)	(3,222)
Proceeds from issuance of bonds	10,000	-
Purchase of treasury stock	(1)	(0)
Dividends paid to shareholders	(531)	(766)
Other - net	(37)	(123)
Net cash provided by (used in) financing activities	15,091	4,331
Effect of exchange rate changes on cash and cash equivalents	83	(37)
Net increase (decrease) in cash and cash equivalents	974	756
Cash and cash equivalents, beginning of period	6,399	2,907
Cash and cash equivalents, end of period	7,373	3,664

(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. Six months ended March 31, 2018 (October 1, 2017 – March 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	12,927	69,824	28	82,780	-	82,780
Intersegment sales or transfers	983	-	20	1,004	(1,004)	-
Total	13,910	69,824	49	83,784	(1,004)	82,780
Segment profit	3,221	588	27	3,837	(1,243)	2,593

Notes: 1. The minus 1,243 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. Six months ended March 31, 2019 (October 1, 2018 – March 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	14,070	57,993	28	72,091	-	72,091
Intersegment sales or transfers	924	-	21	945	(945)	-
Total	14,994	57,993	49	73,037	(945)	72,091
Segment profit	3,475	414	29	3,920	(1,290)	2,629

Notes: 1. The minus 1,290 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.