

1. Qualitative Information on the Consolidated Business Results for the Six Months Ended March 31, 2020

(1) Consolidated Operating Performance

In the first six months of the fiscal year ending September 30, 2020 (October 1, 2019 – March 31, 2020), the Japanese economy entered a sharp slowdown, hit first by the consumption tax hike and then by the mood of self-restraint following the novel coronavirus outbreak, which also reduced demand connected with international visitors to Japan. With no end in sight to the outbreak either in Japan or overseas, the economic outlook also remains uncertain, with growing concerns about a chain-reaction economic slowdown.

The operating environment for the food industries related to the Yokohama Reito Group's business remains extremely difficult, with consumer sentiment hurt by the consumption tax hike in October, labor shortages sharply pushing up personnel and logistics expenses, and the novel coronavirus outbreak leading to a slump in cargo movement.

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 six months of the fiscal year totaled ¥58,375 million, a 19.0% decrease compared to the same period of the previous fiscal year. Operating income totaled ¥1,914 million, down 27.2% year on year, and ordinary income totaled ¥2,189 million, down 23.8%. Profit attributable to owners of the parent totaled ¥1,282 million, a year-on-year decline of 28.7%.

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 six months of the fiscal year. The novel coronavirus outbreak has led to sluggish cargo movements in Japan and overseas, reducing incoming and outgoing cargo from the company's warehouses. As a result, loading/unloading fee revenues declined. However, an increase in storage fees supported by high inventory levels, as was the case in the previous fiscal year, contributed to the segment's profit growth. Consolidated subsidiary Thai Yokorei Co., Ltd., saw an increase in the inventory level for livestock products, but its profits fell as fruit inventories declined owing to a poor harvest.

As a result, overall segment sales came to ¥14,249 million, an increase of 1.3% compared with the same period of the previous fiscal year, and operating income totaled ¥3,536 million, a year-on-year increase of 1.8%.

Food Sales Business

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

The marine products category posted lower sales and profit. Category profit was supported by continued reductions in Atka mackerel and squid inventories, but salmon and trout prices fell due to an increase in domestic inventories, while mackerel sales volumes declined owing to a poor catch at major domestic fishing ports and a subsiding of the recent boom for canned mackerel. Category profit

was also depressed by a drop in the market price of eels due to an abundant catch of young glass eels and by losses on crab sales as inventory reductions proceeded slowly.

In the livestock product category, sales declined but profit was stable. Despite the negative impact from lower market prices for chicken and a sharp falloff in demand for beef from restaurants, category profit was buoyed by higher market prices for pork as supply decreased amid an outbreak of infectious disease among livestock in China and the company's effort to achieve optimal inventory levels.

In the agricultural products category, sales and profit both fell on lower shipments of potatoes.

The Norway trout cultivation business achieved sales growth thanks to a good haul, but profit fell as higher production costs pushed down the business' profit margin.

As a result, segment sales amounted to ¥44,097 million, 24.0% less than in the same period of the previous fiscal year. The business posted an operating loss of ¥277 million, down from a profit of ¥414 million a year earlier. The operating loss reflects losses on inventory adjustments at subsidiaries prior to the absorption-type merger.

(2) Consolidated Financial Position

Assets, Liabilities, and Net Assets

Total assets as of March 31, 2020, amounted to ¥181,215 million, an increase of ¥1,968 million compared with the previous fiscal year-end (September 30, 2019). The main changes are a ¥5,628 million increase in property, plant and equipment, partially offset by a ¥2,948 million decrease in notes and accounts receivable-trade.

Total liabilities amounted to ¥100,377 million, an increase of ¥1,710 million compared with the previous fiscal year-end. This change was mainly attributable to an increase of ¥1,091 million in loans payable.

Total net assets amounted to ¥80,837 million, an increase of ¥257 million compared with the previous fiscal year-end.

Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the period amounted to ¥3,473 million, an increase of ¥96 million compared with the previous fiscal year-end (September 30, 2019). 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 ¥8,263 million compared with ¥11,946 million provided in the same period of the previous fiscal year. Cash inflow was mainly attributable to ¥2,189 million in income before income taxes, depreciation and amortization of ¥2,873 million, and a decrease of ¥2,917 million in accounts receivable-trade.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥8,333 million, compared with ¥15,483 million used in the same period of the previous fiscal year. The main investment outflows were ¥5,982 million used for the purchase of property, plant and equipment and ¥3,201 million in payments of loans receivable.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥184 million, compared with ¥4,331 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 ¥1,018 million, which was partly offset by dividends paid to shareholders of ¥676 million.

(3) Consolidated Earnings Forecast

The novel coronavirus pandemic presents many uncertainties, including uncertainty as to when the virus's spread will be brought under control and what the response of national governments will be. Accordingly, it is difficult to adequately and reasonably calculate earnings forecast figures at this time.

The Group has therefore withdrawn the full-year 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, and has temporarily changed the forecast to "yet to be determined." A forecast will be disclosed as soon as the calculation of forecast figures becomes possible.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of September 30, 2019 Amount	(Millions of yen) As of March 31, 2020 Amount
Assets		
Current assets		
Cash and deposits	3,387	3,483
Notes and accounts receivable - trade	17,284	14,336
Merchandise	17,888	16,771
Advance payments	974	229
Short-term loans receivable, net	17,734	20,158
Other	945	902
Allowance for doubtful accounts	(19)	(45)
Total current assets	58,195	55,836
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	46,738	49,930
Machinery, equipment and vehicles, net	7,003	7,929
Land	29,017	29,778
Leased assets, net	1,419	1,490
Construction in progress	3,418	3,996
Other, net	1,117	1,219
Total property, plant and equipment	88,715	94,344
Intangible fixed assets		
Goodwill	6,060	5,703
Overseas aquaculture business license	6,816	6,692
Other	2,317	2,255
Total intangible fixed assets	15,194	14,651
Investments and other assets		
Investment securities	12,790	12,200
Long-term loans receivable	3,951	3,845
Deferred tax assets	24	1
Other	778	792
Allowance for doubtful accounts	(403)	(456)
Total investments and other assets	17,141	16,382
Total noncurrent assets	121,052	125,378
Total assets	179,247	181,215

	As of September 30, 2019 Amount	(Millions of yen) As of March 31, 2020 Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,011	4,800
Short-term loans payable	16,238	19,638
Current portion of long-term loans payable	4,640	5,798
Lease obligations	226	280
Income taxes payable	1,373	713
Accrued employees' bonuses	757	539
Accrued bonuses for directors and corporate auditors	32	15
Other	6,109	7,586
Total current liabilities	<u>34,389</u>	<u>39,374</u>
Noncurrent liabilities		
Bonds	20,000	20,000
Long-term loans payable	39,071	35,604
Lease obligations	889	884
Deferred tax liabilities	2,592	2,834
Provision for Executive Compensation BIP Trust	221	143
Net defined benefit liability	829	737
Asset retirement obligations	91	91
Other	580	707
Total noncurrent liabilities	<u>64,277</u>	<u>61,003</u>
Total liabilities	<u>98,666</u>	<u>100,377</u>
Net assets		
Shareholders' equity		
Common stock	14,303	14,303
Capital surplus	14,370	14,387
Retained earnings	45,956	46,562
Treasury stock	(507)	(382)
Total shareholders' equity	<u>74,122</u>	<u>74,869</u>
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	3,697	3,260
Deferred gain (loss) on derivatives under hedge accounting	75	(16)
Foreign currency translation adjustments	489	273
Remeasurements of defined benefit plans	(74)	10
Total accumulated other comprehensive income	<u>4,187</u>	<u>3,528</u>
Non-controlling interests	<u>2,269</u>	<u>2,439</u>
Total net assets	<u>80,580</u>	<u>80,837</u>
Total liabilities and net assets	<u>179,247</u>	<u>181,215</u>

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

	(Millions of yen)	
	Six months ended March 31, 2019	Six months ended March 31, 2020
	Amount	Amount
Net sales	72,091	58,375
Cost of sales	64,275	51,157
Gross profit	7,816	7,218
Selling, general and administrative expenses	5,186	5,304
Operating income	2,629	1,914
Other income		
Interest income	330	530
Dividend income	56	56
Insurance dividends	39	31
Purchase discounts	195	44
Other	249	353
Total other income	871	1,016
Other expenses		
Interest expenses	411	356
Loss on valuation of derivatives	-	209
Commission fee	2	2
Other	214	172
Total other expenses	628	741
Ordinary income	2,872	2,189
Income before income taxes	2,872	2,189
Income taxes - Current	520	270
Income taxes - Deferred	275	503
Total income taxes	796	774
Profit	2,075	1,415
Profit attributable to non-controlling interests	276	132
Profit attributable to owners of the parent	1,798	1,282

Consolidated Statements of Comprehensive Income

	Six months ended March 31, 2019	(Millions of yen) Six months ended March 31, 2020
	Amount	Amount
Profit	2,075	1,415
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(1,041)	(436)
Deferred gain (loss) on derivatives under hedge accounting	118	(92)
Foreign currency translation adjustments	(1,147)	(177)
Remeasurements of defined benefit plans	42	84
Total other comprehensive income	(2,027)	(621)
Comprehensive income	48	793
Breakdown:		
Comprehensive income attributable to owners of the parent	(245)	623
Comprehensive income attributable to non-controlling interests	293	170

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Six months ended March 31, 2019	Six months ended March 31, 2020
	Amount	Amount
Cash flows from operating activities		
Income before income taxes	2,872	2,189
Depreciation and amortization	2,773	2,873
Amortization of goodwill	275	282
Increase (decrease) in accrued employees' bonuses	(206)	(217)
Increase (decrease) in accrued bonuses for directors and corporate auditors	(16)	(16)
Increase (decrease) in allowance for doubtful accounts	(3)	80
Increase (decrease) in net defined benefit liability	30	(9)
Increase (decrease) in provision for Executive Compensation BIP Trust	27	-
Interest and dividends income	(386)	(586)
Interest expenses	411	356
Loss (gain) on valuation of derivatives	-	209
Decrease (increase) in accounts receivable - trade	773	2,917
Decrease (increase) in inventories	(885)	1,050
Decrease (increase) in advance payments	5,048	734
Increase (decrease) in accounts payable - trade	1,130	(198)
Increase (decrease) in accrued expenses	123	(900)
Other - net	311	69
Sub total	12,279	8,833
Interest and dividend income received	373	549
Interest paid	(392)	(371)
Income taxes paid	(314)	(747)
Net cash provided by (used in) operating activities	11,946	8,263
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,284)	(5,982)
Proceeds from sales of property, plant and equipment	1	0
Purchase of intangible fixed assets	(673)	(53)
Purchase of investment securities	(3)	(102)
Proceeds from sales of investment securities	-	153
Payments of loans receivable	(5,475)	(3,201)
Collection of loans receivable	969	879
Other - net	(18)	(28)
Net cash provided by (used in) investing activities	(15,483)	(8,333)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	6,421	3,339
Proceeds from long-term loans payable	2,022	-
Repayments of long-term loans payable	(3,222)	(2,321)
Purchase of treasury stock	(0)	(0)
Dividends paid to shareholders	(766)	(676)
Other - net	(123)	(157)
Net cash provided by (used in) financing activities	4,331	184
Effect of exchange rate changes on cash and cash equivalents	(37)	(18)
Net increase (decrease) in cash and cash equivalents	756	96
Cash and cash equivalents, beginning of period	2,907	3,377
Cash and cash equivalents, end of period	3,664	3,473

(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. 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 (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. Six months ended March 31, 2020 (October 1, 2019 – March 31, 2020)

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	14,249	44,097	28	58,375	-	58,375
Intersegment sales or transfers	697	-	23	720	(720)	-
Total	14,947	44,097	52	59,096	(720)	58,375
Segment profit	3,536	(277)	30	3,289	(1,375)	1,914

- Notes: 1. The minus 1,375 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.