

Consolidated Financial Results for the Third Quarter of FY2019 Ending March 31, 2019 (J-GAAP)

February 7, 2019

Listed company name: Ariake Japan Co., Ltd.
 Code number: 2815 URL: <http://www.ariakejapan.com/> Listing exchange: Tokyo, 1st Section
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Filing of quarterly financial report: February 7, 2019
 Date to start of dividends distribution: –
 Supplementary quarterly materials prepared: None
 Quarterly results information meeting held: None

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Third Quarter of FY2019 Ending March 31, 2019 (April 1, 2018–December 31, 2018)

(1) Consolidated Business Results (cumulative)

(Percentage figures are changes from the same period in the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to shareholders of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third Quarter of FY2019	41,456	1.4	8,869	3.9	9,311	4.4	5,255	(13.4)
Third Quarter of FY2018	40,897	15.6	8,536	10.7	8,922	14.4	6,066	12.3

(Note) Comprehensive income: Third Quarter of FY2019: ¥5,757 million (-31.0%) Third Quarter of FY2018: ¥8,343 million (119.7%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Third Quarter of FY2019	165.16	–
Third Quarter of FY2018	190.64	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2018	91,396	77,669	84.4	2,425.22
As of March 31, 2018	87,026	74,027	84.5	2,312.19

(Reference) Equity capital: As of December 31, 2018: ¥77,173 million

As of March 31, 2018: ¥73,578 million

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2018	–	20.00	–	46.00	66.00
FY2019	–	20.00	–		
FY2019 (forecast)				46.00	66.00

(Note) Revisions since the most recently announced dividend forecast: None

3. Forecast of the Consolidated Financial Results for FY2019 Ending March 31, 2019 (April 1, 2018–March 31, 2019)

(Full year percentage figures represent changes from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	56,802	4.5	11,922	5.2	12,315	6.4	8,828	9.0	277.42

(Note) Revisions since the most recently announced forecast of the consolidated financial results: None

* Notes

(1) Significant Changes in Subsidiaries during the Period (Changes in specified subsidiaries resulting in change of scope of consolidation): None

(2) Application of Specified Accounting Methods for Preparation of Quarterly Consolidated Financial Statements: Yes

(Note) For details, please refer to "(Application of Specified Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)" under "(3) Notes on Quarterly Financial Statements in 2. Quarterly Consolidated Financial Statements and Major Notes."

(3) Changes in Accounting Policies, Accounting Estimates, and Restatement of Revisions

- 1) Changes in accounting policies associated with revisions of accounting standards, etc.: None
- 2) Changes other than those included in 1): None
- 3) Changes in accounting estimates: None
- 4) Restatement of revisions: None

(4) Number of Shares Outstanding (Common Stock)

1) Number of shares outstanding as of the period-end (including treasury shares)	As of December 31, 2018	32,808,683 shares	As of March 31, 2018	32,808,683 shares
2) Number of treasury shares as of the period-end	As of December 31, 2018	987,329 shares	As of March 31, 2018	986,696 shares
3) Average number of shares outstanding (quarterly consolidated cumulative period)	First nine months of FY2019	31,821,697 shares	First nine months of FY2018	31,822,495 shares

* These quarterly financial results are outside the scope of quarterly review procedures by certified public accountants or auditing firms.

* Explanation regarding the appropriate use of forecast of consolidated financial results and other special instructions

Descriptions regarding the future, including the financial outlook contained in this material, are based on certain information currently available to the Company and particular assumptions, which are, at the discretion of the Company, deemed reasonable and actual business results may significantly vary due to various factors.

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1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Explanation regarding Business Results

During the nine months under review (April 1, 2018–December 31, 2018), the Japanese economy continued to show an underlying trend of moderate recovery with recovery in corporate earnings and improvement in the employment situation. However, the situation continues to remain uncertain with concerns over uncertainties regarding overseas economies and other factors.

In the food industry, although some companies showed steady growth in sales, the business environment for the industry remained harsh against a backdrop of price competition.

In these circumstances, Ariake Japan Co., Ltd. (the "Company") and its Group companies (collectively, the "Ariake Group") have been striving to ascertain customer needs early on, expand their existing businesses throughout the world, and actively develop new businesses. In this way, the Ariake Group endeavors, as a leading manufacturer in the field of natural seasonings, and also as a global enterprise setting up a "Global Eight-Pillar System," to fulfill its commitments to food safety, good health, and better taste.

As a result of these efforts, the Ariake Group and the Company were able to record the following earnings results for the first nine months ended December 31, 2018.

The Company's net sales decreased by 0.6% (¥179 million) year on year, to ¥29,510 million, despite our steady sales and marketing efforts focusing on a "customer-first" approach. Regarding net sales of consolidated subsidiaries, those of the subsidiaries in Asia marked an increase. As a result, consolidated net sales for the nine months under review increased by 1.4% year on year, to ¥41,456 million (up by ¥558 million year on year).

The Company's operating income increased by 2.8% (¥170 million) year on year to ¥6,184 million, owing to painstaking cost management. Consolidated operating income was ¥8,869 million, representing an increase of 3.9% (¥333 million) from the same period in the previous fiscal year.

The Company's ordinary income increased by 4.9% (¥318 million) year on year to ¥6,858 million mainly due to foreign exchange gains and gains on the valuation of derivatives, which totaled ¥202 million in the period under review.

Consolidated ordinary income increased by 4.4% (¥388 million) year on year to ¥9,311 million.

The Company's quarterly net income increased by 2.1% (¥97 million) year on year to ¥4,790 million.

Quarterly net income attributable to shareholders of the parent company decreased by 13.4% (¥810 million) year on year to ¥5,255 million. This was as a result of adjustments for income and other taxes of ¥1,136 million recorded to recognize the tax effects on retained earnings of ARIAKE U.S.A., Inc., following the resolution to transfer to Kerry Holding Co. the entire shares in the Company's consolidated subsidiary, ARIAKE U.S.A., Inc., held by the Company.

Business results of the Company and its consolidated subsidiaries by region were described below.

- Net sales

(Billions of yen)

	First nine months of FY2019	First nine months of FY2018	Difference
Ariake Japan Co., Ltd.	29.51	29.69	(0.18)
U.S.	4.01	4.12	(0.11)
Asia	5.09	4.36	0.73
Europe	2.59	2.49	0.10
Japan	0.25	0.24	0.01
Consolidated subsidiaries total	11.94	11.21	0.73
Total	41.45	40.90	0.55

- Operating income

(Billions of yen)

	First nine months of FY2019	First nine months of FY2018	Difference
Ariake Japan Co., Ltd.	6.18	6.01	0.17
U.S.	1.01	1.17	(0.16)
Asia	1.26	1.15	0.11
Europe	0.40	0.19	0.21
Japan	0.02	0.01	0.01
Consolidated subsidiaries total	2.69	2.52	0.17
Total	8.87	8.53	0.34

(2) Explanation regarding Financial Position

As of December 31, 2018, consolidated total assets were ¥91,396 million. This represents an increase of ¥4,369 million compared to March 31, 2018.

Total liabilities increased by ¥728 million to ¥13,727 million compared to March 31, 2018, mainly due to an increase in deferred tax liabilities and a decline in income taxes payable. Net assets were ¥77,669 million, which represents an increase of ¥3,641 million from March 31, 2018.

(3) Explanation regarding Information on Future Forecasts including Consolidated Business Forecasts, etc.

We have not revised our forecast of the consolidated financial results which were announced on May 11, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	FY2018 (As of March 31, 2018)	Third Quarter of FY2019 (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	29,816,304	28,178,325
Notes and accounts receivable - trade	10,665,763	12,405,458
Securities	500,000	1,500,000
Merchandise and finished goods	3,836,679	4,038,997
Work in process	895,113	936,638
Raw materials and supplies	2,378,687	2,679,892
Others	514,754	643,846
Allowance for doubtful accounts	(1,845)	(1,489)
Total current assets	48,605,456	50,381,668
Non-current assets		
Property, plant and equipment		
Buildings and structures	25,094,171	24,999,635
Accumulated depreciation	(13,155,347)	(13,592,713)
Buildings and structures, net	11,938,823	11,406,922
Machinery, equipment and vehicles	27,289,207	27,827,842
Accumulated depreciation	(21,383,024)	(22,081,193)
Machinery, equipment and vehicles, net	5,906,183	5,746,649
Land	4,561,727	4,531,357
Leased assets	115,002	118,385
Accumulated depreciation	(76,390)	(86,640)
Leased assets, net	38,612	31,745
Construction in progress	1,241,053	2,791,591
Others	1,121,727	1,165,897
Accumulated depreciation	(943,293)	(983,520)
Others, net	178,434	182,376
Total property, plant and equipment	23,864,833	24,690,643
Intangible assets		
Goodwill	580,394	494,218
Other	138,653	123,831
Total intangible assets	719,048	618,050
Investments and other assets		
Investment securities	12,802,571	14,716,152
Long-term loans receivable	18,315	18,077
Real estate for investment, net	660,040	655,110
Deferred tax assets	11,472	8,971
Others	345,323	308,136
Allowance for doubtful accounts	(129)	(129)
Total investments and other assets	13,837,593	15,706,318
Total non-current assets	38,421,475	41,015,012
Total assets	87,026,932	91,396,681

(Thousands of yen)

	FY2018 (As of March 31, 2018)	Third Quarter of FY2019 (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,792,824	4,969,296
Short-term loans payable	24,532	170,355
Lease obligations	14,389	13,080
Income taxes payable	1,806,634	1,122,906
Provision for bonuses	255,987	98,176
Provision for directors' bonuses	70,000	—
Others	2,170,088	2,205,630
Total current liabilities	9,134,456	8,579,445
Non-current liabilities		
Lease obligations	27,008	20,672
Deferred tax liabilities	2,238,640	3,496,250
Provision for directors' retirement benefits	126,110	134,124
Net defined benefit liability	1,168,585	1,214,589
Others	304,447	282,195
Total non-current liabilities	3,864,791	5,147,831
Total liabilities	12,999,247	13,727,277
Net assets		
Shareholders' equity		
Capital stock	7,095,096	7,095,096
Capital surplus	7,840,343	7,840,343
Retained earnings	55,255,026	58,410,574
Treasury shares	(2,088,405)	(2,094,551)
Total shareholders' equity	68,102,060	71,251,462
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,650,893	5,287,481
Foreign currency translation adjustment	895,680	684,175
Remeasurements of defined benefit plans	(70,253)	(49,251)
Total accumulated other comprehensive income	5,476,319	5,922,405
Non-controlling interests	449,304	495,535
Total net assets	74,027,684	77,669,403
Total liabilities and net assets	87,026,932	91,396,681

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

(Thousands of yen)

	Third Quarter of FY2018 (April 1, 2017 to December 31, 2017)	Third Quarter of FY2019 (April 1, 2018 to December 31, 2018)
Net sales	40,897,726	41,456,205
Cost of sales	26,717,534	26,884,037
Gross profit	14,180,191	14,572,168
Selling, general and administrative expenses	5,643,629	5,702,455
Operating income	8,536,562	8,869,712
Non-operating income		
Interest income	34,512	37,765
Dividend income	157,918	158,627
House rent income	25,743	26,973
Foreign exchange gains	49,837	12,019
Gain on valuation of derivatives	—	105,156
Others	162,535	123,737
Total non-operating income	430,546	464,279
Non-operating expenses		
Interest expenses	2,580	266
Loss on valuation of derivatives	8,844	—
Cost of lease revenue	10,879	11,972
Others	22,342	10,333
Total non-operating expenses	44,646	22,572
Ordinary income	8,922,462	9,311,419
Extraordinary income		
Subsidy income	179,391	—
Total extraordinary income	179,391	—
Extraordinary losses		
Loss on retirement of non-current assets	6,138	—
Total extraordinary losses	6,138	—
Income before income taxes and minority interests	9,095,715	9,311,419
Income taxes	2,963,325	3,979,714
Quarterly net income	6,132,389	5,331,705
Quarterly net income attributable to non-controlling interests	65,805	75,916
Quarterly net income attributable to shareholders of the parent company	6,066,584	5,255,789

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	Third Quarter of FY2018 (April 1, 2017 to December 31, 2017)	Third Quarter of FY2019 (April 1, 2018 to December 31, 2018)
Quarterly net income	6,132,389	5,331,705
Other comprehensive income		
Valuation difference on available-for-sale securities	1,738,970	636,588
Foreign currency translation adjustment	447,917	(231,794)
Remeasurements of defined benefit plans	24,581	21,002
Total other comprehensive income	2,211,469	425,796
Quarterly comprehensive income	8,343,859	5,757,501
Quarterly comprehensive income attributable to:		
Quarterly comprehensive income attributable to shareholders of the parent company	8,274,156	5,701,875
Quarterly comprehensive income attributable to non-controlling interests	69,703	55,626

(3) Notes on Quarterly Financial Statements

(Notes on the Going Concern Assumption)

There is nothing to report.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

There is nothing to report.

(Application of Specified Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)

With respect to tax expenses, the effective tax rate after the application of tax effect accounting on income before income taxes and minority interests of the consolidated fiscal year, including the third quarter under review were rationally estimated and tax expenses were calculated multiplying income before income taxes and minority interests by said estimated effective tax rate.

Adjustments for income and other taxes are included in income taxes.

(Additional Information)

1. (Application of "Partial Amendments to 'Accounting Standard for Tax Effect Accounting,'" etc.)

As the Company has applied "Partial Amendments to 'Accounting Standard for Tax Effect Accounting'" (ASBJ Statement No. 28, February 16, 2018) and other related standards from the beginning of the consolidated first quarter, "deferred tax assets" is presented in the category of investments and other assets, and "deferred tax liabilities" is presented in the category of non-current liabilities.

2. Transfer of Shares in a Consolidated Subsidiary

The Company resolved at the Board of Directors' Meeting held on December 14, 2018 that all the shares in ARIAKE U.S.A., Inc. held by the Company shall be transferred to Kerry Holding Co. and concluded an agreement of the share transfer on the same date.

1. Reasons for the Share Transfer

As the leading manufacturer in the field of natural seasonings, the Ariake Group has been making strenuous efforts to contribute to the food culture all over the world through its business, and the Ariake Group has established the optimal production system through its Global Eight-Pillar System, with business bases in the United States, Asia and Europe, as well as the main base in Japan. Within the global business environment in which the Ariake Group exists, surrounded by the worldwide food industry with diversified food cultures and eating habits, the Ariake Group is promoting its business operation by "concentrating on its core competence," including distributing its management resources in a market with the potential of sustainable growth as the entire group.

After prudent and considerable discussions under such circumstances, the Ariake Group has reviewed part of its overseas business and determined to execute the share transfer, aiming to boost its medium- to long-term corporate value by concentrating its management resources to geographical areas outside the United States.

2. Overview of the Subsidiary Subject to Change (ARIAKE U.S.A., Inc.)

(1) Company Name	ARIAKE U.S.A., Inc.	
(2) Head Office	1711 North Liberty Street, Harrisonburg, VA 22802	
(3) Representative	Kineo Okada, Representative Director and President	
(4) Business	Manufacture and sale of natural seasonings	
(5) Capital	\$18 million	
(6) Date of Establishment	February 1985	
(7) Ownership	Ariake Japan: 100%	
(8) Relationship with Ariake Japan	Capital	Wholly-owned subsidiary of Ariake Japan
	Personnel	The Senior Advisor of Ariake Japan is holding the post of Representative Director and President, and 2 employees of Ariake Japan are holding the posts of Director of ARIAKE U.S.A.
	Transactions	Ariake Japan purchases raw materials from ARIAKE U.S.A. and liabilities of ARIAKE U.S.A. are guaranteed by Ariake Japan.

(9) Financial Results and Position for the Past Three Years (Unit: Thousands of dollars)			
Financial Year	Year ended December 2015	Year ended December 2016	Year ended December 2017
Net Assets	28,251	34,180	43,971
Total Assets	47,748	46,148	49,915
Net Assets Per Share	\$156.95	\$189.89	\$244.29
Net Sales	41,796	43,547	53,035
Operating Income	8,280	9,965	13,061
Ordinary Income	7,922	9,874	13,078
Net Income	5,181	5,928	9,791
Net Income Per Share	\$28.79	\$32.94	\$54.40
Dividend Per Share	—	—	—

3. Overview of the Acquirer

(1) Company Name	Kerry Holding Co.	
(2) Head Office	3400 Millington Rd., Beloit, WI 53511	
(3) Representative	Michael O'Neill, President and Chief Executive Officer	
(4) Business	Kerry Holding Co. is the U.S. holding company of Kerry Group, which has Kerry Inc., a U.S. company, as its operating company (engaged in the business of manufacturing and selling food materials and additives, food in general, raw materials of beverages and beverage products, raw materials of health foods, and pharmaceutical additives).	
(5) Capital	\$100	
(6) Date of Establishment	December 1998	
(7) Ownership	Kerry Group PLC: 100%	
(8) Net Assets	\$456 million	
(9) Total Assets	\$462 million	
(10) Relationship with Ariake Japan	Capital	Not applicable
	Personnel	Not applicable
	Transactions	Not applicable
	Status of related parties	Not applicable

4. Number and Value of Shares of the Subsidiary Transferred by Ariake Japan and the Number of Shares Held Before and After the Transfer

(1) Number of Shares Held Before the Transfer	180,000 shares
(2) Number of Shares Transferred	180,000 shares
(3) Transfer Price	¥20 billion (Note)
(4) Number of Shares Held After the Transfer	None (Ownership ratio of voting rights: 0.0%)

Note: The final transfer price may fluctuate because the agreement concerning the share transfer includes a transfer price adjustment clause based on the working capital as of the date of the share transfer.

5. Date of the Share Transfer

February 28, 2019 (schedule)

(Segment Information, etc.)

[Segment information]

Segment information is omitted because the natural seasonings business is our only segment.

3. Others

Significant Events regarding Going Concern Assumption

There is nothing to report.