



**Lacto Japan**

# Financial Summary for FY2018 Third Quarter

Lacto Japan Co., Ltd.

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# 1. Financial Summary



(Millions of Yen)

|                                                    | 2017/11<br>3Q | 2018/11 3Q |            |           | 2018/11<br>Budget |
|----------------------------------------------------|---------------|------------|------------|-----------|-------------------|
|                                                    |               | Actual     | Difference | Ratio (%) |                   |
| Net Sales                                          | 72,846        | 87,943     | +15,096    | +20.7     | 110,300           |
| Ordinary income                                    | 2,320         | 1,924      | (396)      | (17.1)    | 2,600             |
| <i>Ordinary income ratio to net sales(%)</i>       | 3.2           | 2.2        | (1.0)      | -         | 2.4               |
| Foreign exchange fluctuation on ordinary income(※) | +479          | (161)      | (641)      | -         | -                 |
| Net income attributable to owners of the parent    | 1,573         | 1,291      | (281)      | (17.9)    | 1,800             |
| <i>Net income ratio to net sales(%)</i>            | 2.2           | 1.5        | (0.7)      | -         | 1.6               |

(Amounts of financial result less than one million yen are omitted)

|                            |        |        |         |        |
|----------------------------|--------|--------|---------|--------|
| Net income per share (Yen) | 321.75 | 263.91 | (57.84) | 367.91 |
| Exchange rate (Yen/USD)    | 112.50 | 109.73 | (2.77)  | -      |
| Exchange rate (Yen/EURO)   | 123.48 | 131.34 | +7.86   | -      |

※Foreign exchange fluctuation on ordinary income: By applying "Separate accounting treatments", the total amount of the impact of foreign exchange hedging as sales costs and non-operating profit / losses.(Please refer P5-7)

## 2. Net Sales and Sales Volume by Business

|  | 2017/11 |    |    |    | 2018/11 |    |    |        |
|--|---------|----|----|----|---------|----|----|--------|
|  | 1Q      | 2Q | 3Q | 4Q | 1Q      | 2Q | 3Q | Budget |

### Net sales by Business

(Millions of Yen)

|                                   |               |               |               |               |               |               |               |                |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Dairy Ingredients and Cheese      | 13,573        | 16,349        | 19,276        | 20,821        | 21,972        | 21,839        | 21,856        | 78,400         |
| Meat Products                     | 4,301         | 4,087         | 3,520         | 3,345         | 3,337         | 3,279         | 2,990         | 15,000         |
| Asia Business (Dairy Ingredients) | 3,253         | 3,627         | 2,895         | 3,574         | 3,436         | 3,866         | 3,128         | 13,500         |
| Asia Business (cheese)            | 453           | 437           | 482           | 547           | 499           | 498           | 554           | 2,200          |
| Others                            | 197           | 201           | 194           | 201           | 216           | 218           | 248           | 1,200          |
| <b>Total</b>                      | <b>21,777</b> | <b>24,701</b> | <b>26,368</b> | <b>28,488</b> | <b>29,461</b> | <b>29,703</b> | <b>28,778</b> | <b>110,300</b> |

### Sales Volume by Business

(Amounts less than one million yen are omitted)  
(Unit : MT)

|                                   |        |        |        |        |        |        |        |         |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|
| Dairy Ingredients and Cheese      | 35,772 | 39,795 | 47,729 | 49,589 | 53,509 | 50,658 | 50,149 | 184,500 |
| Meat Products                     | 7,492  | 7,085  | 6,030  | 5,742  | 5,789  | 5,576  | 5,138  | 26,000  |
| Asia Business (Dairy ingredients) | 10,847 | 12,258 | 10,068 | 11,841 | 11,977 | 14,454 | 11,977 | 49,600  |
| Asia Business (cheese)            | 615    | 560    | 631    | 703    | 643    | 646    | 660    | 2,900   |

# 3. Consolidated Balance Sheets

(Millions of Yen)

|                                     | 30-Nov-2017   | 31-Aug-2018   | Difference    |
|-------------------------------------|---------------|---------------|---------------|
| <b>Current Assets</b>               | <b>43,491</b> | <b>49,711</b> | <b>+6,220</b> |
| Cash and cash equivalents           | 4,006         | 5,245         | +1,238        |
| Trade notes and accounts receivable | 17,198        | 18,935        | +1,737        |
| Inventories                         | 21,446        | 25,182        | +3,735        |
| Others                              | 839           | 348           | (491)         |
| <b>Non-current assets</b>           | <b>2,413</b>  | <b>2,495</b>  | <b>+81</b>    |
| Property, plant and equipment       | 559           | 581           | +22           |
| Intangible assets                   | 20            | 38            | +18           |
| Investment and other assets         | 1,833         | 1,874         | +41           |
| <b>Total Asset</b>                  | <b>45,905</b> | <b>52,207</b> | <b>+6,301</b> |
| Accounts payable                    | 11,411        | 10,125        | (1,285)       |
| Interest-bearing Liabilities        | 19,778        | 26,403        | +6,624        |
| Others                              | 1,929         | 1,832         | (96)          |
| <b>Liabilities</b>                  | <b>33,120</b> | <b>38,362</b> | <b>+5,242</b> |
| <b>Net assets</b>                   | <b>12,785</b> | <b>13,844</b> | <b>+1,059</b> |
| <b>Total Liabilities</b>            | <b>45,905</b> | <b>52,207</b> | <b>+6,301</b> |

(Amounts less than one million yen are omitted)

## Main Factor

- **Increase in Account Receivable and inventory**  
Increase in sales volume
- **Decrease of Account Payable**
  - Increase in customs duties to be paid by deferral under old framework; Lacto Japan changed the payment framework of the "Extension of the Time Limit for Payment of Customs Duty" in 1Q(※)
  - Increase purchase of products by Agriculture & Livestock Industries Corporation's bid at the end of November
- **Increase in Interest-bearing Liabilities**  
Increase in short-term debt against working capital demand due to increased purchasing for business expansion

※The Extension of the time Limit for Payment of Customs Duty: Under the Japanese Custom Duty system, a time limit can be changed by applying for an extension of custom duty pertaining to an import declaration, and by submitting security to customs upon submission by the importer of the import declaration.

# Reference information: The risk of foreign exchange fluctuation

# The risk of foreign exchange fluctuation in Lacto Japan and separate accounting treatment



## **In principle, Lacto Japan's business model hedges risks of foreign exchange fluctuations.**

Under Lacto Japan's Basic Business model, Lacto Japan enters into sales contracts with domestic customers at the same time as entering into foreign currency purchase contracts with overseas suppliers.

By entering into a forward exchange contract with a financial institution upon concluding a contract with an overseas supplier, Lacto Japan is able to fix actual profits/losses (gross profits/losses adjusted for forex gains/losses) at a time of the sales contract.

As a result, once a sales contract is concluded, under our basic business model foreign exchange fluctuations have no impact on actual profit/loss.

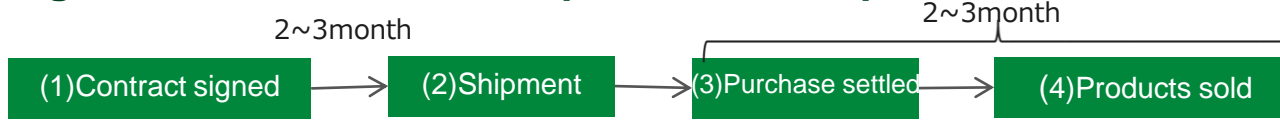
## **It is of note here that under Japanese accounting standards Lacto Japan applies "separate accounting treatments" to foreign currency exchange accounts.**

Lacto Japan applies "separate accounting treatments" to adjust amounts of foreign exchange gains/losses caused by exchange fluctuations to amounts of gross profit/loss and non-operating income/loss.

In addition, if a product is not sold during the same financial period as that of the sales contract for the product, the part of the actual profit/losses will be recorded in the next financial period.(Please refer to the business flow model on the next page.)

# Model of business flow (Impact of foreign exchange fluctuation in separate accounting)

Foreign exchange fluctuation have no impact on actual profit under our basic business model.



## Accounting

- Foreign exchange contract is signed (Rate as of (1) time)
- Following accounting treatment at the same time.
  - Foreign currency contract entered into with suppliers
  - Contract in yen amount entered into with customer
 =Actual profit/loss and cost determined

Recorded cost of sales = Actual rate of exchange (Rate as of (2) time)

Exchange difference resulting from fluctuation between Rate (1) and (2) is recorded as foreign exchange gain/loss

Recorded Sales (Contract in yen amount entered into at (1))

Product sold during the same financial period as that of the sales contract for the product

Sum the amounts from (1) to (4). The same amount as the actual profit/loss and cost at (1) is recorded.

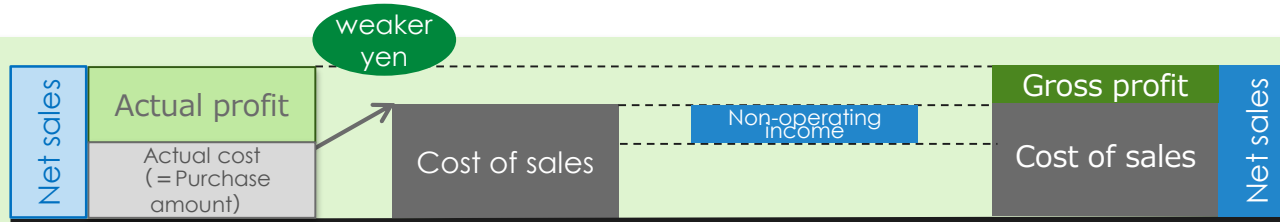
Product is not sold during the same financial period as that of the sales contract for the product

The sales contract for the product, the part of the actual profit/losses will be recorded in the next financial period.

Currency Rate: **No change**

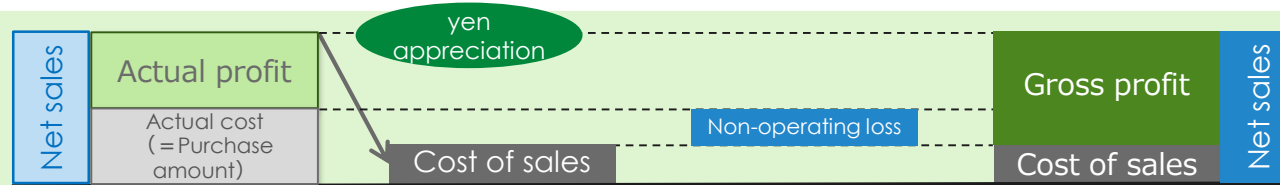


Currency Rate: **weaker yen**



The purchase price at (2) is higher than the amount of the forward exchange contract at (1).

Currency Rate: **yen appreciation**



Foreign exchange loss occurs. The purchase price at (2) is cheaper than the yen amount of the contract at (1).