



Lacto Japan

Financial Summary for FY2019 Third Quarter

Lacto Japan Co., Ltd.

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1. Financial Summary

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

	2018/11 3Q	2019/11 3Q			2019/11 Budget
		Actual	Difference	Ratio (%)	
Net Sales	87,943	87,536	(406)	(0.5)	125,200
Ordinary income	1,924	2,086	162	8.4	2,800
<i>Ordinary income ratio to net sales(%)</i>	2.2	2.4	0.2	-	2.2
Foreign exchange fluctuation on ordinary income(※1)	(161)	(26)	134	-	-
Net income attributable to owners of the parent	1,291	1,490	198	15.4	1,930
<i>Net income ratio to net sales(%)</i>	1.5	1.7	0.2	-	1.5
Net income per share (Yen)	131.96(※2)	151.94(※2)	19.98		196.75(※2)
Exchange rate (Yen/USD)	109.73	109.71	(0.02)		-
Exchange rate (Yen/EURO)	131.34	123.73	(7.61)		-

*1 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 Lacto Japan split its regular shares on May 1, 2019 in a 2-for-1 split. The share split has been treated as occurring at the beginning of the previous consolidated fiscal year, and Net income per share for the quarter has been calculated accordingly.

2. Net Sales and Sales Volume by Business

Net sales by Business

(Amounts less than one million yen are omitted Millions of Yen)

	2018/11				2019/11			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Budget
Dairy Ingredients and Cheese	21,972	21,839	21,856	19,621	21,109	21,566	22,119	92,270
Meat Products	3,337	3,279	2,990	2,969	2,941	3,162	3,187	15,320
Asia Business (Dairy Ingredients)	3,436	3,866	3,128	4,147	2,992	4,310	3,709	14,330
Asia Business (cheese)	499	498	554	564	658	626	679	2,380
Others	216	218	248	195	183	160	128	900
Total	29,461	29,703	28,778	27,497	27,886	29,826	29,823	125,200

Sales Volume by Business

(Unit : MT)

	2018/11				2019/11			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Budget
Dairy Ingredients and Cheese	53,509	50,658	50,149	44,127	49,784	50,354	52,814	209,320
Meat Products	5,789	5,576	5,138	5,090	4,985	5,525	5,806	26,260
Asia Business (Dairy ingredients)	11,977	14,454	11,977	14,412	11,298	16,593	13,853	54,700
Asia Business (cheese)	643	646	660	718	874	930	928	3,100

3. Consolidated Balance Sheets

(Amounts less than one million yen are omitted Millions of Yen)

	30-Nov-2018	31-Aug-2019	Difference
Current Assets	46,337	49,987	3,650
Cash and cash equivalents	4,929	5,418	488
Trade notes and accounts receivable	15,873	19,888	4,015
Inventories	25,216	24,284	(931)
Others	318	395	77
Non-current assets	2,630	2,314	(315)
Property, plant and equipment	597	468	(128)
Intangible assets	39	32	(7)
Investment and other assets	1,994	1,813	(180)
※ Total Asset	48,967	52,302	3,334
Accounts payable	11,173	10,551	(622)
Interest-bearing Liabilities	20,948	24,761	3,812
Others	2,413	1,971	(441)
※ Liabilities	34,536	37,285	2,748
Net assets	14,431	15,016	585
Total Liabilities	48,967	52,302	3,334

* Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 February 16, 2018) and the like have been applied from the beginning of this consolidated fiscal first quarter. Deferred tax assets are indicated in the Investment and other assets category and deferred tax liabilities are indicated in the Non-current liabilities category.

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.

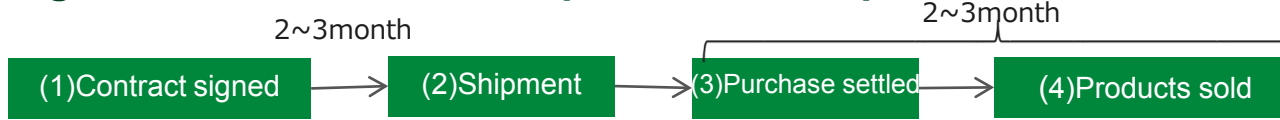
It is of note here that under Japanese accounting standards Lacto Japan applies "separate accounting treatments" to foreign currency exchange accounts.

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

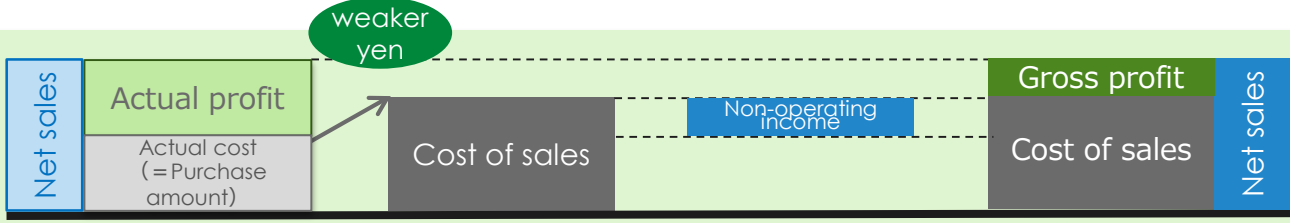
Recorded Sales (Contract in yen amount entered into at (1))

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**

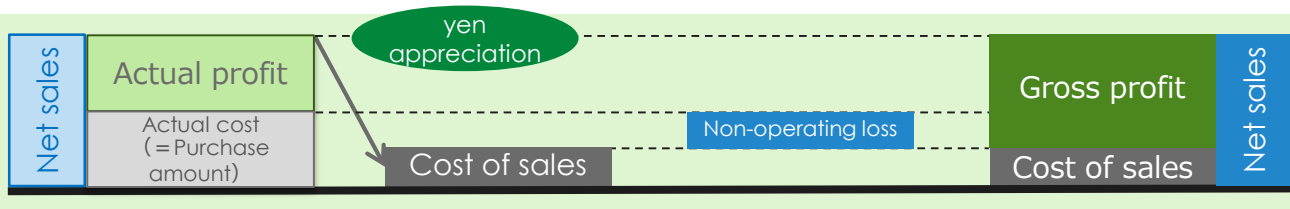


Currency Rate: **weaker yen**



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).