

Consolidated Financial Results for the Second Quarter of FY2018 Ending March 31, 2018 (J-GAAP)

November 9, 2017

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 Quarterly results information meeting held: Yes (for financial analysts)

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

1. Consolidated Financial Results for the Second Quarter of FY2018 Ending March 31, 2018 (April 1, 2017–September 30, 2017)

(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	%
Second Quarter of FY2018	25,789	16.3	5,270	15.1	5,471	27.7	3,745	24.5
Second Quarter of FY2017	22,180	0.6	4,578	14.9	4,284	(0.9)	3,009	9.2

(Note) Comprehensive income: Second Quarter of FY2018: ¥4,489 million (278.2%) Second Quarter of FY2017: ¥1,187 million (-44.6%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Second Quarter of FY2018	117.70	–
Second Quarter of FY2017	94.56	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2017	80,263	68,561	84.9	2,142.64
As of March 31, 2017	77,025	65,356	84.4	2,042.73

(Reference) Equity capital: As of September 30, 2017: ¥68,183 million

As of March 31, 2017: ¥65,005 million

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017	–	20.00	–	40.00	60.00
FY2018	–	20.00	–	–	–
FY2018 (forecast)	–	–	–	40.00	60.00

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

3. Forecast of the Consolidated Financial Results for FY2018 Ending March 31, 2018 (April 1, 2017–March 31, 2018)

(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	52,091	6.7	11,050	7.6	11,293	6.7	8,096	6.7	254.41

(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 "(4) 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 September 30, 2017	32,808,683 shares	As of March 31, 2017	32,808,683 shares
2) Number of treasury shares as of the period-end	As of September 30, 2017	986,364 shares	As of March 31, 2017	985,653 shares
3) Average number of shares outstanding (quarterly consolidated cumulative period)	First six months of FY2018	31,822,618 shares	First six months of FY2017	31,823,615 shares

* These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act.

* 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 first six months of the fiscal year ending March 31, 2018 (April 1, 2017 to September 30, 2017), the Japanese economy gradually recovered as corporate earnings rebounded and employment conditions improved. However, uncertainty about the future remains due to a slowdown in the growth of emerging economies as well as increasing geopolitical risks.

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 six months ended September 30, 2017 (April 1, 2017–September 30, 2017).

The Company's net sales increased by 10.2% (¥1,729 million) year on year, to ¥18,630 million, resulting from our steady sales and marketing efforts focusing on a "customer-first" approach. Regarding net sales of consolidated subsidiaries, those of the subsidiaries in the U.S. and Asia marked an increase. Therefore, consolidated net sales for the six months under review increased by 16.3% year on year, to ¥25,789 million (up by ¥3,608 million year on year).

The Company's operating income increased by 7.6% (¥256 million) year on year to ¥3,645 million, owing to increased operating income associated with the higher sales achieved as well as to painstaking cost management. Consolidated operating income was ¥5,270 million, representing an increase of 15.1% (¥692 million) from the same period in the previous fiscal year.

The Company's ordinary income increased by 19.9% (¥674 million) year on year to ¥4,074 million mainly due to foreign exchange losses and valuation losses in derivatives trading, which totaled ¥300 million during the same period in the previous fiscal year.

Consolidated ordinary income increased by 27.7% (¥1,186 million) year on year to ¥5,471 million.

The Company's quarterly net income increased by 26.2% (¥616 million) year on year to ¥2,971 million.

Quarterly net income attributable to shareholders of the parent company increased by 24.5% (¥736 million) year on year to ¥3,745 million.

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

- Net sales

(Billions of yen)

	First six months of FY2018	First six months of FY2017	Increase (Decrease)
Ariake Japan Co., Ltd.	18.63	16.90	1.73
U.S.	2.73	1.81	0.92
Asia	2.68	2.05	0.63
Europe	1.59	1.24	0.35
Japan	0.16	0.18	(0.02)
Consolidated subsidiaries total	7.16	5.28	1.88
Total	25.79	22.18	3.61

- Operating income (loss)

(Billions of yen)

	First six months of FY2018	First six months of FY2017	Increase (Decrease)
Ariake Japan Co., Ltd.	3.65	3.39	0.26
U.S.	0.78	0.43	0.35
Asia	0.69	0.62	0.07
Europe	0.14	0.13	0.01
Japan	0.01	0.01	0.00
Consolidated subsidiaries total	1.62	1.19	0.43
Total	5.27	4.58	0.69

(2) Explanation regarding Financial Position

As of September 30, 2017, consolidated total assets were ¥80,263 million. This represents an increase of ¥3,238 million compared to March 31, 2017.

Total liabilities increased by ¥33 million to ¥11,702 million compared to March 31, 2017, mainly due to an increase in deferred tax liabilities and a decline in short-term loans payable. Net assets were ¥68,561 million, which represents an increase of ¥3,205 million from March 31, 2017.

(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 12, 2017.

2. Quarterly Consolidated Financial Statements and Major Notes**(1) Quarterly Consolidated Balance Sheets**

(Thousands of yen)

	FY2017 (As of March 31, 2017)	Second Quarter of FY2018 (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	24,547,632	23,461,446
Notes and accounts receivable - trade	9,714,757	10,688,870
Securities	540,044	500,000
Merchandise and finished goods	3,413,451	3,483,456
Work in process	938,161	947,591
Raw materials and supplies	2,295,541	2,636,250
Deferred tax assets	232,274	236,992
Others	1,077,981	565,375
Allowance for doubtful accounts	(5,723)	(6,980)
Total current assets	42,754,120	42,513,001
Non-current assets		
Property, plant and equipment		
Buildings and structures	24,042,603	24,249,547
Accumulated depreciation	(12,375,575)	(12,731,705)
Buildings and structures, net	11,667,027	11,517,841
Machinery, equipment and vehicles	25,683,991	26,615,756
Accumulated depreciation	(20,230,945)	(20,698,005)
Machinery, equipment and vehicles, net	5,453,045	5,917,751
Land	4,534,147	4,545,473
Leased assets	106,214	114,170
Accumulated depreciation	(62,918)	(69,410)
Leased assets, net	43,296	44,759
Construction in progress	900,990	629,263
Others	1,052,622	1,094,055
Accumulated depreciation	(906,838)	(909,197)
Others, net	145,784	184,857
Total property, plant and equipment	22,744,291	22,839,947
Intangible assets		
Goodwill	619,531	598,278
Other	110,440	142,820
Total intangible assets	729,972	741,098
Investments and other assets		
Investment securities	9,755,228	11,144,503
Long-term loans receivable	21,675	20,725
Real estate for investment, net	667,301	663,670
Others	353,600	2,341,438
Allowance for doubtful accounts	(628)	(628)
Total investments and other assets	10,797,178	14,169,710
Total non-current assets	34,271,442	37,750,756
Total assets	77,025,563	80,263,758

(Thousands of yen)

	FY2017 (As of March 31, 2017)	Second Quarter of FY2018 (As of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,176,482	4,180,659
Short-term loans payable	219,360	23,264
Lease obligations	12,620	13,946
Income taxes payable	1,593,787	1,539,080
Provision for bonuses	247,076	248,149
Provision for directors' bonuses	51,840	–
Others	1,906,560	1,898,364
Total current liabilities	8,207,729	7,903,466
Non-current liabilities		
Lease obligations	33,777	34,086
Deferred tax liabilities	1,947,419	2,214,446
Provision for directors' retirement benefits	117,590	121,850
Net defined benefit liability	1,102,228	1,166,539
Others	260,605	262,157
Total non-current liabilities	3,461,621	3,799,079
Total liabilities	11,669,351	11,702,545
Net assets		
Shareholders' equity		
Capital stock	7,095,096	7,095,096
Capital surplus	7,840,343	7,840,343
Retained earnings	49,064,479	51,537,066
Treasury shares	(2,079,787)	(2,085,188)
Total shareholders' equity	61,920,131	64,387,317
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,060,042	3,680,646
Foreign currency translation adjustment	135,823	212,533
Remeasurements of defined benefit plans	(110,194)	(96,610)
Total accumulated other comprehensive income	3,085,671	3,796,569
Non-controlling interests	350,409	377,324
Total net assets	65,356,211	68,561,212
Total liabilities and net assets	77,025,563	80,263,758

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

(Thousands of yen)

	First Half of FY2017 (April 1, 2016 to September 30, 2016)	First Half of FY2018 (April 1, 2017 to September 30, 2017)
Net sales	22,180,827	25,789,357
Cost of sales	14,354,368	16,864,115
Gross profit	7,826,459	8,925,242
Selling, general and administrative expenses	3,248,399	3,654,661
Operating income	4,578,059	5,270,581
Non-operating income		
Interest income	36,463	25,251
Dividend income	88,452	85,062
House rent income	17,845	16,892
Foreign exchange gains	–	24,639
Others	61,512	77,919
Total non-operating income	204,274	229,766
Non-operating expenses		
Interest expenses	2,974	322
Foreign exchange losses	382,011	–
Loss on valuation of derivatives	96,381	8,844
Cost of lease revenue	8,314	7,259
Others	8,507	12,807
Total non-operating expenses	498,189	29,233
Ordinary income	4,284,144	5,471,114
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	4,284,144	5,644,367
Income taxes	1,251,455	1,859,754
Quarterly net income	3,032,689	3,784,612
Quarterly net income attributable to non-controlling interests	23,369	39,103
Quarterly net income attributable to shareholders of the parent company	3,009,319	3,745,508

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First Half of FY2017 (April 1, 2016 to September 30, 2016)	First Half of FY2018 (April 1, 2017 to September 30, 2017)
Quarterly net income	3,032,689	3,784,612
Other comprehensive income		
Valuation difference on available-for-sale securities	331,155	620,604
Foreign currency translation adjustment	(2,193,800)	70,884
Remeasurements of defined benefit plans	17,102	13,584
Total other comprehensive income	(1,845,542)	705,073
Quarterly comprehensive income	1,187,146	4,489,685
Quarterly comprehensive income attributable to:		
Quarterly comprehensive income attributable to shareholders of the parent company	1,213,773	4,456,407
Quarterly comprehensive income attributable to non-controlling interests	(26,627)	33,278

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	First Half of FY2017 (April 1, 2016 to September 30, 2016)	First Half of FY2018 (April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Income before income taxes and minority interests	4,284,144	5,644,367
Depreciation	907,559	950,972
Amortization of goodwill	42,783	47,862
Increase (decrease) in allowance for doubtful accounts	1,104	1,257
Increase (decrease) in provision for directors' retirement benefits	(188,465)	4,260
Increase (decrease) in net defined benefit liability	51,098	77,895
Increase (decrease) in provision for bonuses	14,860	1,072
Increase (decrease) in provision for directors' bonuses	(51,840)	(51,840)
Interest and dividend income	(124,915)	(110,314)
Interest expenses	2,974	322
Foreign exchange losses (gains)	204,404	(60,828)
Loss (gain) on valuation of derivatives	96,381	8,844
Loss on retirement of non-current assets	–	6,138
Subsidy income	–	(179,391)
Decrease (increase) in notes and accounts receivable - trade	107,636	(982,660)
Decrease (increase) in inventories	(906,405)	(412,145)
Increase (decrease) in notes and accounts payable - trade	(256,763)	15,494
Others	(137,191)	(56,792)
Subtotal	4,047,365	4,904,515
Interest and dividend income received	124,707	124,629
Interest expenses paid	(2,974)	(322)
Proceeds from subsidy income	–	179,391
Income taxes paid	(1,590,519)	(1,907,716)
Net cash provided by operating activities	2,578,579	3,300,497
Cash flows from investing activities		
Proceeds from sale of securities	547,911	48,311
Payments into time deposits	(1,000,000)	(2,000,000)
Proceeds from withdrawal of time deposits	2,200,000	–
Purchase of property, plant and equipment	(628,692)	(1,120,905)
Purchase of intangible assets	(1,902)	(42,741)
Proceeds from sales of non-current assets	–	610,704
Purchase of investment securities	(503,576)	(503,665)
Payments of loans receivable	(800)	(1,000)
Collection of loans receivable	1,431	1,698
Net cash used in investing activities	614,370	(3,007,597)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(316,448)	(191,277)
Purchase of treasury shares	(3,168)	(5,401)
Cash dividends paid	(1,272,569)	(1,272,851)

Cash dividends paid to non-controlling interests	(4,525)	(6,362)
Net cash used in financing activities	(1,596,711)	(1,475,892)
Effect of exchange rate change on cash and cash equivalents	(435,152)	96,806
Net increase (decrease) in cash and cash equivalents	1,161,087	(1,086,186)
Cash and cash equivalents at beginning of period	13,484,958	17,547,632
Cash and cash equivalents at end of period	14,646,046	16,461,446

(4) 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 second quarter under review were reasonably 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.

(Segment Information, etc.)

[Segment information]

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