

Consolidated Financial Results for the Nine Months Ended December 31, 2018
(Prepared pursuant to Japanese GAAP)

February 7, 2019

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 Stock exchange listing: Tokyo Stock Exchange (First Section), Sapporo Securities Exchange
 Stock code: 2270
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(Amounts rounded down to the nearest million yen)

1. Consolidated Results for the First Nine Months of the Fiscal Year Ending March 31, 2019
(April 1, 2018 – December 31, 2018)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Nine months ended December 31, 2018	459,477	1.1	13,972	(13.3)	15,212	(13.4)	9,542	(18.9)
Nine months ended December 31, 2017	454,691	1.1	16,108	(0.5)	17,556	2.1	11,763	1.5

Note: Comprehensive income: Nine months Ended December 31, 2018 : 8,421 million yen (-34.9%)
 Nine months Ended December 31, 2017 : 12,938 million yen (1.4%)

	Profit per share – basic	Profit per share – diluted
	yen	yen
Nine months ended December 31, 2018	140.73	—
Nine months ended December 31, 2017	173.42	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	millions of yen	millions of yen	%	yen
December 31, 2018	354,128	163,277	45.4	2,370.86
March 31, 2018	351,240	157,338	44.1	2,286.11

For reference:

Equity: December 31, 2018 : 160,750 million yen

March 31, 2018 : 155,021 million yen

Note: The Company has adopted 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 first quarter of the fiscal year ending March 31, 2019. The financial statements for the fiscal year ended March 31, 2018, have been recast to reflect the retrospective application of the amendments.

2. Dividends

Record date or period	Cash dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Total
	yen	yen	yen	yen	yen
Year ended March 31, 2018	—	—	—	40.00	40.00
Year ending March 31, 2019	—	—	—		
Year ending March 31, 2019 (forecast)				40.00	40.00

Note: Revisions from the latest release of dividend forecasts: None

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

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
Full Year	601,000	0.8	17,500	(9.6)	19,000	(9.5)	10,500	(21.6)	154.85

Note: Revisions from the latest release of earnings forecasts: Yes

For details, please see "1. Operating Results, (3) Explanation of Forward-Looking Statements, including the Forecast of Consolidated Results" on page 7.

Notes

(1) Material reclassifications of subsidiaries during the period: None

(2) Accounting methods specific to quarterly consolidated financial statements: None

(3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accordance with amendments to accounting standards, etc.: None

2) Changes other than noted in 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Common stock issued

1) Issued shares as of period-end (including treasury stock)

December 31, 2018	70,751,855 shares
March 31, 2018	70,751,855 shares

2) Treasury stock as of period-end

December 31, 2018	2,949,189 shares
March 31, 2018	2,941,743 shares

3) Average number of shares (during the respective period)

Nine months ended December 31, 2018	67,807,918 shares
Nine months ended December 31, 2017	67,829,264 shares

***This summary of financial statements is not subject to audit by certified public accountant and auditing firm.**

*Appropriate Use of Earnings Forecasts and Other Important Information

(Earnings Forecasts)

Business forecasts contained in this report are based on the assumptions of management in the light of information available as of the release of this report. MEGMILK SNOW BRAND makes no assurances as to the actual results, which may differ from forecasts due to various factors such as changes in the business environment.

(Supplementary materials and presentation handouts)

Supplementary materials are attached to this report.

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1. Operating Results

(1) Overview of Operating Results

In the nine months ended December 31, 2018, business conditions in Japan gradually recovered, and economic recovery is expected to continue. However, there is concern about the impact of trade disputes, uncertainties in overseas economies, and the impact of fluctuations in the financial and capital markets on the economy.

Although consumer spending is picking up as the employment and personal income environment improves, the trend for consumers to economize continues. In the food industry, there is movement to pass on cost increases to prices, and wide-ranging demand is being created as consumer values diversify—for instance, products that emphasize function or low price are being introduced.

In this business environment, in accordance with Group Medium-term Management Plan 2019, the MEGMILK SNOW BRAND Group endeavored to strengthen the earnings base in preparation for future growth through efforts to create multiple earnings bases and maximize cash flow, through product mix improvement accompanying sales growth from high-value-added products, such as functional yogurt, and from cheese and other mainstay products, and through scale expansion from continued marketing investment in the nutrition business sector.

Note that the Hokkaido Eastern Iburu Earthquake that occurred in September had an impact on parts of the Company's supply chain.

As a result of these developments, in the nine months ended December 31, 2018 consolidated net sales were ¥459,477 million (an increase of 1.1% over the same period of the previous fiscal year), operating profit was ¥13,972 million (down 13.3%), ordinary profit was ¥15,212 million (down 13.4%), and profit attributable to owners of parent was ¥9,542 million (down 18.9%).

Because of its increased importance, Luna Bussan Co., Ltd. has been accounted for as an equity-method affiliate since the first quarter of the fiscal year ending March 31, 2019.

Operating results by business segment for the nine months ended December 31, 2018 were as follows. Note that net sales by segment are sales to outside customers.

1) Dairy Products

This segment comprises the manufacture and sale of dairy products (cheese, butter, powdered milk), oils and fats, nutrition business products (functional foods, infant formula, etc.), and other products.

Net sales were ¥181,154 million (an increase of 0.3% from the same period of the previous fiscal year), and operating profit was ¥9,052 million (down 2.9%).

Sales of butter were strong amid continued efforts to ensure a stable supply. Sales of oils and fats declined in a market that remains sluggish. Since March 2018 the Company has introduced product formulations that do not use partially hydrogenated oils (which include large amounts of trans fats) for household margarine products and will continue to work to secure sales through efforts to reduce trans fats. Sales of cheese declined, partly as a result of adapting sales activities to the domestic milk resources supply and demand situation. Sales of functional food products grew as a result of continued marketing investment for Mainichi Hone Care MBP, a "food for specified health use". As a result of these developments, overall segment sales increased slightly.

Operating profit decreased because of increases in raw material costs, partly due to the impact of raw milk price revisions, despite product mix improvement and the positive impact of unit sales price differences accompanying price revisions and package volume changes.

2) Beverage & Dessert

This segment comprises the manufacture and sale of drinking milk, fruit juice beverages, yogurt, dessert, and other products.

Net sales were ¥215,407 million (an increase of 1.4% from the same period of the previous fiscal year), and operating profit was ¥2,886 million (down 30.5%).

Sales of yogurt were strong due to strengthening of promotional activities that emphasize the functions of *Lactobacillus gasseri* SP, the Company's own *Lactobacillus*, contained in products such as Megumi Gasseri SP Yogurt Drink Berry Mix and Megumi Gasseri SP Yogurt Drink Muscat, newly launched as foods with function claims. Beverage sales decreased due in part to the impact of market sluggishness. Dessert sales were strong, driven by sales of new products and renewed products. As a result of these developments, overall segment sales increased.

Operating profit decreased substantially due to increases in operation costs and fixed costs, such as depreciation and amortization, despite the increase in functional yogurt sales.

3) Feed and Seeds

This segment comprises the manufacture and sale of cattle feed, pasture forage/crop and vegetable seeds, and other products.

Net sales were ¥35,227 million (an increase of 3.1% from the same period of the previous fiscal year), and operating profit was ¥1,060 million (down 25.1%).

Overall segment sales increased due to factors including an increase in selling prices of compound feeds. Operating profit declined due to the impact of lower sales of pasture forage/crop seeds, a decrease in sales volumes of compound feeds, and an increase in the cost of compound feeds.

4) Other

This segment comprises joint distribution center services, real estate rental, and other businesses.

Net sales in this segment were ¥27,688 million (an increase of 0.3% from the same period of the previous fiscal year), and operating profit was ¥893 million (down 22.2%).

(2) Analysis of Financial Condition

The Company has applied Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

The accounting standard has been retroactively applied to the figures for the previous fiscal year to allow comparison and analysis.

1) Assets, liabilities, and net assets

Assets

Total assets as of December 31, 2018 increased by ¥2,888 million from the previous fiscal year-end. The change is mainly attributable to an increase in notes and accounts receivable-trade, which offset a decrease in machinery, equipment and vehicles.

Liabilities

Total liabilities as of December 31, 2018 decreased by ¥3,051 million from the previous fiscal year-end. The change is mainly attributable to a decrease in short-term loans payable, which offset increases in bonds payable and long-term loans payable.

Net assets

Net assets as of December 31, 2018 increased by ¥5,939 million from the previous fiscal year-end. The change is mainly attributable to an increase in retained earnings, which offset a decrease in valuation difference on available-for-sale securities.

2) Cash flows

Cash and cash equivalents on a consolidated basis as of December 31, 2018 totaled ¥15,831 million. The following is a summary of consolidated cash flows and factors affecting cash flows for the nine months ended December 31, 2018.

Cash flows from operating activities

Operating activities provided net cash of ¥ 19,797 million, a ¥ 3,712 million increase in cash provided from the ¥ 16,085 million in cash provided in the nine months ended December 31, 2017. The change is mainly attributable to decreases in notes and accounts payable-trade, notes and accounts receivable-trade, and inventories.

Cash flows from investing activities

Investing activities used net cash of ¥12,370 million, a ¥3,292 million increase in cash used from the ¥9,078 million used in the nine months ended December 31, 2017. The change is mainly attributable to an increase in purchase of property, plant and equipment and intangible assets.

Cash flows from financing activities

Financing activities used net cash of ¥5,624 million, a ¥6,198 million decrease in cash used from the ¥11,823 million used in the nine months ended December 31, 2017. The change is mainly attributable to increases in proceeds from issuance of bonds and proceeds from long-term loans payable, and a net increase in short-term loans payable, which offset an increase in repayment of long-term loans payable.

(3) Explanation of Forward-Looking Statements, including the Forecast of Consolidated Results
 The Company has revised the forecast of consolidated results disclosed in the Summary of Financial Results of May 10, 2018 as stated below.

The Company expects net sales to fall short of the previously announced forecast, reflecting the nine-month results and the outlook for market conditions.

The Company also expects operating profit, ordinary profit, and profit attributable to owners of parent to fall short of the previously announced forecasts, reflecting the projected shortfall in sales against the previously announced forecast as well as factors including the impact of the Hokkaido Eastern Iburi Earthquake, which occurred in September, and a projected impairment loss on an existing plant in connection with the establishment by subsidiary SNOW BRAND SEED Co., Ltd. of a new joint venture company for the purpose of manufacturing compound feeds.

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share
Previously announced forecast (A)	Million of yen 605,000	Million of yen 19,000	Million of yen 20,000	Million of yen 13,500	yen 199.09
Revised forecast (B)	601,000	17,500	19,000	10,500	154.85
Difference (B-A)	(4,000)	(1,500)	(1,000)	(3,000)	
Difference (%)	(0.7)	(7.9)	(5.0)	(22.2)	
Reference: Prior-year consolidated results (fiscal year ended March 31, 2018)	596,158	19,363	20,996	13,386	197.36

Note: The above forecasts are projections that reflect the Company's judgments based on currently available information and are subject to many uncertainties. Actual results may differ from the above forecasts due to changes in business conditions and other factors.

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

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	14,620	15,894
Notes and accounts receivable-trade	69,302	75,591
Merchandise and finished goods	39,632	37,528
Work in process	1,423	1,557
Raw materials and supplies	12,857	13,290
Other	4,694	4,653
Allowance for doubtful accounts	(405)	(400)
Total current assets	<u>142,125</u>	<u>148,114</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,039	46,493
Machinery, equipment and vehicles, net	56,095	53,433
Land	50,396	50,333
Other, net	10,262	12,751
Total property, plant and equipment	<u>164,794</u>	<u>163,011</u>
Intangible assets	3,921	3,327
Investments and other assets		
Investment securities	29,326	28,686
Deferred tax assets	4,859	4,832
Other	6,817	6,545
Allowance for doubtful accounts	(604)	(388)
Total investments and other assets	<u>40,398</u>	<u>39,675</u>
Total non-current assets	<u>209,114</u>	<u>206,014</u>
Total assets	<u>351,240</u>	<u>354,128</u>

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade	60,475	60,250
Electronically recorded obligations-operating	4,021	5,516
Short-term loans payable	41,827	21,658
Income taxes payable	2,259	1,120
Provision for bonuses	5,208	2,903
Other	26,878	28,629
Total current liabilities	140,670	120,078
Non-current liabilities		
Bonds payable	—	10,000
Long-term loans payable	27,089	34,935
Deferred tax liabilities	651	650
Deferred tax liabilities for land revaluation	3,981	3,959
Provision for director's retirement benefits	20	20
Provision for gift token exchange	190	184
Net defined benefit liabilities	8,667	8,644
Asset retirement obligations	1,699	1,721
Other	10,932	10,654
Total non-current liabilities	53,231	70,771
Total liabilities	193,901	190,850
Net assets		
Shareholders' equity		
Capital stock	20,000	20,000
Capital surplus	17,585	17,585
Retained earnings	108,186	115,319
Treasury stock	(4,643)	(4,665)
Total shareholders' equity	141,128	148,240
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,322	5,055
Deferred gains or losses on hedges	(163)	(135)
Revaluation reserve for land	8,951	8,902
Foreign currency translation adjustment	382	144
Remeasurements of defined benefit plans	(1,600)	(1,457)
Total accumulated other comprehensive income	13,892	12,510
Non-controlling interests	2,317	2,527
Total net assets	157,338	163,277
Total liabilities and net assets	351,240	354,128

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	454,691	459,477
Cost of sales	343,435	349,480
Gross profit	111,256	109,996
Selling, general and administrative expenses	95,148	96,023
Operating profit	16,108	13,972
Non-operating income		
Interest income	16	13
Dividend income	822	703
Equity in earnings of affiliates	611	670
Other	743	687
Total non-operating income	2,194	2,074
Non-operating expenses		
Interest expenses	411	353
Other	334	481
Total non-operating expenses	745	834
Ordinary profit	17,556	15,212
Extraordinary income		
Gain on sales of non-current assets	26	21
Gain on sales of investment securities	40	14
Other	1	73
Total extraordinary income	69	109
Extraordinary loss		
Loss on sales of non-current assets	107	0
Loss on retirement of non-current assets	727	821
Impairment loss	126	334
Disaster-related loss	—	622
Other	103	178
Total extraordinary loss	1,064	1,957
Profit before income taxes	16,561	13,364
Income taxes	4,738	3,612
Profit	11,822	9,752
Profit (loss) attributable to non-controlling interests	59	209
Profit attributable to owners of parent	11,763	9,542

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit	11,822	9,752
Other comprehensive income		
Valuation difference on available-for-sale securities	878	(1,268)
Deferred gains or losses on hedges	53	28
Foreign currency translation adjustment	121	(237)
Remeasurements of defined benefit plans	68	142
Share of other comprehensive income of entities accounted for using the equity method	(4)	4
Total other comprehensive income	1,116	(1,330)
Comprehensive income	12,938	8,421
Comprehensive income attributable to owners of parent	12,875	8,208
Comprehensive income attributable to non- controlling interests	63	212

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	16,561	13,364
Depreciation and amortization	11,289	11,701
Impairment loss	126	334
Disaster-related loss	—	622
Equity in (earnings) losses of affiliates	(611)	(670)
Increase (decrease) in allowance for doubtful accounts	(155)	(219)
Increase (decrease) in provision for bonuses	(2,179)	(2,302)
Decrease (increase) in net defined benefit asset	(555)	(202)
Increase (decrease) in net defined benefit liability	491	(225)
Increase (decrease) in provision for gift token exchange	(10)	(8)
Increase (decrease) in provision for directors' retirement benefits	(117)	—
Loss (gain) on sales and retirement of non-current assets	807	800
Interest and dividend income received	(839)	(716)
Interest expenses	411	353
Decrease (increase) in notes and accounts receivable-trade	(10,191)	(6,363)
Decrease (increase) in inventories	(1,377)	1,472
Increase (decrease) in notes and accounts payable-trade	5,872	1,311
Other	1,157	4,287
Sub total	20,680	23,540
Interest and dividend income	909	771
Interest expenses paid	(380)	(337)
Payments for disaster-related loss	—	(69)
Income taxes paid	(5,124)	(4,106)
Net cash provided by (used in) operating activities	16,085	19,797

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from investing activities		
Payments into time deposits	(67)	(22)
Proceeds from withdrawal of time deposits	190	502
Payments of loans receivable	(263)	(93)
Collection of loans receivable	300	4
Purchase of property, plant and equipment and intangible assets	(9,394)	(12,698)
Proceeds from sales of property, plant and equipment and intangible assets	392	75
Purchase of investment securities	(14)	(254)
Proceeds from sales of investment securities	114	47
Other	(336)	67
Net cash provided by (used in) investing activities	(9,078)	(12,370)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,786)	(2,021)
Proceeds from long-term loans payable	1,500	10,000
Repayment of long-term loans payable	(4,650)	(20,301)
Proceeds from issuance of bonds	—	9,939
Purchase of treasury stock	(46)	(22)
Cash dividends paid	(2,710)	(2,709)
Cash dividends paid to non-controlling interests	(0)	(2)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,397)	—
Other	(731)	(507)
Net cash provided by (used in) financing activities	(11,823)	(5,624)
Effect of exchange rate on cash and cash equivalents	17	(46)
Net increase (decrease) in cash and cash equivalents	(4,799)	1,755
Cash and cash equivalents at beginning of period	15,940	14,076
Cash and cash equivalents at end of period	11,141	15,831

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on the assumption of a Going-concern)

Not applicable.

(Notes Concerning Significant Changes in Shareholders' Equity (if any))

Not applicable.

(Additional Information)

(Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.")

With the adoption of 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 first quarter of the fiscal year ending March 31, 2019, the Company has changed the presentation method for "deferred tax assets" and "deferred tax liabilities" to be presented under "investments and other assets" and "non-current liabilities," respectively.

(Segment and Other Information)
【Segment information】

Net sales and income/loss by reportable segment
 Nine months ended December 31, 2017 (April 1 to December 31, 2017)

(Millions of yen)

	Reportable segment				Other (note 1)	Total	Adjustments (note 2)	Amount recorded on consolidated statements of income (note 3)
	Dairy products	Beverage and dessert	Feed and seeds	Total				
Net sales								
Sales to outside customers	180,553	212,341	34,180	427,075	27,616	454,691	—	454,691
Inter-segment sales and transfers	10,521	27	661	11,211	9,129	20,340	(20,340)	—
Total	191,074	212,369	34,842	438,286	36,745	475,032	(20,340)	454,691
Segment profit	9,320	4,156	1,415	14,892	1,149	16,042	65	16,108

Note: 1. "Other" comprises businesses such as the joint distribution center and real estate rental services that are not included in reportable segments.
 2. The 65 million yen adjustment for segment profit is for elimination of intersegment transactions.
 3. Segment profit adjustments are based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

Nine months ended December 31, 2018 (April 1 to December 31, 2018)

(Millions of yen)

	Reportable segment				Other (note 1)	Total	Adjustments (note 2)	Amount recorded on consolidated statements of income (note 3)
	Dairy products	Beverage and dessert	Feed and seeds	Total				
Net sales								
Sales to outside customers	181,154	215,407	35,227	431,788	27,688	459,477	—	459,477
Inter-segment sales and transfers	10,220	61	703	10,986	9,354	20,340	(20,340)	—
Total	191,374	215,469	35,930	442,774	37,043	479,818	(20,340)	459,477
Segment profit	9,052	2,886	1,060	12,999	893	13,893	79	13,972

Note: 1. "Other" comprises businesses such as the joint distribution center and real estate rental services that are not included in reportable segments.
 2. The 79 million yen adjustment for segment profit is for elimination of intersegment transactions.
 3. Segment profit adjustments are based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.