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Coca-Cola East Japan

FASF

Summary of Consolidated Financial Statements (Japanese Standards) for the First Quarter of the Year Ending December 31st, 2016 (Q1 2016YTD)

May 13th, 2016

Listed Company Name:	Coca-Cola East Japan Co., Ltd.		Stock Exchange:	Tokyo Stock Exchange
Security Code:	2580		URL:	http://www.ccej.co.jp
Representative:	title	Representative Director, President	Name:	Calin Dragan
Contact:	title	Senior Executive Officer Finance Function	Name: Johan Rolf	TEL: 03 (5575) 3859
Scheduled date of submission of quarterly report:		May 13, 2016	Schedule date of start of dividend payment:	Not Applicable
Preparation of supplementary documents for quarter results:			Yes	
Quarterly earnings results presentation/conference:			Yes	

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the First Quarter Ending March 31, 2016 (January 1, 2016 – March 31, 2016)

(1) Consolidated Results of Operations (YTD) (Percentages show year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income belonging to parent company shareholders	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Q1 2016	124,522	13.0	-442	—	-672	—	-838	—
Q1 2015	110,220	-1.5	-1,939	—	-1,926	—	-1,543	—

(Note) Comprehensive income: Q1 2016: -2,080 Million Yen (—%) Q1 2015: 3,165 Million Yen (—%)

	Net Income per Share	Net Income per Share (Fully Diluted)
	Yen	Yen
Q1 2016	-6.61	—
Q1 2015	-12.75	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Million Yen	Million Yen	%
Q1 2016	367,994	226,924	61.5
FY2015	371,771	230,945	62.0

(Note) Shareholders' equity: Q1 2016 : 226,466Million Yen
FY2015 : 230,525 Million Yen

2. Dividends

	Dividend Per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	yen
FY2015	—	16.00	—	16.00	32.00
FY2016	—				
FY2016 (Forecast)		16.00	—	16.00	32.00

(Note) Revisions to the dividend forecast disclosed most recently No

3. The Consolidated Earnings Forecasts for the Fiscal Year Commencing January 1st and Ending December 31st ,2016

(Percentages show year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income belonging to parent company shareholders		EPS
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Full-Year	571,300	1.4	14,000	29.7	13,600	30.6	7,200	34.5	57.42

(Note) Revisions to the Earnings forecasts disclosed most recently No

Notes:

(1) Changes of important subsidiaries during consolidated Q1 2016 (Changes of specific subsidiaries accompanied by changes in the consolidation scope) None

(2) Application of particular accounting treatments to the preparation of quarterly consolidated financial statements None

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies accompanied by revisions of accounting standards, etc. Yes

(ii) Changes in accounting policies other than (i) No

(iii) Changes in accounting estimates Yes

(iv) Restatement None

(4) Number of Issued Shares (Common Shares)

(i) Number of the issued shares at the end of the period (including treasury stock)	Q1 2016	127,680,144 shares	FY 2015	127,680,144 shares
(ii) Number of the treasury stock at the end of the period	Q1 2016	855,961 shares	FY 2015	855,654 shares
(iii) Average number of the shares during the period (accumulated total)	Q1 2016	126,824,279 shares	Q1 2015	121,044,122shares

*Statement regarding the status of the quarterly review

This summary of financial statements for the first quarter of the year ending December 31st, 2016 falls outside the quarterly audit review required by the Financial Instruments and Exchange Act, and the quarterly audit review of quarterly consolidated financial statements required by the Financial Instruments and Exchange Act had not been completed as of the time when this summary was disclosed.

*Explanation regarding the appropriate use of earnings forecasts and other special notes

Although the statements in this summary are prepared based on various information available to the Company and certain assumptions considered reasonable by the Company, actual results may differ significantly due to various factors. For details of assumptions for earnings forecasts and notes on the use of earnings forecasts, please see "Qualitative information on the consolidated earnings forecasts," page 4 of the attached material of the summary.

Contents of the Attached Materials

1. Qualitative information on results for the first quarter of the year ending December 31, 2016

(1) Qualitative information on the consolidated operating results

Coca-Cola East Japan Co., Ltd. (CCEJ) today announced its consolidated financial results for the first quarter 2016 (January 1, 2016 to March 31, 2016).

For additional details and management discussion of results, please also see the supporting presentation material posted on our Company website, which will be used for the earnings presentation and webcast on Monday, May 16, 2016 at 3:30 p.m. (JST). The webcast is available both live and on demand at http://investor.ccej.co.jp.

Key Messages

- Volume grew 16% year-on-year, and market share continued to recover, with growth in both volume and value share. Excluding the integration of Sendai Coca-Cola Bottling Co., (Sendai), volume grew 6%.
- First quarter revenue grew 13% year-on-year, driven by the benefit of the integration of Sendai on April 1, 2015 as well as volume growth, etc.
- First quarter reported operating loss improved by JPY 1.5 billion year-on-year, mainly driven by continuous synergy capture from supply chain initiatives.
- Agreed and signed memorandum of understanding on April 26, 2016 to proceed with discussions/review of business integration with Coca-Cola West Co, Ltd.

Operating Review

Total nonalcoholic ready-to-drink (NARTD) beverage industry volumes were generally positive in the first quarter. Total BAPC sales volume of CCEJ grew 16% year-on-year led by the integration of Sendai, continued good performance of newly launched products and cycling new customer acquisitions. Volume excluding the integration impact (assuming previous year first quarter volume included Sendai) was positive 6% in the quarter.

Volume grew across all channels, with supermarket +15%, driven by the growth of Ayataka green tea, premium ilohas water, etc. Drug & discounter volume grew +32% and Convenience Store volume grew +25%, led by coffee, teas and water growth. The Eating & Drinking channel grew volume +14% and vending channel volume grew +9%, reflecting the inclusion of Sendai in our performance results.

Sparkling beverage volume grew +11% in the first quarter, led by growth in Brand Coca-Cola, Coca-Cola Zero and Fanta. In the hydration category, unsweetened tea volume grew +18%, water grew +30% thanks to continued strong performance of ilohas water, and sports drinks grew +9%. Coffee volume continued to grow, up 21% in the first quarter led by newly launched products and juice grew +18%.

We have a solid marketing and innovation calendar planned for the second quarter onward together with our partners at Coca-Cola Japan (CCJC), including extensive deployment of premium products and related marketing and sales promotion activities.

We will continue the global advertising campaign for Coca-Cola, “Taste the Feeling”, throughout the year as well as marketing and sales promotions focusing on the Rio de Janeiro Olympics to be held in August. We introduced a new healthy lactic product, “Yogurstand” in April and we fully renewed “Sokenbicha” tea on May 9. Further, we recently announced the planned launch on May 23 of “Georgia Cold Brew” coffee as a premium products featuring cold brew technology with new slim bottle can packaging for OTC channels (Supermarket, convenience stores, etc.).

We have been continuously working to improve profitability across all channels with a segmented approach to growing volume and revenue across channels. In the vending machine channel, deployment of vending-exclusive initiatives such as loyalty programs for consumers using smart phone application "Coke On", developed by CCJC, was introduced in April and we launched "Minute Maid Healthy Recipe Beauty Mix" at the end of March as a vending-only product exclusive for CCEJ territory. We will continue to focus on launching vending-exclusive products as well as to develop indoor machine placements to achieve revenue and volume growth.

Financial Review

First Quarter 2016 (January to March)

Reported Results

In Million JPY	2015	**2016**	% Change
Net Sales	110,220	124,522	13.0%
Operating Income (Loss)	(1,939)	(442)	-
Net Income (Loss)	(1,543)	(838)	-

Comparable* Results

In Million Yen, except volume	2015	**2016**	% Change
Volume** (BAPC, in thousand)	59,009	68,349	15.8%
Net Sales	110,220	124,522	13.0%
Operating Income (Loss)	(1,598)	(392)	-

* Comparable: Presentation of results after excluding exceptional items such as charges, gains, etc. which are viewed by management as non-recurring items impacting only the current period or the comparable period, but not both. These comparability adjustments should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with JGAAP.

** Previous year volume shown above may be slightly different from what we shared in the previous year, as part of the implementation and standardization for the new ERP system, CokeOne+.

Our quarterly operating results during the year will likely exhibit seasonal variation, as the demand for nonalcoholic ready-to-drink beverages tends to be higher in the summer months. Sales and profits consequently are expected to be lower in the first quarter than subsequent quarters.

First quarter reported revenue was JPY 124,522 million (positive 13.0% compared to the prior year period), mainly attributable to the integration of Sendai as of April 1, 2015 as well as volume growth, etc.

First quarter reported operating loss was JPY 442 million (reported operating loss of 1,939 million in the prior year period). This improvement was mainly driven by gross profit increase reflecting continuous synergy capture from supply chain efficiency, volume growth, etc.

We reported first quarter net loss of JPY 838 million (net loss of 1,543 million in the prior year period), reflecting a loss on disposals of fixed assets, penalty on lease termination, etc.

(2) Qualitative information on the consolidated financial positions

The financial positions at the end of this quarter are as follows:

Assets at the end of this quarter were JPY 367,994 million, a decrease of JPY 3,776 million from the end of the previous fiscal year. This mainly reflects a decrease in notes and accounts receivable-trade due to seasonal changes.

Liabilities at the end of this quarter were JPY 141,069 million, an increase of JPY 244 million from the end of previous fiscal year. This is due to an increase in short-term loans payable partly offset by decreases in Other Current liabilities and Noncurrent liabilities driven by the lease termination.

Net assets at the end of this quarter were JPY 226,924 million, a decrease of JPY 4,020 million. This is primarily due to a decrease in retained earnings by paying year-end dividends, valuation and translation adjustment, etc.

(3) Qualitative information on the consolidated earnings forecast

No change from our forecast for the fiscal year ending December 2016, issued on February 12, 2016.

Additionally, on April 26, 2016, CCEJ and Coca-Cola West Co., Ltd. agreed to proceed with discussions/review of a business integration and have entered into a non-binding Memorandum of Understanding between the two parties. For details, please refer to “Announcement of Memorandum of Understanding Regarding Business Integration between Coca-Cola East Japan Co., Ltd. and Coca-Cola West Co., Ltd.” on April 26, 2016. If further disclosure concerning this matter shall be required and/or any impact to the forecast of this fiscal year expected, we will disclose accordingly.

2. Matters relating to summary information (notes)

(1) Change of important subsidiaries during the consolidated Q1 2016

There is no matter applicable.

(2) Application of particular accounting treatments to preparation of quarterly consolidated financial statements

There is no matter applicable.

(3) Changes in accounting policies, accounting estimate or restatement

Changes in accounting policies

(Application of accounting standards regarding business combinations)

The Policy has been modified to apply the "Accounting Standard for Business Combination" (Accounting Standards Board of Japan Statement No.21, Sept. 13, 2013. Hereinafter referred to as "Accounting Standard for Business Combination"), the "Accounting Standard for Consolidated Financial Statements" (Accounting Standards Board of Japan Statement No.22, Sept. 13, 2013. Hereinafter referred to as "Accounting Standard for Consolidated Financial Statements"), and the "Revised Accounting Standard for Business Divestures" (Accounting Standards Board of Japan Statement No.7, Sept. 13, 2013. Hereinafter referred to as "Revised Accounting Standard for Business Divestures"), etc. from the first quarter of the consolidated accounting period concerned, and to post the difference due to this company's change in equity of a subsidiary, when control of the subsidiary continues, as capital surplus and as expense in the consolidated accounting year in which acquisition-related expenses were incurred. Furthermore, with regard to the business combination executed at the beginning of the first quarter of the concerned consolidated accounting period or thereafter, revisions to the allotment of the acquisition cost as a result of finalized accounting processes shall be reflected in the Quarterly Consolidated Financial Statements of the quarterly consolidated accounting period in which the business combination date is referred. In order to reflect these changes, the Quarterly Consolidated Financial Statements and the Consolidated Financial Statements for the previous first quarter of the cumulative consolidated period and the previous consolidated accounting year have been reclassified.

The application of the Accounting Standard for Business Combination etc. follows the transitional process defined in the Accounting Standard for Business Combination Statement No.58 – 2(A), Accounting Standard for Consolidated Financial Statements Statement No.44 -5 (4) and Revised Accounting Standard for Business Divestures Statement 57 – 4 (4) and is effective as of the start of the first quarter of the concerned consolidated accounting period and shall persist into the future.

Moreover, there is no impact to the Quarterly Consolidated Financial Statements for the first quarter of the concerned consolidated accounting period.

Changes in accounting estimates

(Change of useful lives of fixed assets)

The useful lives of machinery and equipment used for production purposes had been previously defined as 10 years. Prompted by events such as the creation of a systematic maintenance policy for the CCEJ group's machinery and equipment and the progress of internalization of maintenance activities, as well as the commencement of a new production structure for the entire CCEJ group in response to the legal entity integration of Sendai Coca-Cola Bottling Co., Ltd. effective January, 2016, we revisited the physical durability and lifecycle of production machinery, etc. As a result, we have prospectively changed the useful lives to a range of 7 – 20 years, which more accurately reflects the economical useful lives effective the first quarter of the concerned consolidated accounting period.

As a result of this change, gross profit increased by JPY376 million, and operating loss, ordinary loss and quarterly loss before income taxes decreased by JPY376 million, respectively.

(4) Additional information

(Modification of the amount of deferred tax assets and deferred tax liabilities due to changes of corporate tax rate)

The “Law Revising a Portion of the Income Tax Law” (2016, Law No. 15) and “Law Revising a Portion of Local Tax” (2016, Law No. 13) were promulgated on March 31, 2016, which amends corporate tax rate, etc. from the consolidated fiscal year starting on April 1, 2016 onwards.

Consequently, the effective statutory tax rates to be used for the calculation of deferred tax assets and deferred tax liabilities shall be as follows, according to the periods for the settlement of temporary differences:

33.0% up to December 31, 2016
30.8% from January 1, 2017 to December 31, 2018
30.6% from January 1, 2019 onwards

As a result of these tax rate changes, deferred tax assets (the amount after subtracting deferred tax liabilities) decreased by 121 million yen, Income Taxes-Deferred increased by 106 million yen, while Valuation Difference on Available-for-Sale Securities increased by 50 million yen, respectively. Remeasurements of defined benefit plans decreased by 65 million yen.

3. Consolidated financial statements

(1) Consolidated Balance Sheets

(MM yen)

	FY2015	Q1 2016 YTD
Assets		
Current assets		
Cash and deposits	21,578	24,651
Notes and accounts receivable-trade	44,565	40,771
Short-term investment securities	301	300
Merchandise and finished goods	34,359	31,416
Work in process	—	250
Raw materials and supplies	3,377	5,375
Others	23,227	23,920
Allowance for doubtful accounts	-67	-81
Current assets	127,343	126,604
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	45,861	45,175
Machinery, equipment and vehicles,net	37,652	43,228
Sale equipment, net	66,112	65,484
Land	50,883	50,883
Other, net	9,808	3,420
Property, plant and equipment	210,318	208,192
Intangible assets	8,361	8,496
Investments and other assets		
Other	25,973	24,936
Allowance for doubtful accounts	-225	-235
Investments and other assets	25,748	24,701
Noncurrent assets	244,428	241,390
Assets	371,771	367,994
Liabilities		
Current liabilities		
Accounts payable-trade	29,149	28,017
Short-term loans payable	5,160	22,000
Current portion of long-term loans payable	1,234	1,145
Income taxes payable	1,100	323
Provision for bonuses	1,364	1,829
Provision for directors' bonuses	37	22
Provision for environmental measures	—	0
Provision for early contract termination	963	905
Asset retirement obligations	33	31
Other	43,624	32,948
Current liabilities	82,668	87,225
Noncurrent liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	2,520	2,160
Provision for environmental measures	335	320
Provision for early contract termination	1,392	1,187
Net defined benefit liability	17,597	17,913
Asset retirement obligations	776	775
Other	5,533	1,486
Noncurrent liabilities	58,156	53,844
Liabilities	140,825	141,069

(MM yen)

	FY2015	Q1 2016 YTD
Net assets		
Shareholders' equity		
Capital stock	6,499	6,499
Capital surplus	157,313	157,313
Retained earnings	68,454	65,586
Treasury stock	−1,178	−1,178
Shareholders' equity	231,089	228,221
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,151	1,780
Deferred gains or losses on hedges	−463	−786
Remeasurements of defined benefit plans	−2,251	−2,748
Total accumulated other comprehensive income	−564	−1,754
Subscription rights to shares	420	458
Net assets	230,945	226,924
Liabilities and net assets	371,771	367,994

(2) Consolidated Profit and Loss Statement and Comprehensive Profit and Loss Statement
(Consolidated Profit and Loss Statement)

(MM yen)

	Q1 2015 YTD	Q1 2016 YTD
Net sales	110,220	124,522
Cost of sales	58,846	65,818
Gross profit	51,374	58,703
Selling, general and administrative expenses	53,313	59,145
Operating loss	−1,939	−442
Non-operating income		
Interest income	25	18
Dividends income	3	1
Share of profit of entities accounted for using equity method	21	35
Rent income	81	104
Gain on sales of valueable wastes	83	95
Other	45	74
Non-operating income	260	329
Non-operating expenses		
Interest expenses	80	47
Loss on sales and retirement of noncurrent assets	50	472
Rent Expenses	12	19
Other	104	19
Non-operating expenses	248	559
Ordinary loss	−1,926	−672
Extraordinary income		
Gain on transfer of business	247	—
Gain on sales of investment securities	—	74
Gain on sales of noncurrent assets	2	1
Others	99	—
Extraordinary income	348	76
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	514	23
Lease contract cancellation penalty	174	334
Restructuring cost	93	119
Cost of defective work	235	—
Integration expenses	39	—
Others	39	31
Extraordinary loss	1,096	509
Loss before income taxes	−2,674	−1,105
Income taxes-current	267	509
Income taxes-deferred	−1,397	−776
Income taxes	−1,130	−267
Net loss	−1,543	−838
Net loss belonging to parent company shareholders □	−1,543	−838

(Consolidated Comprehensive Profit and Loss Statement)

(MM yen)

	Q1 2015 YTD	Q1 2016 YTD
Net loss	−1,543	−838
Other comprehensive income		
Valuation difference on available-for-sale securities	781	−370
Remeasurements of defined benefit plans	4,123	−496
Share of other comprehensive income of associates accounted for using equity method	−195	−322
Other comprehensive income	4,708	−1,190
Quarterly comprehensive income	3,165	−2,028
Quarterly comprehensive income attributable to owners of the parent company	3,165	−2,028

(3) Notes relating to quarterly consolidated financial statements

(Notes relating to assumptions for the going concern)

None

(Notes in the event of significant changes in amount of shareholders' equity)

None

(Segment information and others)

(Segment Information) January 1 – March 31, 2015

The Group has sole segment of beverage business, thus the description is omitted.

(Segment Information) January 1 – March 31, 2016

The Group has sole segment of beverage business, thus the description is omitted.

(Important subsequent event)

(A non-binding Memorandum of Understanding to proceed with discussions/review of a business integration between CCEJ and Coca-Cola West Co., Ltd. (hereinafter referred to as "CCW"))

CCEJ and CCW agreed to proceed with discussions/review of a business integration (hereinafter referred to as "the business integration") and have entered into a non-binding Memorandum of Understanding between the two parties based on the resolution in the respective Board of Directors meeting held April 26, 2016.

The execution of the business integration is contingent upon the following: both parties signing definitive agreements regarding the business integration; required approval being obtained from the shareholders' meeting of the two parties; required permits, licenses, and other approvals being obtained from authorities concerned with regard to the business integration.

1. Background and Objective etc. of the Business Integration

In the Japanese soft drinks industry, the requirements of customers and consumers have continued to evolve, with a challenging business environment driven by fierce competition among the industry players. In this environment, the two parties have been reinforcing ties as entities belonging to the Coca-Cola system in Japan, and have agreed to proceed with discussions/review toward business integration in the spirit of equal partnership.

Through this integration, the combined entity would be better positioned to drive future growth in the soft drinks industry, react to changes in the market environment, respond to customer and consumer needs, and accelerate market competition. Also, the combined entity would build competitive advantage through the integration and accelerate the transformation of the Coca-Cola system in Japan. The two parties expect to maximize the enterprise value of the combined entity and establish one of the leading Coca-Cola bottlers in the world by improving its supply chain for efficient manufacturing and logistics operation, and integrating and evolving its systems and processes across the combined entity.

2. Form of Business Integration and Approach, Integration Ratio, Business Structure Following the Integration, Timeline, etc.

The form of business integration and approach, integration ratio, name of the integrated company, location of headquarters, representatives, board compositions, organization, timeline, etc. shall be determined by the conclusion of the definitive agreements through discussions/review by both parties in accordance with the establishment of an Integration Preparation Committee as well as in consideration of the results of the due diligence to be conducted hereafter.