

Consolidated Financial Results for the First Half of FY2015 (J-GAAP)

November 7, 2014

Listed Company Name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange and Sapporo Securities Exchange
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 President and Chief Operating Officer
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Filing of quarterly financial report: November 13, 2014
 Start of cash dividend payments: December 5, 2014
 Supplementary quarterly materials prepared: Yes
 Quarterly results information meeting held: Yes (for institutional investors and analysts)

*Amounts less than one million yen have been rounded down.

1. Consolidated financial results for the first half of FY2015 (From April 1, 2014 to September 30, 2014)

(1) Consolidated operating results (cumulative)

(Percentage figures show the rate of change from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First half of FY2015	147,650	5.2	3,752	(28.4)	4,247	(29.1)	3,135	(18.5)
First half of FY2014	140,312	3.8	5,241	30.0	5,992	31.5	3,848	48.8

(Note) Comprehensive income: First half of FY2015: ¥5,413 million yen (-21.2%)
 First half of FY2014: ¥6,869 million yen (789.8 %)

	Net Income per Share		Fully Diluted Net Income per Share	
	Yen		Yen	
First half of FY2015	18.97		18.96	
First half of FY2014	23.27		-	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
First half of FY2015	239,849		127,371		51.1	
FY2014	226,803		121,636		52.2	

(Reference) Equity capital: First half of FY2015: ¥122,617 million; FY2014: ¥118,358 million

2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2014	-	6.00	-	6.00	12.00
FY2015	-	6.00	-	-	-
FY2015 (Forecast)	-	-	-	6.00	12.00

(Note) Adjustment for the most recent forecast of the dividend in the current quarter: None

3. Forecast of the consolidated financial results for FY2015 (From April 1, 2014 to March 31, 2015)

(Percentage figures show the rates of changes from the same period of the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	305,000	6.2	8,500	(21.4)	9,500	(22.4)	6,300	(19.3)	38.10

(Note) Adjustment for the most recent forecast of the consolidated financial results in the current quarter: Yes

* Notes

(1) Significant changes in subsidiaries during the current quarter (changes in specified subsidiaries in accordance with changes in the scope of consolidation): None

(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- 1) Changes due to revisions of accounting standards: Yes
- 2) Changes other than 1): None
- 3) Change in accounting estimate: None
- 4) Retrospective restatement: None

(4) Number of shares issued and outstanding (common stock)

1) Number of shares outstanding at the end of each period (including treasury stock)	First half of FY2015	170,148,018 shares	FY2014	170,148,018 shares
2) Number of treasury stocks at the end of each period	First half of FY2015	4,718,818 shares	FY2014	4,718,689 shares
3) Average number of shares (quarterly consolidated cumulative period)	First half of FY2015	165,341,849 shares	First half of FY2014	165,403,226 shares

*** Presentation of implementation status for quarterly review procedures**

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to the Consolidated Financial Results and the procedure based on this Act was not complete as of the release of the Consolidated Financial Results.

*** Explanation regarding the appropriate use of projected 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 financial results may significantly vary due to various factors. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Results, (3) Qualitative information on forecast of the consolidated financial results” on page 5 for information on preconditions underlying the above outlook and other related information.

Contents

1. Qualitative Information on Quarterly Consolidated Financial Results	2
(1) Qualitative information on consolidated business results	2
(2) Qualitative information on consolidated financial position.....	3
(3) Qualitative information on forecast of the consolidated financial results	5
2. Information about the Summary of Business Results (Notes)	5
(1) Significant changes in subsidiaries during the current quarter	5
(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements.....	5
(3) Changes in accounting policies, accounting estimates and restatements of revisions	5
3. Quarterly Consolidated Financial Statements	6
(1) Quarterly consolidated balance sheets.....	6
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income	8
(Quarterly consolidated statements of income).....	8
(Quarterly consolidated statements of comprehensive income).....	9
(3) Quarterly consolidated statements of cash flows	10
(4) Notes on quarterly consolidated financial statements	12
(Notes on going concern assumption).....	12
(Notes to significant changes in the amount of shareholders' equity).....	12
(Segment information).....	12

1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Qualitative information on consolidated business results

During the first half of the year ending March 31, 2015, the Japanese economy remained on a moderate recovery track supported by the beneficial effects of the Abe administration's economic policy and the Bank of Japan's monetary policy. However, prospects for personal consumption remained uncertain primarily because of the negative repercussions of the consumption tax increase and an extremely modest increase in disposal incomes.

The food industry continued to operate in a challenging business environment. Prices of raw materials and energy and logistics costs increased in line with the depreciation of the yen. Sales competition further intensified, with consumers becoming more frugal in a Japanese market that is shrinking as the population declines and ages while the birth rate remains low.

The business environment in which the Group operates is changing markedly amid intensifying sales competition. In these circumstances, in order to flexibly and speedily respond to the changing business environment, instead of a mid-term business plan, the Group is implementing a single-year policy based on the fundamental measures implemented so far to strengthen the business foundation.

The Group is continuing to execute capital investment to improve the earnings structure and striving to ensure that capital investment projects are executed swiftly and come on stream without delay. We are seeking to advance into business fields with high growth potential, including overseas business.

In the Flour Milling segment, as part of our plan for increasing the storage capacity of grain silos with a view to strengthening cost competitiveness, we decided to construct a grain silo with a 20,000-ton capacity at the Fukuoka Mill. In addition, in order to expand and strengthen the Group's flour milling business in Kyushu, we acquired a stake in Tofuku Flour Mills Co., Ltd. in August through a takeover and made it a consolidated subsidiary. In international business, Indonesian subsidiary PT. NIPPON FOODS INDONESIA, whose mission is to expand sales of the Group's ingredients and processed foods for professional use in the ASEAN region, started operation in September.

As a result, consolidated net sales for the first half under review increased by 5.2% year on year to ¥147,650 million, operating income decreased by 28.4% year on year to ¥3,752 million, ordinary income decreased by 29.1% year on year to ¥4,247 million, and net income decreased by 18.5% to ¥3,135 million.

Results of each business segment are as follows.

1) Flour Milling

In line with the increase of government sales prices of imported wheat by 2.3% on average for the five key products in April 2014, we revised the prices of wheat flour products for professional use shipped from July 1 onward.

The Group is strengthening quality control in response to the growing preoccupation with the safety and security of food throughout society. At the same time, to address customer needs and diversifying food preferences, the Group developed new products, held cookery workshops, and promoted proposal-driven sales. By strengthening such initiatives that are highly regarded by customers, we sought to expand sales. As a result, sales and sales volume of wheat flour in Japan increased compared with the same period of the previous year.

The sales and sales volume of wheat bran, a by-product, were lower than the figures for the same period of the previous year.

As a result, net sales for the Flour Milling segment increased by 3.3% year on year to ¥50,652 million, and operating income decreased by 52.4% to ¥1,036 million.

2) Food

In the professional-use category, the Group engaged in vigorous marketing, including participation in various exhibitions, such as FABEX 2014, a trade show for the catering and take-out food sectors, and the holding of Italian cookery workshops. However, sales of professional-use products decreased compared with the same period of the previous year, partly owing to a decrease in sales volumes of premixes and pasta products.

In the home-use product category, we emphasized development of products that deliver customer satisfaction by meeting needs and making things easier in the kitchen. We also vigorously promoted proposal-driven sales, for example by offering in-store merchandising proposals, in order to promote sales of our core products and new products. Sales of pasta sauces were brisk and, as a result, sales of home-use products exceeded the level for the same period of the previous year.

With regard to frozen foods, we launched the Oh' my Premium "Vege-Full" Series, with the theme of making up for the deficiency of vegetable intake, as part of the Oh' my Premium series of high-grade pasta dishes for home use, which are our mainstay products. At the same time, we redesigned the existing products to enrich the line-up. Sales of frozen pasta dishes designed for lunch-box use continued to be buoyant. As a result, sales of frozen foods for professional use and those for home use were both higher than for the same period of the previous year, in terms of both volume and value, despite intensifying sales competition.

Sales of deli-products increased compared with the same period of the previous year in the context of the emergence of increasingly diverse demand in line with population aging, greater participation of women in society, and a rise in the number of single-person households.

As a result, net sales of the Food segment increased by 5.8% year on year to ¥82,371 million, and operating income decreased by 11.1% to ¥2,665 million.

3) Other

Sales of the donut business, pet food and engineering businesses were higher than for the same period of the previous year.

As a result, net sales for the Other segment increased by 8.8% year on year to ¥14,627 million, and operating income decreased by 64.6% to ¥18 million.

(2) Qualitative information on consolidated financial position

Total assets at the end of the first half under review increased by ¥13,046 million from the previous fiscal year end (March 31, 2014) to ¥239,849 million. This was mainly because investment securities, raw materials and supplies, cash and deposits, and property, plant and equipment increased by ¥3,934 million, ¥3,179 million, ¥2,864 and ¥1,432, respectively.

Total liabilities increased by ¥7,311 million from the previous fiscal year end to ¥112,478 million. This was mainly because commercial papers, other non-current liabilities and trade notes and accounts payable increased by ¥4,000 million, ¥2,186 million and ¥1,435 million, respectively.

Net assets increased by ¥5,734 million from the previous fiscal year end to ¥127,371 million. This was mainly attributable to the increase in valuation difference on available-for-sale securities, retained earnings and minority interests by ¥2,232 million, ¥2,017 million and ¥1,460 million, respectively.

(Cash flows)

The balance of cash and cash equivalents at the end of the first half under review stood at ¥14,966 million, an increase of ¥2,763 million compared with the end of previous fiscal year.

The conditions of cash flows were as follows.

Net cash provided by operating activities amounted to ¥3,390 million compared with ¥8,544 million for the same period of the previous year. The main factors were income before income taxes of ¥4,521 million, depreciation of ¥3,868 million, an increase in inventories of ¥2,978 million, and payment of income taxes of ¥2,555 million.

Net cash used in investing activities amounted to ¥3,487 million compared with ¥2,440 million for the same period of the previous year. The main factors were purchase of property, plant and equipment amounting to ¥2,593 million and purchase of investment securities amounting to ¥916 million.

Net cash provided by financing activities amounted to ¥2,929 million compared with ¥8,572 million for the same period of the previous year. This mainly reflected an increase of commercial paper amounting to ¥4,000 million and payment of dividends of ¥994 million.

(3) Qualitative information on forecast of the consolidated financial results

In view of the consolidated financial results for the first half of the fiscal year ending March 31, 2015, the forecast of the consolidated financial results for the full year announced on May 14, 2014 has been revised as follows.

Revision of forecast of the consolidated financial results for FY2015 (From April 1, 2014 to March 31, 2015)

	Net sales	Operating income	Ordinary income	Net income	Net Income per Share
Previous forecast (A)	300,000	10,000	11,000	6,800	41.11
Revised forecast (B)	305,000	8,500	9,500	6,300	38.10
Change (B-A)	5,000	(1,500)	(1,500)	(500)	—
Rate of change (%)	1.7	(15.0)	(13.6)	(7.4)	—
(Ref.) Results for FY2014 (fiscal year ended March 31, 2014)	287,109	10,808	12,248	7,810	47.23

2. Information about the Summary of Business Results (Notes)**(1) Significant changes in subsidiaries during the current quarter**

There is no related information.

(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements

There is no related information.

(3) Changes in accounting policies, accounting estimates and restatements of revisions

(Changes in accounting policies)

Effective from the first quarter of the fiscal year ending March 31, 2015, the Company adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter the “Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 issued on May 17, 2012, hereinafter the “Guidance”) pursuant to the main clause of Paragraph 35 of the Standard and the main clause of Paragraph 67 of the Guidance, reviewed the method of calculating retirement benefit obligations and current service costs, and changed the method of determining the discount rate. The method of attributing expected benefit to periods was changed from the straight-line method to the benefit formula basis. The method of determining the discount rate was changed from the use of the discount rate based on the number of years approximating to the expected average remaining working lives of employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

For application of the Standard and the Guidance, the Company followed the transitional treatment stipulated in Paragraph 37 of the Standard, and included the impact of the change in the calculation method of retirement benefit obligations and service costs in retained earnings at the beginning of the six months of the fiscal year ending March 31, 2015.

As a result, at the beginning of the first six months of the fiscal year ending March 31, 2015, net defined benefit liability increased by ¥125 million and retained earnings decreased by ¥124 million. The impact on operating income, ordinary income, and income before income taxes for the first six months of the fiscal year ending March 31, 2015 is negligible.

3. Quarterly Consolidated Financial Statements**(1) Quarterly consolidated balance sheets**

(Millions of yen)

	FY2014 (As of March 31, 2014)	First half of FY2015 (As of September 30, 2014)
Assets		
Current assets		
Cash and deposits	12,859	15,723
Notes and accounts receivable - trade	39,131	38,483
Securities	1	1
Merchandise and finished goods	14,105	14,876
Work in process	297	296
Raw materials and supplies	17,776	20,956
Other	3,672	4,180
Allowance for doubtful accounts	(324)	(135)
Total current assets	87,520	94,382
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	29,756	30,612
Machinery, equipment and vehicles, net	18,879	18,812
Land	32,671	34,562
Construction in progress	1,716	377
Other, net	2,018	2,110
Total property, plant and equipment	85,042	86,474
Intangible assets		
Goodwill	734	563
Other	808	782
Total intangible assets	1,543	1,346
Investments and other assets		
Investment securities	47,915	51,850
Other	5,112	6,348
Allowance for doubtful accounts	(330)	(551)
Total investments and other assets	52,698	57,647
Total noncurrent assets	139,283	145,467
Total assets	226,803	239,849

	FY2014 (As of March 31, 2014)	First half of FY2015 (As of September 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	25,769	27,205
Short-term loans payable	19,767	22,918
Income taxes payable	2,604	1,098
Provision for bonuses	454	503
Other	13,775	17,133
Total current liabilities	62,370	68,858
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	15,104	13,913
Provision for retirement benefits	4,488	4,510
Provision for directors' retirement benefits	1,105	911
Other	12,098	14,284
Total noncurrent liabilities	42,796	43,620
Total liabilities	105,167	112,478
Net assets		
Shareholders' equity		
Capital stock	12,240	12,240
Capital surplus	10,666	10,666
Retained earnings	83,519	85,536
Treasury stock	(1,607)	(1,608)
Total shareholders' equity	104,818	106,835
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,609	16,842
Deferred gain or loss on hedges	3	14
Foreign currency translation adjustment	363	233
Remeasurements of defined benefit plans	(1,436)	(1,308)
Total accumulated other comprehensive income	13,539	15,781
Subscription rights to shares	-	15
Minority interests	3,278	4,738
Total net assets	121,636	127,371
Total liabilities and net assets	226,803	239,849

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)

(Millions of yen)

	First half of FY2014 (From April 1, 2013 to September 30, 2013)	First half of FY2015 (From April 1, 2014 to September 30, 2014)
Net sales	140,312	147,650
Cost of sales	103,413	110,091
Gross profit	36,898	37,559
Selling, general and administrative expenses	31,657	33,807
Operating income	5,241	3,752
Non-operating income		
Interest income	22	21
Dividend income	460	516
Other	750	384
Total non-operating income	1,232	921
Non-operating expenses		
Interest expenses	295	227
Other	186	199
Total non-operating expenses	481	427
Ordinary income	5,992	4,247
Extraordinary income		
Gain on sales of noncurrent assets	0	0
Gain on sales of investment securities	10	1
Insurance income	47	-
Gain on bargain purchase	37	491
Other	-	4
Total extraordinary income	96	497
Extraordinary losses		
Loss on sales and retirement of non-current assets	94	37
Loss on step acquisitions	-	131
Other	2	54
Total extraordinary losses	96	223
Income before income taxes	5,991	4,521
Income taxes-current	1,951	1,083
Income taxes-deferred	171	272
Total income taxes	2,122	1,356
Income before minority interests	3,869	3,165
Minority interests in income (loss)	20	30
Net income	3,848	3,135

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First half of FY2014 (From April 1, 2013 to September 30, 2013)	First half of FY2015 (From April 1, 2014 to September 30, 2014)
Income before minority interests	3,869	3,165
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	2,668	2,221
Deferred gains or losses on hedges	(23)	11
Foreign currency translation adjustment	348	(128)
Remeasurements of defined benefit plans, net of tax	-	127
Share of other comprehensive income of entities accounted for using equity method	6	15
Total other comprehensive income (loss)	3,000	2,247
Comprehensive income	6,869	5,413
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	6,840	5,362
Comprehensive income attributable to minority interests	29	50

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	First Half of FY2014 (From April 1, 2013 to September 30, 2013)	First Half of FY2015 (From April 1, 2014 to September 30, 2014)
Cash flows from operating activities		
Income before income taxes	5,991	4,521
Depreciation	3,909	3,868
Amortization of goodwill	137	172
Gain on bargain purchase	(37)	(491)
Increase (decrease) in allowance for doubtful accounts	58	(37)
Interest and dividend income	(482)	(537)
Interest expenses paid	295	227
Loss (gain) on sales of investment securities	(128)	(22)
Loss (gain) on valuation of investment securities	-	10
Share of profit of entities accounted for using equity method	(118)	(8)
Foreign exchange losses (gains)	(204)	9
Loss (gain) on sales of property, plant and equipment	3	(0)
Loss on retirement of intangible assets	94	40
Loss (gain) on step acquisitions	-	131
Decrease (increase) in notes and accounts receivable-trade	4,778	1,024
Decrease (increase) in inventories	1,316	(2,978)
Increase (decrease) in notes and accounts payable-trade	(3,522)	1,139
Other	(1,542)	(1,444)
Subtotal	10,548	5,625
Interest and dividends income received	503	550
Interest expenses paid	(271)	(229)
Income taxes paid	(2,235)	(2,555)
Net cash provided by (used in) operating activities	8,544	3,390
Cash flows from investing activities		
Purchase of investment securities	(694)	(916)
Proceeds from sales of investment securities	820	620
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	523	37
Purchase of property, plant and equipment	(3,074)	(2,593)
Proceeds from sales of property, plant and equipment	4	6
Payments of loans receivable	(74)	(613)
Collection of loans receivable	52	52
Other, net	1	(79)
Net cash provided by (used) in investing activities	(2,440)	(3,487)

Nippon Flour Mills Co., Ltd. (2001) Consolidated Financial Results for the First Half of FY2015
(Millions of yen)

	First Half of FY2014 (From April 1, 2013 to September 30, 2013)	First Half of FY2015 (From April 1, 2014 to September 30, 2014)
Cash flows from financing activities		
Net increase (decrease) of short-term loans payable	401	458
Increase (decrease) of commercial paper	(2,000)	4,000
Proceeds from long-term loans payable	3,580	545
Repayments of long-term loans payable	(2,004)	(872)
Proceeds from issuance of bonds	9,926	-
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	0	0
Repayments of lease obligations	(161)	(189)
Cash dividends paid	(1,160)	(994)
Cash dividends paid to minority shareholders	(8)	(18)
Net cash provided by (used in) financing activities	8,572	2,929
Effect of exchange rate change on cash and cash equivalents	201	(68)
Net increase (decrease) in cash and cash equivalents	14,877	2,763
Cash and cash equivalents at beginning of the term	10,000	12,202
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(60)	-
Cash and cash equivalents at end of the term	24,816	14,966

(4) Notes on quarterly consolidated financial statements**(Notes on going concern assumption)**

There is no related information.

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

There is no related information.

(Segment information)

I. First half of FY2014 (From April 1, 2013 to September 30, 2013)

1. Information of sales and income (loss) by reporting segment

(Millions of yen)

	Reporting segments			Other (Note) 1	Total	Adjustments (Note) 2	Amounts recorded on quarterly consolidated statements of income (Note) 3
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	49,020	77,853	126,873	13,438	140,312	—	140,312
Internal sales or transfers between segments	1,119	281	1,401	1,050	2,451	(2,451)	—
Total	50,139	78,135	128,275	14,488	142,763	(2,451)	140,312
Segment income	2,177	2,996	5,174	55	5,230	11	5,241

Notes: 1. The "Other" column indicates businesses not included in the reporting segments, including pet food, health food and engineering.

2. The ¥11 million segment income adjustment is an elimination of inter-segment transactions.

3. Segment income is reconciled to operating income in the quarterly consolidated statements of income.

II. First half of FY2015 (From April 1, 2014 to September 30, 2014)

1. Information of sales and income (loss) by reporting segment

(Millions of yen)

	Reporting segments			Other (Note) 1	Total	Adjustments (Note) 2	Amounts recorded on quarterly consolidated statements of income (Note) 3
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	50,652	82,371	133,023	14,627	147,650	—	147,650
Internal sales or transfers between segments	1,088	270	1,358	805	2,164	(2,164)	—
Total	51,741	82,641	134,382	15,432	149,815	(2,164)	147,650
Segment income	1,036	2,665	3,701	18	3,720	31	3,752

Notes: 1. The "Other" column indicates businesses not included in the reporting segments, including pet food, health food and engineering.

2. The ¥31 million segment income adjustment is an elimination of inter-segment transactions.

3. Segment income is reconciled to operating income in the quarterly consolidated statements of income.