

Consolidated Financial Results for the First Quarter of FY2018 [J-GAAP]

August 4, 2017

Listed company name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange
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 Representative: Masayuki Kondo, President and Chief Operating Officer
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 Filing date of quarterly financial report: August 10, 2017
 Start of cash dividend payments: —
 Supplementary quarterly materials prepared: None
 Quarterly results information meeting held: None

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

1. Consolidated financial results for the first quarter of FY2018 (From April 1, 2017 to June 30, 2017)

(1) Consolidated operating results (cumulative)

(Millions of yen, percentage figures show the rate of change from the same period in the previous year.)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent	
1Q of FY2018	80,274	2.3%	2,027	(28.1)%	2,841	(19.6)%	1,777	(34.4)%
1Q of FY2017	78,459	3.1%	2,818	33.3%	3,535	19.9%	2,708	27.7%

(Note) Comprehensive income: 1Q of FY2018: ¥4,887 million (273.6%)

1Q of FY2017: ¥1,308 million (-64.9%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
1Q of FY2018	22.15	22.12
1Q of FY2017	33.71	33.67

* The Company conducted a 1-for-2 share consolidation on October 1, 2016. Amounts of profit per share and fully diluted profit per share presented above were calculated assuming that the share consolidation was conducted at the beginning of the previous fiscal year (FY2016).

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
1Q of FY2018	259,075	151,050	56.6%
FY2017	252,074	147,446	56.8%

(Reference) Equity capital: 1Q of FY2018: ¥146,727 million

FY2017: ¥143,174 million

2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2017	—	7.00	—	16.00	—
FY2018	—				
FY2018 (Forecast)		15.00	—	15.00	30.00

(Note) Adjustment for the most recent forecast of the dividends in the current term: None

* The Company conducted a 1-for-2 share consolidation on October 1, 2016. The amount of interim dividend for FY2017 presented above is the amount before the share consolidation, the amount of year-end dividend per share for FY2017 presented is the amount after the share consolidation, and the amount of total dividends per share for the full year for FY2017 is not presented (indicated by “—”). When converted to reflect the share consolidation, the amount of interim dividend per share for FY2017 is ¥14.00 and the amount of total dividends per share for the full year of FY2017 is ¥30.00.

3. Forecast of the consolidated financial results for FY2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen, percentage figures show the rates of changes from the same period of the previous year.)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Profit per Share (Yen)
Half year	165,000	5.5%	5,200	(3.7)%	6,000	(1.1)%	4,000	(3.6)%	49.85
Full year	335,000	7.1%	12,000	3.7%	13,500	2.6%	9,000	0.7%	112.17

(Note) Adjustment for the most recent forecast of the consolidated financial results in the current term: None

* 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: None
- 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 shares):	1Q of FY2018	82,524,009 shares	FY2017	82,524,009 shares
2) Number of treasury shares at the end of each period:	1Q of FY2018	2,225,056 shares	FY2017	2,252,383 shares
3) Average number of shares (quarterly consolidated cumulative period):	1Q of FY2018	80,244,287 shares	1Q of FY2017	80,343,278 shares

* The Company conducted a 1-for-2 share consolidation on October 1, 2016. The number of shares issued and outstanding (common stock) was calculated assuming that the share consolidation was conducted at the beginning of the previous fiscal year (FY2017).

* These consolidated financial results are outside the scope of audit.

* 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 3 for information on preconditions underlying the above outlook and other related information.

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1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Overview of business results

During the first three months of the fiscal year ending March 31, 2018, the Japanese economy remained robust against the backdrop of an improved labor market and stable stock prices. On the other hand, personal consumption continued to lack vigor because of little growth of disposable incomes, and the Japanese economy has not yet extricated itself from deflation.

The food industry is operating in a challenging environment. The market has been sluggish as consumers are becoming more frugal and fierce price competition is continuing.

In this business environment, the Group is strengthening the business foundation based on the fundamental measures implemented so far that are focused on cost reduction and sales expansion. In order to respond to the rapidly changing business environment, the Group reorganized the business structure in June 2017 and put in place a framework for expanding sales and strengthening cost competitiveness across the Group's business fields. In addition, we are vigorously promoting review and redeployment of production sites, including those of Group companies.

Regarding the Sendagaya 5-chome North District Type 1 Urban Redevelopment Project (tentative name: Shinjuku South Exit Project), which the Company has been promoting jointly with Mitsubishi Estate Co., Ltd., construction started in June 2017 and is scheduled to be completed in August 2019.

With regard to consolidated business results for the first three months of fiscal 2018, while net sales increased owing to increases in the food business and other businesses, profit decreased mainly due to an increase in advertising expenses in line with strategic advertising and sales promotion initiatives.

As a result, consolidated net sales for the first three months of fiscal 2018 increased by 2.3% year on year to ¥80,274 million, operating profit decreased by 28.1% to ¥2,027 million, ordinary profit decreased by 19.6% to ¥2,841 million, and profit attributable to owners of parent decreased by 34.4% to ¥1,777 million.

Results of each business segment are as follows.

1) Flour Milling

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 promoted sales initiatives with a view to resolving the issues that concern customers and held cookery workshops. By vigorously conducting these sales & marketing initiatives, we sought to expand sales. However, sales of wheat flour decreased compared with the same period of the previous year, affected by the wheat flour price revision in the previous year.

Sales of wheat bran, a by-product, were lower than the level for the same period of the previous year, although sales volume was higher than the level for the same period of the previous year.

In line with the increase of government sales prices (tax inclusive) of imported wheat by 4.6% on average for the five key products in April 2017, we revised the prices of wheat flour products for professional use for shipments on and after June 26, 2017.

As a result, net sales for the Flour Milling segment decreased by 6.2% year on year to ¥23,905 million, while operating profit increased by 0.4% to ¥1,118 million.

2) Food

In the professional-use category, the Group engaged in vigorous marketing, including participation in various exhibitions and the holding of Italian cookery workshops. As a result, sales of products in the professional-use category increased compared with the same period of the previous year.

In the home-use product category, we are executing strategic advertising and sales promotion initiatives to enhance the brand value, including the launch of TV commercials expressing the concept of the REGALO premium pasta brand. We also vigorously promoted proposal-driven sales, for example by offering in-store merchandising proposals, in order to promote sales of our core products.

Sales of products in this category, however, decreased compared with the same period of the previous year, reflecting a challenging business environment with consumers oriented toward lower prices.

In frozen foods, we strove to expand sales of frozen pasta to a wide range of customers by responding to diverse needs with a more extensive range of products, including the Oh' my PLUS series of health-conscious products and the Oh' my Yokubari Plate series of one-plate dishes consisting of a main dish and staples in addition to the mainstay Oh' my Premium series. However, overall sales volumes were sluggish and sales of frozen foods were below the level for the same period of the previous year.

Sales of deli-products increased compared with the same period of the previous year because of an increase in sales volumes.

As a result, net sales of the Food segment increased by 7.0% year on year to ¥47,924 million, while operating profit decreased by 44.5% to ¥887 million.

3) Other

Sales of the pet care business were higher than for the same period of the previous year because of growing sales of upmarket products. Sales of the engineering business exceeded the level for the same period of the previous year.

As a result, net sales for the Other segment increased by 3.2% year on year to ¥8,444 million, while operating profit decreased by 89.6% to ¥10 million.

(2) Overview of financial position

Total assets at the end of the first three months of fiscal 2018 increased by ¥7,001 million from the previous fiscal year end (March 31, 2017) to ¥259,075 million. This was mainly because investment securities, cash and deposits and buildings and structures, net increased by ¥4,284 million, ¥2,704 million and ¥1,793 million, respectively, and notes and accounts receivable - trade decreased by ¥2,639 million.

Total liabilities increased by ¥3,397 million from the previous fiscal year end to ¥108,025 million. This was mainly because long-term loans payable, short-term loans payable and notes and accounts payable - trade increased by ¥1,650 million, ¥1,606 million and ¥1,569 million, respectively, and income taxes payable decreased by ¥1,927 million.

Net assets increased by ¥3,604 million from the previous fiscal year end to ¥151,050 million. This was mainly attributable to the increases in valuation difference on available-for-sale securities and retained earnings by ¥2,958 million and ¥490 million, respectively.

(3) Information on forecast of the consolidated financial results

The forecast of the financial results for the fiscal year ending March 31, 2018 is unchanged from the forecasts announced on May 12, 2017.

2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly consolidated balance sheets**

(Millions of yen)

	FY2017 (As of March 31, 2017)	First quarter of FY2018 (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	16,588	19,292
Notes and accounts receivable - trade	41,982	39,342
Merchandise and finished goods	14,172	14,598
Work in process	215	245
Raw materials and supplies	14,717	16,168
Other	4,724	3,663
Allowance for doubtful accounts	(125)	(92)
Total current assets	92,275	93,218
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	32,562	34,356
Machinery, equipment and vehicles, net	17,266	17,584
Land	36,858	37,085
Construction in progress	1,714	1,275
Other, net	1,979	1,940
Total property, plant and equipment	90,380	92,241
Intangible assets		
Goodwill	664	631
Other	632	603
Total intangible assets	1,297	1,235
Investments and other assets		
Investment securities	62,055	66,340
Other	6,411	6,377
Allowance for doubtful accounts	(345)	(336)
Total investments and other assets	68,121	72,380
Total non-current assets	159,799	165,857
Total assets	252,074	259,075

(Millions of yen)

	FY2017 (As of March 31, 2017)	First quarter of FY2018 (As of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	25,623	27,193
Short-term loans payable	19,022	20,628
Current portion of bonds	–	5,000
Income taxes payable	2,231	304
Provision for bonuses	601	653
Other	16,435	15,675
Total current liabilities	63,914	69,455
Non-current liabilities		
Bonds payable	10,000	5,000
Long-term loans payable	9,877	11,528
Net defined benefit liability	5,151	5,083
Provision for directors' retirement benefits	900	783
Other	14,784	16,173
Total non-current liabilities	40,714	38,570
Total liabilities	104,628	108,025
Net assets		
Shareholders' equity		
Capital stock	12,240	12,240
Capital surplus	11,412	11,416
Retained earnings	98,361	98,852
Treasury shares	(2,668)	(2,635)
Total shareholders' equity	119,346	119,874
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,515	27,473
Deferred gain or loss on hedges	(12)	7
Foreign currency translation adjustment	545	455
Remeasurements of defined benefit plans	(1,220)	(1,083)
Total accumulated other comprehensive income	23,828	26,853
Subscription rights to shares	169	151
Non-controlling interests	4,102	4,170
Total net assets	147,446	151,050
Total liabilities and net assets	252,074	259,075

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

(Millions of yen)

	First quarter of FY2017 (From April 1, 2016 to June 30, 2016)	First quarter of FY2018 (From April 1, 2017 to June 30, 2017)
Net sales	78,459	80,274
Cost of sales	57,285	58,703
Gross profit	21,173	21,571
Selling, general and administrative expenses	18,355	19,543
Operating profit	2,818	2,027
Non-operating income		
Interest income	20	14
Dividend income	656	656
Other	297	273
Total non-operating income	974	944
Non-operating expenses		
Interest expenses	81	64
Foreign exchange losses	138	23
Other	37	42
Total non-operating expenses	256	130
Ordinary profit	3,535	2,841
Extraordinary income		
Gain on sales of non-current assets	0	–
Gain on sales of investment securities	383	–
Total extraordinary income	384	–
Extraordinary losses		
Loss on sales and retirement of non-current assets	65	21
Loss on valuation of investment securities	31	99
Building demolition expenses	70	–
Other	12	53
Total extraordinary losses	180	174
Income before income taxes	3,740	2,667
Income taxes - current	659	280
Income taxes - deferred	328	528
Total income taxes	988	809
Profit	2,751	1,858
Profit attributable to non-controlling interests	43	80
Profit attributable to owners of parent	2,708	1,777

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First quarter of FY2017 (From April 1, 2016 to June 30, 2016)	First quarter of FY2018 (From April 1, 2017 to June 30, 2017)
Profit	2,751	1,858
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(1,295)	2,960
Deferred gains or losses on hedges	(36)	20
Foreign currency translation adjustment	(280)	(87)
Remeasurements of defined benefit plans, net of tax	175	136
Share of other comprehensive income of entities accounted for using equity method	(6)	(1)
Total other comprehensive income (loss)	(1,443)	3,028
Comprehensive income	1,308	4,887
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,265	4,802
Comprehensive income attributable to non-controlling interests	42	84

(3) 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, etc.)

[Segment information]

I. First Quarter of FY2017 (From April 1, 2016 to June 30, 2016)

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	25,479	44,792	70,272	8,186	78,459	—	78,459
Internal sales or transfers between segments	567	199	766	483	1,250	(1,250)	—
Total	26,047	44,991	71,038	8,670	79,709	(1,250)	78,459
Segment income	1,114	1,598	2,712	105	2,818	(0)	2,818

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

2. The ¥ (0) million segment income adjustment is an elimination of inter-segment transactions.

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

2. Information about impairment loss on non-current assets and about goodwill etc. by reportable segment

There is no related information.

II. First Quarter of FY2018 (From April 1, 2017 to June 30, 2017)

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	23,905	47,924	71,829	8,444	80,274	—	80,274
Internal sales or transfers between segments	455	162	618	596	1,214	(1,214)	—
Total	24,361	48,087	72,448	9,041	81,489	(1,214)	80,274
Segment income	1,118	887	2,006	10	2,017	10	2,027

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

2. The ¥10 million segment income adjustment is an elimination of inter-segment transactions.

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

2. Information about impairment loss on non-current assets and about goodwill etc. by reportable segment

There is no related information.