

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

November 7, 2017

Listed company name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange
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 Filing date of quarterly financial report: November 14, 2017
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 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 FY2018 (From April 1, 2017 to September 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	
First half of FY2018	160,760	2.8%	4,501	(16.7)%	5,484	(9.6)%	3,551	(14.5)%
First half of FY2017	156,404	0.8%	5,401	7.2%	6,069	1.9%	4,151	3.4%

(Note) Comprehensive income: First half of FY2018: ¥7,551 million (86.1%)
 First half of FY2017: ¥4,057 million (73.8%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
First half of FY2018	44.25	44.17
First half of FY2017	51.73	51.65

* 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 (FY2017).

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
First half of FY2018	266,373	153,735	56.1%
FY2017	252,074	147,446	56.8%

(Reference) Equity capital: First half of FY2018: ¥149,306 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	—	15.00			
FY2018 (Forecast)			—	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)
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):	First half of FY2018	82,524,009 shares	FY2017	82,524,009 shares
2) Number of treasury shares at the end of each period:	First half of FY2018	2,225,239 shares	FY2017	2,252,383 shares
3) Average number of shares (quarterly consolidated cumulative period):	First half of FY2018	80,253,291 shares	First half of FY2017	80,251,582 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) Information on forecast of the consolidated financial results” on page 4 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 half of the fiscal year ending March 31, 2018, the Japanese economy remained on a moderate recovery track, against the backdrop of the government's economic policy and the Bank of Japan's monetary easing. It is reported that the current economic growth phase is the second-longest economic boom in the postwar period, exceeding the "Izanagi boom" that ran from November 1965 to July 1970. However, personal consumption lacks vigor and the economic growth has not brought about a real feeling of prosperity. Moreover, there are concerns about the impact of negative factors on the Japanese economy, such as anxiety regarding the policies of the U.S. administration and North Korea's actions. Thus, the outlook of the Japanese economy remains uncertain.

The food industry is operating in a challenging environment. While price competition among companies is intensifying, reflecting prevailing frugality of consumers, cost increases owing to high prices of raw materials and labor shortages are heavy burdens on corporate management.

In order to respond flexibly and swiftly to the unceasingly changing 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. The fundamental measures are fivefold: 1) promote low-cost operations, 2) promote total optimization of the Group's operations, 3) re-establish the business structure and business portfolio, 4) respond to changes, and 5) promote CSR management.

Based on these strategies, the Group will take up various challenges, including vigorous investment in promising fields and review of production sites, including those of group companies, with the aim of achieving sustainable growth.

We are also emphasizing R&D with a view to future prosperity. In addition to development of SETODURE, Japan's first durum wheat, and wheat with starch degradation resistance, we have developed and exhibited a state-of-the-art topping robot, which can collaborate with operators on the same production line, at the FOOMA JAPAN 2017 (International Food Machinery & Technology Exhibition) held in June 2017.

Moreover, in August 2017 we released Flaxseed Oil Mini Pack, a "food with function claims," and Urutsuya Ceramide for retailing in handy portions. We are continuing business development in the healthcare field, in response to the rapid aging of society.

With regard to consolidated business results for the first half 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 half of fiscal 2018 increased by 2.8% year on year to ¥160,760 million, operating profit decreased by 16.7% to ¥4,501 million, ordinary profit decreased by 9.6% to ¥5,484 million, and profit attributable to owners of parent decreased by 14.5% to ¥3,551 million.

The performance of individual business segments was as follows.

1) Flour Milling

While strengthening quality control, the Group is reinforcing product development by quickly reflecting customer needs and through proposal-driven sales, including making of proposals for price-quality improvement and provision of useful information. Moreover, we conducted sales & marketing initiatives, including participation in various trade shows and holding of workshops and seminars around Japan, some of which were for management. As a result, although shipped volume of wheat flour was higher than the level for the same period of the previous year, sales were lower than the level for 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 also 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 2.9% year on year to ¥47,888 million, while operating profit increased by 27.8% to ¥2,361 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. Shipment of premixes was brisk and in September 2017, we began full-scale promotion of Ferrara, a brand for pasta produced in Italy. 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, along with the launch of the REGALO brand for premium pasta produced in Japan, we executed sales promotion initiatives, including TV commercials. In view of the popularity of the REGALO Pasta Sauce series, which pursues the authentic Italian taste, we introduced new products in the series to further expand sales. However, sales in the home-use product category decreased compared with the same period of the previous year, reflecting a challenging business environment in which consumers' frugality prevailed.

In frozen foods, we strengthened the line of products in trays by launching the new brand Oh' my Pasta! Pasta! in addition to the Oh' my Premium series of one-person-portion frozen pasta dishes. Moreover, by enriching the line-up of the Imadoki Gohan series of rice dishes in trays, which are popular among single-person households and double-income households, and the Yokubari Plate series of one-plate dishes consisting of a main dish and staples, we adjusted our product offerings to meet diverse customer needs. As a result, sales of frozen foods were unchanged from the same period of the previous year despite a challenging environment.

Sales of deli-products increased compared with the same period of the previous year because of expansion of the business

As a result, net sales of the Food segment increased by 6.0% year on year to ¥96,266 million, while operating profit decreased by 36.3% to ¥2,141 million.

3) Other

Sales of the engineering business were higher than the level for the same period of the previous year. The pet care business also remained brisk and its sales exceeded the same period of the previous year. However, sales of the restaurant business were lower than the level for the same period of the previous year.

As a result, net sales of the Other segment increased by 2.3% year on year to ¥16,605 million.

(2) Overview of financial position

1) Assets, liabilities and net assets

Total assets at the end of the first half of fiscal 2018 increased by ¥14,299 million from the previous fiscal year end (March 31, 2017) to ¥266,373 million. This was mainly because investment securities, property, plant and equipment and cash and deposits increased by ¥5,264 million, ¥2,568 million and ¥2,538 million, respectively.

Total liabilities increased by ¥8,009 million from the previous fiscal year end to ¥112,638 million. This was mainly because long-term loans payable, notes and accounts payable - trade and short-term loans payable increased by ¥2,600 million, ¥2,562 million and ¥2,211 million, respectively.

Net assets increased by ¥6,289 million from the previous fiscal year end to ¥153,735 million. This was mainly attributable to the increases in valuation difference on available-for-sale securities and retained earnings by ¥3,579 million and ¥2,266 million, respectively.

2) Cash flows

The balance of cash and cash equivalents at the end of the first half of fiscal 2018 stood at ¥16,551 million, an increase of ¥2,183 million compared with the end of the previous fiscal year. The conditions of cash flows were as follows:

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥6,279 million compared with ¥8,582 million for the same period of the previous year. This mainly reflected ¥5,281 million for profit before income taxes, ¥3,759 million for depreciation and ¥1,990 million for income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥7,376 million compared with ¥6,505 million for the same period of the previous year. This mainly reflected spending of ¥6,546 million for purchase of non-current assets.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥3,276 million compared with net cash used in financing activities amounting to ¥6,795 million for the same period of the previous year. Main factors were proceeds from long-term loans payable amounting to ¥4,636 million while cash dividends paid amounted to ¥1,286 million.

(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 half of FY2018 (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	16,588	19,126
Notes and accounts receivable - trade	41,982	44,420
Merchandise and finished goods	14,172	14,324
Work in process	215	366
Raw materials and supplies	14,717	16,856
Other	4,724	4,444
Allowance for doubtful accounts	(125)	(98)
Total current assets	92,275	99,439
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	32,562	34,344
Machinery, equipment and vehicles, net	17,266	17,732
Land	36,858	37,391
Construction in progress	1,714	1,537
Other, net	1,979	1,942
Total property, plant and equipment	90,380	92,948
Intangible assets		
Goodwill	664	666
Other	632	629
Total intangible assets	1,297	1,295
Investments and other assets		
Investment securities	62,055	67,320
Other	6,411	5,714
Allowance for doubtful accounts	(345)	(345)
Total investments and other assets	68,121	72,689
Total non-current assets	159,799	166,934
Total assets	252,074	266,373

(Millions of yen)

	FY2017 (As of March 31, 2017)	First half of FY2018 (As of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	25,623	28,186
Short-term loans payable	19,022	21,234
Current portion of bonds	–	5,000
Income taxes payable	2,231	1,619
Provision for bonuses	601	656
Other	16,435	16,238
Total current liabilities	63,914	72,934
Non-current liabilities		
Bonds payable	10,000	5,000
Long-term loans payable	9,877	12,478
Net defined benefit liability	5,151	4,980
Provision for directors' retirement benefits	900	768
Other	14,784	16,475
Total non-current liabilities	40,714	39,703
Total liabilities	104,628	112,638
Net assets		
Shareholders' equity		
Capital stock	12,240	12,240
Capital surplus	11,412	11,415
Retained earnings	98,361	100,628
Treasury shares	(2,668)	(2,635)
Total shareholders' equity	119,346	121,649
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,515	28,094
Deferred gain or loss on hedges	(12)	9
Foreign currency translation adjustment	545	499
Remeasurements of defined benefit plans	(1,220)	(946)
Total accumulated other comprehensive income	23,828	27,656
Subscription rights to shares	169	171
Non-controlling interests	4,102	4,257
Total net assets	147,446	153,735
Total liabilities and net assets	252,074	266,373

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

(Millions of yen)

	First half of FY2017 (From April 1, 2016 to September 30, 2016)	First half of FY2018 (From April 1, 2017 to September 30, 2017)
Net sales	156,404	160,760
Cost of sales	114,049	117,298
Gross profit	42,355	43,462
Selling, general and administrative expenses	36,953	38,960
Operating profit	5,401	4,501
Non-operating income		
Interest income	35	33
Dividend income	667	685
Other	508	500
Total non-operating income	1,211	1,218
Non-operating expenses		
Interest expenses	159	130
Foreign exchange losses	243	21
Other	141	83
Total non-operating expenses	544	235
Ordinary profit	6,069	5,484
Extraordinary income		
Gain on sales of non-current assets	0	–
Gain on sales of investment securities	383	22
Total extraordinary income	384	22
Extraordinary losses		
Loss on sales and retirement of non-current assets	97	58
Loss on valuation of investment securities	17	100
Building demolition expenses	70	–
Expenses related to relocation of the head office	285	–
Other	12	66
Total extraordinary losses	483	224
Profit before income taxes	5,970	5,281
Income taxes - current	1,643	1,544
Income taxes - deferred	44	15
Total income taxes	1,687	1,560
Profit	4,282	3,721
Profit attributable to non-controlling interests	131	169
Profit attributable to owners of parent	4,151	3,551

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First half of FY2017 (From April 1, 2016 to September 30, 2016)	First half of FY2018 (From April 1, 2017 to September 30, 2017)
Profit	4,282	3,721
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	117	3,546
Deferred gains or losses on hedges	15	21
Foreign currency translation adjustment	(697)	(44)
Remeasurements of defined benefit plans, net of tax	355	273
Share of other comprehensive income of entities accounted for using equity method	(15)	33
Total other comprehensive income (loss)	(225)	3,830
Comprehensive income	4,057	7,551
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	3,914	7,379
Comprehensive income attributable to non-controlling interests	143	171

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	First half of FY2017 (From April 1, 2016 to September 30, 2016)	First half of FY2018 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	5,970	5,281
Depreciation	3,690	3,759
Amortization of goodwill	61	73
Increase (decrease) in allowance for doubtful accounts	(57)	(25)
Interest and dividend income	(702)	(718)
Interest expenses	159	130
Loss (gain) on sales of investment securities	(386)	(31)
Loss (gain) on valuation of investment securities	17	100
Share of (profit) loss of entities accounted for using equity method	(152)	(152)
Foreign exchange losses (gains)	239	17
Loss (gain) on sales of non-current assets	(0)	–
Loss on retirement of non-current assets	99	58
Decrease (increase) in notes and accounts receivable - trade	2,469	(2,384)
Decrease (increase) in inventories	2,355	(2,372)
Increase (decrease) in notes and accounts payable - trade	(2,026)	2,525
Other, net	(1,096)	1,410
Subtotal	10,639	7,671
Interest and dividend income received	723	729
Interest expenses paid	(161)	(130)
Income taxes paid	(2,618)	(1,990)
Net cash provided by (used in) operating activities	8,582	6,279
Cash flows from investing activities		
Decrease (increase) in time deposits	29	(346)
Purchase of investment securities	(710)	(501)
Proceeds from sales of investment securities	1,070	451
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,243)	(461)
Purchase of non-current assets	(5,146)	(6,546)
Proceeds from sales of non-current assets	0	6
Payments of loans receivable	(504)	(10)
Collection of loans receivable	12	12
Other, net	(13)	17
Net cash provided by (used in) investing activities	(6,505)	(7,376)

(Millions of yen)

	First half of FY2017 (From April 1, 2016 to September 30, 2016)	First half of FY2018 (From April 1, 2017 to September 30, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	21	793
Proceeds from long-term loans payable	1,344	4,636
Repayments of long-term loans payable	(5,759)	(685)
Purchase of treasury shares	(926)	(0)
Repayments of lease obligations	(174)	(163)
Cash dividends paid	(1,288)	(1,286)
Dividends paid to non-controlling interests	(11)	(16)
Other, net	0	(0)
Net cash provided by (used in) financing activities	(6,795)	3,276
Effect of exchange rate change on cash and cash equivalents	(322)	(22)
Net increase (decrease) in cash and cash equivalents	(5,040)	2,157
Cash and cash equivalents at beginning of period	20,776	14,368
Increase in cash and cash equivalents from newly consolidated subsidiary	–	25
Cash and cash equivalents at end of period	15,735	16,551

(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, etc.)

[Segment information]

I. First Half of FY2017 (From April 1, 2016 to September 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	49,339	90,840	140,179	16,224	156,404	—	156,404
Internal sales or transfers between segments	1,092	334	1,426	1,167	2,593	(2,593)	—
Total	50,431	91,174	141,606	17,391	158,998	(2,593)	156,404
Segment income	1,848	3,359	5,207	204	5,411	(10)	5,401

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.

II. First Half of FY2018 (From April 1, 2017 to September 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	47,888	96,266	144,155	16,605	160,760	—	160,760
Internal sales or transfers between segments	906	332	1,238	1,208	2,446	(2,446)	—
Total	48,794	96,599	145,393	17,814	163,207	(2,446)	160,760
Segment income (loss)	2,361	2,141	4,502	(7)	4,495	6	4,501

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

2. The ¥6 million segment income (loss) adjustment is an elimination of inter-segment transactions.

3. Segment income (loss) 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.