

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

February 6, 2018

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: February 13, 2018
 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 third quarter of FY2018 (From April 1, 2017 to December 31, 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	
3Q of FY2018	245,108	3.2%	7,622	(15.7)%	9,311	(10.8)%	6,243	(12.7)%
3Q of FY2017	237,491	0.5%	9,045	3.1%	10,434	1.7%	7,150	0.7%

(Note) Comprehensive income: 3Q of FY2018: ¥13,593 million (16.5%)
 3Q of FY2017: ¥11,665 million (59.0%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
3Q of FY2018	77.80	77.65
3Q of FY2017	89.17	89.03

* 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
3Q of FY2018	272,651	158,589	56.5%
FY2017	252,074	147,446	56.8%

(Reference) Equity capital: 3Q of FY2018: ¥154,051 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) Changes in accounting estimates: 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):	3Q of FY2018	82,524,009 shares	FY2017	82,524,009 shares
2) Number of treasury shares at the end of each period:	3Q of FY2018	2,225,329 shares	FY2017	2,252,383 shares
3) Average number of shares (quarterly consolidated cumulative period):	3Q of FY2018	80,256,199 shares	3Q of FY2017	80,192,553 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 nine months of the fiscal year ending March 31, 2018, the Japanese economy remained robust, supported by corporate earnings and the labor market, which have started to regain momentum thanks to Abenomics. The world economy was generally robust as well. The U.S. economy and European economies were brisk and emerging economies showed signs of recovery after recession. However, consumers in Japan have yet to feel that economic recovery is a reality, because, for example, the per capita wage has shown little growth.

The food industry is operating in a challenging environment. Price competition is intensifying, reflecting the prevailing frugality of consumers particularly in the restaurant and delicatessen markets. Moreover, unsettled weather adversely affected agricultural produce and labor shortages have emerged as a problem.

In order to achieve sustainable growth in this business environment, the Group is responding to diverse change as it takes up challenges leading to future growth while strengthening the business foundation focused on cost reduction and sales expansion.

The Group is promoting re-establishment of the business structure and optimization through vigorous investment in promising fields, including establishment of new production sites, expansion of existing production sites, and acquisition of business sites. In the R&D field, we have developed SETODURE, Japan's first durum wheat, and wheat with starch degradation resistance to reduce hardening of bread and will continue initiatives to widely contribute to the wheat flour secondary processing industry.

Meanwhile, we are also striving to enhance food safety at the existing sites. In October 2017, the Ryugasaki Plant gained certification for the management system based on the JFS-C food safety management standard. This certification requires satisfying the international food safety standards and the gaining of the certification by the Ryugasaki Plant is the first case in the premix industry.

Furthermore, as part of efforts to deal with the increasingly serious labor shortage problem, we exhibited a state-of-the-art topping robot, which can collaborate with operators on the same production line, at FOOMA JAPAN 2017 (International Food Machinery & Technology Exhibition) held in June 2017. Establishing an environment that enables production of safe and secure food at lower costs is expected to contribute to growth not only of the Group but also of the overall food industry.

With regard to consolidated business results for the first nine 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 nine months of fiscal 2018 increased by 3.2% year on year to ¥245,108 million, operating profit decreased by 15.7% to ¥7,622 million, ordinary profit decreased by 10.8% to ¥9,311 million, and profit attributable to owners of parent decreased by 12.7% to ¥6,243 million.

The performance of individual business segments was as follows.

1) Flour Milling

While strengthening quality control, the Group is working to strengthen partnerships with customers through sales designed to resolve their issues. Moreover, we conducted vigorous sales & marketing initiatives, including participation in various trade shows and holding of workshops and seminars around Japan, some of which were for management.

In line with the increase of government sales prices (tax inclusive) of imported wheat by 4.6% and by 3.6% on average for the five key products in April and October 2017, respectively, we revised the prices of wheat flour products in June and December 2017, respectively.

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 fiscal 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.

As a result, net sales for the Flour Milling segment decreased by 1.1% year on year to ¥73,646 million, while operating profit increased by 23.4% to ¥3,835 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. Following the completion of the construction of an additional production line at Pasta Montana, L.L.C. in the U.S., we are expanding sales. In addition, plans for increasing capacities of premix production facilities are being implemented at Group companies in Thailand and China to expand shipments in the dynamic Asian markets. 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 launched the REGALO brand for premium pasta produced in Japan. In particular, the REGALO Pasta Sauce series, which pursues the authentic Italian taste, is popular. In view of this popularity, we introduced new products in the series to further expand sales. In addition, we implemented vigorous sales expansion measures, including TV commercials and collaboration with Sukiyabashi Sabo cafes, which are supervised by Mr. Yoshihisa Akiyama, the executive chef of the Mutsukari Japanese restaurant.

In home-use frozen foods, in addition to the Oh' my Premium series, which is the leading brand in the market for frozen pasta dishes, we have the Oh' my PLUS series with an emphasis on health consciousness. Amid rising interest in healthy life expectancy, we are working to cultivate new demand. Moreover, we introduced new products in 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, to further enrich the line-ups. As a result, sales of frozen foods increased compared with the same period of the previous year.

Regarding deli-products, we constructed new factories or expanded production lines in Hidaka City, Saitama Prefecture, and Tsuchiura City, Ibaraki Prefecture, as part of efforts to expand and re-establish production sites. In the Chukyo area, in order to respond to expansion of the market for cooked noodle dishes, we began construction of a new factory in Chita City, Aichi Prefecture. We aim to begin its operation within 2018. As a result, sales of deli-products increased compared with the same period of the previous year.

As a result, net sales of the Food segment increased by 6.0% year on year to ¥145,875 million, while operating profit decreased by 32.4% to ¥3,581 million.

3) Other

Sales of the pet care business exceeded the level for the same period of the previous year. With the aim of achieving further growth in the expanding market for high-value-added products, we began construction of an additional production line. Sales of the engineering business were higher than the level for the same period of the previous year, reflecting an increase in inquiries for large projects. The biotechnology business was brisk and sales were higher than the level for the same period of the previous year.

As a result, net sales for the Other segment increased by 0.7% year on year to ¥25,586 million, while operating profit decreased by 67.4% to ¥207 million.

(2) Overview of financial position

Total assets at the end of the first nine months of FY2018 increased by ¥20,576 million from the previous fiscal year end (March 31, 2017) to ¥272,651 million. This was mainly because investment securities, notes and accounts receivable – trade, and cash and deposits increased by ¥9,752 million, ¥5,702 million and ¥4,256 million, respectively.

Total liabilities increased by ¥9,432 million from the previous fiscal year end to ¥114,061 million. This was mainly because other non-current liabilities, other current liabilities, short-term loans payable, and

long-term loans payable increased by ¥2,997 million, ¥2,775 million, ¥2,725 million and ¥2,198 million, respectively.

Net assets increased by ¥11,143 million from the previous fiscal year end to ¥158,589 million. This was mainly attributable to the increases in valuation difference on available-for-sale securities and retained earnings by ¥6,580 million and ¥3,752 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)	Third Quarter of FY2018 (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	16,588	20,845
Notes and accounts receivable - trade	41,982	47,685
Merchandise and finished goods	14,172	14,359
Work in process	215	140
Raw materials and supplies	14,717	14,686
Other	4,724	4,548
Allowance for doubtful accounts	(125)	(104)
Total current assets	92,275	102,160
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	32,562	33,971
Machinery, equipment and vehicles, net	17,266	17,269
Land	36,858	37,342
Construction in progress	1,714	1,667
Other, net	1,979	1,866
Total property, plant and equipment	90,380	92,117
Intangible assets		
Goodwill	664	629
Other	632	593
Total intangible assets	1,297	1,222
Investments and other assets		
Investment securities	62,055	71,808
Other	6,411	5,681
Allowance for doubtful accounts	(345)	(338)
Total investments and other assets	68,121	77,151
Total non-current assets	159,799	170,490
Total assets	252,074	272,651

(Millions of yen)

	FY2017 (As of March 31, 2017)	Third Quarter of FY2018 (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	25,623	26,032
Short-term loans payable	19,022	21,747
Current portion of bonds	–	5,000
Income taxes payable	2,231	1,176
Provision for bonuses	601	307
Other	16,435	19,211
Total current liabilities	63,914	73,476
Non-current liabilities		
Bonds payable	10,000	5,000
Long-term loans payable	9,877	12,076
Net defined benefit liability	5,151	4,937
Provision for directors' retirement benefits	900	789
Other	14,784	17,782
Total non-current liabilities	40,714	40,585
Total liabilities	104,628	114,061
Net assets		
Shareholders' equity		
Capital stock	12,240	12,240
Capital surplus	11,412	11,415
Retained earnings	98,361	102,113
Treasury shares	(2,668)	(2,635)
Total shareholders' equity	119,346	123,134
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,515	31,095
Deferred gain or loss on hedges	(12)	2
Foreign currency translation adjustment	545	628
Remeasurements of defined benefit plans	(1,220)	(808)
Total accumulated other comprehensive income	23,828	30,917
Subscription rights to shares	169	191
Non-controlling interests	4,102	4,346
Total net assets	147,446	158,589
Total liabilities and net assets	252,074	272,651

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

(Millions of yen)

	Third quarter of FY2017 (From April 1, 2016 to December 31, 2016)	Third quarter of FY2018 (From April 1, 2017 to December 31, 2017)
Net sales	237,491	245,108
Cost of sales	172,258	178,583
Gross profit	65,233	66,524
Selling, general and administrative expenses	56,187	58,901
Operating profit	9,045	7,622
Non-operating income		
Interest income	60	47
Dividend income	1,160	1,226
Share of profit of entities accounted for using equity method	279	236
Other	488	516
Total non-operating income	1,988	2,026
Non-operating expenses		
Interest expenses	223	198
Foreign exchange losses	166	18
Other	209	121
Total non-operating expenses	599	337
Ordinary profit	10,434	9,311
Extraordinary income		
Gain on sales of non-current assets	0	71
Gain on sales of investment securities	383	22
Total extraordinary income	384	94
Extraordinary losses		
Loss on sales and retirement of non-current assets	119	73
Loss on valuation of investment securities	16	100
Building demolition expenses	74	–
Expenses related to relocation of the head office	285	–
Other	22	76
Total extraordinary losses	517	249
Profit before income taxes	10,301	9,156
Income taxes - current	2,568	2,376
Income taxes - deferred	334	295
Total income taxes	2,902	2,671
Profit	7,398	6,484
Profit attributable to non-controlling interests	248	240
Profit attributable to owners of parent	7,150	6,243

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	Third quarter of FY2017 (From April 1, 2016 to December 31, 2016)	Third quarter of FY2018 (From April 1, 2017 to December 31, 2017)
Profit	7,398	6,484
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	4,393	6,565
Deferred gains or losses on hedges	107	14
Foreign currency translation adjustment	(763)	82
Remeasurements of defined benefit plans, net of tax	544	411
Share of other comprehensive income of entities accounted for using equity method	(16)	35
Total other comprehensive income (loss)	4,266	7,109
Comprehensive income	11,665	13,593
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	11,387	13,332
Comprehensive income attributable to non-controlling interests	277	260

(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. Third quarter of FY2017 (From April 1, 2016 to December 31, 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	74,488	137,588	212,077	25,413	237,491	—	237,491
Internal sales or transfers between segments	1,619	484	2,104	1,687	3,791	(3,791)	—
Total	76,108	138,073	214,182	27,101	241,283	(3,791)	237,491
Segment income	3,109	5,300	8,409	635	9,045	0	9,045

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 income 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. Third quarter of FY2018 (From April 1, 2017 to December 31, 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	73,646	145,875	219,522	25,586	245,108	—	245,108
Internal sales or transfers between segments	1,352	494	1,846	1,731	3,578	(3,578)	—
Total	74,998	146,369	221,368	27,318	248,686	(3,578)	245,108
Segment income	3,835	3,581	7,416	207	7,624	(1)	7,622

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

2. The ¥(1) 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.

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

There is no related information.