

# **Consolidated Financial Statements**

Year ended 31 March 2018 and 2017

Nippon Flour Mills Co.,Ltd.

## Independent Auditor's Report

The Board of Directors  
Nippon Flour Mills Co., Ltd.

We have audited the accompanying consolidated financial statements of Nippon Flour Mills Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Flour Mills Co., Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

June 28, 2018  
Tokyo, Japan

# 1. Consolidated financial statements

## (1) Consolidated financial statements

### (i) Consolidated balance sheets

(Millions of yen)

|                                               | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|-----------------------------------------------|----------------------------------|----------------------------------|
| Assets                                        |                                  |                                  |
| Current assets                                |                                  |                                  |
| Cash and deposits                             | 23,392                           | 16,588                           |
| Notes and accounts receivable - trade         | 45,303                           | 41,982                           |
| Merchandise and finished goods                | 14,481                           | 14,172                           |
| Work in process                               | 165                              | 215                              |
| Raw materials and supplies                    | 18,310                           | 14,717                           |
| Deferred tax assets                           | 1,465                            | 1,537                            |
| Other current assets                          | 3,663                            | 3,187                            |
| Allowance for doubtful accounts               | (172)                            | (125)                            |
| Total current assets                          | 106,608                          | 92,275                           |
| Non-current assets                            |                                  |                                  |
| Property, plant and equipment                 |                                  |                                  |
| Buildings and structures                      | 86,873                           | 83,590                           |
| Accumulated depreciation                      | (53,303)                         | (51,027)                         |
| Buildings and structures, net *2, *3          | 33,569                           | 32,562                           |
| Machinery, equipment and vehicles             | 111,075                          | 108,341                          |
| Accumulated depreciation                      | (93,438)                         | (91,074)                         |
| Machinery, equipment and vehicles, net *2, *3 | 17,636                           | 17,266                           |
| Land *3                                       | 37,373                           | 36,858                           |
| Construction in progress                      | 2,442                            | 1,714                            |
| Other                                         | 11,258                           | 11,030                           |
| Accumulated depreciation                      | (9,412)                          | (9,051)                          |
| Other, net *2, *3                             | 1,846                            | 1,979                            |
| Total property, plant and equipment           | 92,867                           | 90,380                           |
| Intangible assets                             | 1,424                            | 1,297                            |
| Investments and other assets                  |                                  |                                  |
| Investment securities *1, *3                  | 66,854                           | 62,055                           |
| Long-term loans receivable                    | 84                               | 839                              |
| Deferred tax assets                           | 1,382                            | 1,371                            |
| Net defined benefit asset                     | 95                               | 103                              |
| Other assets *3                               | 4,634                            | 4,097                            |
| Allowance for doubtful accounts               | (624)                            | (345)                            |
| Total investments and other assets            | 72,426                           | 68,121                           |
| Total non-current assets                      | 166,719                          | 159,799                          |
| Total assets                                  | 273,328                          | 252,074                          |

(Millions of yen)

|                                              | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|----------------------------------------------|----------------------------------|----------------------------------|
| Liabilities                                  |                                  |                                  |
| Current liabilities                          |                                  |                                  |
| Notes and accounts payable - trade *3        | 30,200                           | 25,623                           |
| Short-term loans payable *3                  | 22,528                           | 19,022                           |
| Current portion of bonds                     | 5,000                            | —                                |
| Income taxes payable                         | 2,466                            | 2,231                            |
| Accrued expenses                             | 11,875                           | 11,241                           |
| Provision for bonuses                        | 611                              | 601                              |
| Other current liabilities                    | 4,998                            | 5,194                            |
| Total current liabilities                    | 77,681                           | 63,914                           |
| Non-current liabilities                      |                                  |                                  |
| Bonds payable                                | 5,000                            | 10,000                           |
| Long-term loans payable *3                   | 12,075                           | 9,877                            |
| Deferred tax liabilities                     | 13,774                           | 12,218                           |
| Net defined benefit liability                | 4,530                            | 5,151                            |
| Accrued retirement benefits for directors    | 808                              | 900                              |
| Other non-current liabilities                | 2,551                            | 2,566                            |
| Total non-current liabilities                | 38,741                           | 40,714                           |
| Total liabilities                            | 116,423                          | 104,628                          |
| Net assets                                   |                                  |                                  |
| Shareholders' equity                         |                                  |                                  |
| Common stock                                 | 12,240                           | 12,240                           |
| Capital surplus                              | 11,415                           | 11,412                           |
| Retained earnings                            | 103,522                          | 98,361                           |
| Treasury shares                              | (2,635)                          | (2,668)                          |
| Total shareholders' equity                   | 124,542                          | 119,346                          |
| Accumulated other comprehensive income       |                                  |                                  |
| Unrealized holding gain (loss) on securities | 27,495                           | 24,515                           |
| Deferred gain (loss) on hedges               | (14)                             | (12)                             |
| Foreign currency translation adjustment      | 725                              | 545                              |
| Retirement benefits liability adjustments    | (440)                            | (1,220)                          |
| Total accumulated other comprehensive income | 27,765                           | 23,828                           |
| Subscription rights to shares                | 211                              | 169                              |
| Non-controlling interests                    | 4,385                            | 4,102                            |
| Total net assets                             | 156,905                          | 147,446                          |
| Total liabilities and net assets             | 273,328                          | 252,074                          |

(ii) Consolidated statements of income and comprehensive income  
(Consolidated statements of income)

(Millions of yen)

|                                                                           | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|---------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Net sales                                                                 | 323,495                                             | 312,932                                             |
| Cost of sales                                                             | 234,823                                             | 226,338                                             |
| Gross profit                                                              | 88,672                                              | 86,593                                              |
| Selling, general and administrative expenses                              |                                                     |                                                     |
| Freight, sales commission and other expenses                              | 40,455                                              | 38,518                                              |
| Provision for doubtful accounts                                           | 309                                                 | —                                                   |
| Salaries and wages                                                        | 19,571                                              | 18,999                                              |
| Retirement benefit expenses                                               | 1,324                                               | 1,518                                               |
| Depreciation                                                              | 1,205                                               | 1,142                                               |
| Other                                                                     | 15,744                                              | 14,839                                              |
| Total selling, general and administrative expenses *1                     | 78,611                                              | 75,019                                              |
| Operating income                                                          | 10,060                                              | 11,574                                              |
| Non-operating income (expenses)                                           |                                                     |                                                     |
| Interest income                                                           | 80                                                  | 84                                                  |
| Dividend income                                                           | 1,253                                               | 1,183                                               |
| Rent income on fixed assets                                               | 320                                                 | 315                                                 |
| Equity in earnings (losses) of unconsolidated subsidiaries and affiliates | 300                                                 | 326                                                 |
| Gain on sales of securities                                               | 28                                                  | 20                                                  |
| Interest expenses                                                         | (266)                                               | (284)                                               |
| Rent cost on fixed assets                                                 | (22)                                                | (32)                                                |
| Foreign exchange losses                                                   | (61)                                                | (111)                                               |
| Gain on sales of fixed assets *2                                          | 207                                                 | 11                                                  |
| Gain on sales of investment securities                                    | 22                                                  | 383                                                 |
| Government subsidy                                                        | —                                                   | 63                                                  |
| Loss on sales and disposal of fixed assets *3                             | (158)                                               | (163)                                               |
| Impairment loss *4                                                        | (244)                                               | —                                                   |
| Loss on valuation of investment securities                                | (103)                                               | —                                                   |
| Demolition expenses                                                       | —                                                   | (261)                                               |
| Head office relocation expenses *5                                        | —                                                   | (285)                                               |
| Other non-operating income (expenses), net                                | 69                                                  | 4                                                   |
| Total non-operating income (expenses), net                                | 1,425                                               | 1,254                                               |
| Profit before income taxes                                                | 11,486                                              | 12,828                                              |
| Income taxes - current                                                    | 3,567                                               | 3,853                                               |
| Income taxes - deferred                                                   | (26)                                                | (268)                                               |
| Total income taxes                                                        | 3,541                                               | 3,584                                               |
| Profit                                                                    | 7,944                                               | 9,243                                               |
| Profit attributable to non-controlling interests                          | 293                                                 | 309                                                 |
| Profit attributable to owners of parent                                   | 7,651                                               | 8,934                                               |

## (Consolidated statements of comprehensive income)

(Millions of yen)

|                                                                                      | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|--------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Profit                                                                               | 7,944                                               | 9,243                                               |
| Other comprehensive income (loss)                                                    |                                                     |                                                     |
| Unrealized holding gain (loss) on securities                                         | 2,953                                               | 4,639                                               |
| Deferred gain (loss) on hedges                                                       | (2)                                                 | 26                                                  |
| Foreign currency translation adjustment                                              | 178                                                 | (54)                                                |
| Retirement benefits liability adjustments                                            | 777                                                 | 1,073                                               |
| Share of other comprehensive income of entities<br>accounted for using equity method | 37                                                  | (5)                                                 |
| Total other comprehensive income (loss) *1                                           | 3,944                                               | 5,678                                               |
| Comprehensive income                                                                 | 11,889                                              | 14,922                                              |
| (Comprehensive income attributable to)                                               |                                                     |                                                     |
| Comprehensive income attributable to owners of<br>parent                             | 11,588                                              | 14,553                                              |
| Comprehensive income attributable to non-<br>controlling interests                   | 300                                                 | 369                                                 |

(iii) Consolidated statements of changes in net assets  
FY2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen)

|                                                                                           | Shareholders' equity |                 |                   |                 |                            |
|-------------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|-----------------|----------------------------|
|                                                                                           | Common stock         | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period                                                    | 12,240               | 11,412          | 98,361            | (2,668)         | 119,346                    |
| Changes during period                                                                     |                      |                 |                   |                 |                            |
| Dividends of surplus                                                                      |                      |                 | (2,493)           |                 | (2,493)                    |
| Profit attributable to owners of parent                                                   |                      |                 | 7,651             |                 | 7,651                      |
| Change in scope of consolidation                                                          |                      |                 | 2                 |                 | 2                          |
| Purchase of treasury shares                                                               |                      |                 |                   | (0)             | (0)                        |
| Disposal of treasury shares                                                               |                      | 3               |                   | 33              | 36                         |
| Change due to share exchanges                                                             |                      |                 |                   |                 | —                          |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | (0)             |                   |                 | (0)                        |
| Net changes of items other than shareholders' equity                                      |                      |                 |                   |                 |                            |
| Total changes during period                                                               | —                    | 2               | 5,160             | 32              | 5,195                      |
| Balance at end of current period                                                          | 12,240               | 11,415          | 103,522           | (2,635)         | 124,542                    |

|                                                                                           | Accumulated other comprehensive income       |                                |                                         |                                           |                                              | Subscription rights to shares | Non-controlling interests | Total net assets |
|-------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------|-----------------------------------------|-------------------------------------------|----------------------------------------------|-------------------------------|---------------------------|------------------|
|                                                                                           | Unrealized holding gain (loss) on securities | Deferred gain (loss) on hedges | Foreign currency translation adjustment | Retirement benefits liability adjustments | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at beginning of current period                                                    | 24,515                                       | (12)                           | 545                                     | (1,220)                                   | 23,828                                       | 169                           | 4,102                     | 147,446          |
| Changes during period                                                                     |                                              |                                |                                         |                                           |                                              |                               |                           |                  |
| Dividends of surplus                                                                      |                                              |                                |                                         |                                           |                                              |                               |                           | (2,493)          |
| Profit attributable to owners of parent                                                   |                                              |                                |                                         |                                           |                                              |                               |                           | 7,651            |
| Change in scope of consolidation                                                          |                                              |                                |                                         |                                           |                                              |                               |                           | 2                |
| Purchase of treasury shares                                                               |                                              |                                |                                         |                                           |                                              |                               |                           | (0)              |
| Disposal of treasury shares                                                               |                                              |                                |                                         |                                           |                                              |                               |                           | 36               |
| Change due to share exchanges                                                             |                                              |                                |                                         |                                           |                                              |                               |                           | —                |
| Change in ownership interest of parent due to transactions with non-controlling interests |                                              |                                |                                         |                                           |                                              |                               |                           | (0)              |
| Net changes of items other than shareholders' equity                                      | 2,979                                        | (2)                            | 179                                     | 779                                       | 3,936                                        | 42                            | 283                       | 4,263            |
| Total changes during period                                                               | 2,979                                        | (2)                            | 179                                     | 779                                       | 3,936                                        | 42                            | 283                       | 9,459            |
| Balance at end of current period                                                          | 27,495                                       | (14)                           | 725                                     | (440)                                     | 27,765                                       | 211                           | 4,385                     | 156,905          |

## FY2017 (From April 1, 2016 to March 31, 2017)

(Millions of yen)

|                                                                                           | Shareholders' equity |                 |                   |                 |                            |
|-------------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|-----------------|----------------------------|
|                                                                                           | Common stock         | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period                                                    | 12,240               | 10,669          | 91,834            | (2,354)         | 112,389                    |
| Changes during period                                                                     |                      |                 |                   |                 |                            |
| Dividends of surplus                                                                      |                      |                 | (2,407)           |                 | (2,407)                    |
| Profit attributable to owners of parent                                                   |                      |                 | 8,934             |                 | 8,934                      |
| Change in scope of consolidation                                                          |                      |                 |                   |                 | —                          |
| Purchase of treasury shares                                                               |                      |                 |                   | (927)           | (927)                      |
| Disposal of treasury shares                                                               |                      | 3               |                   | 24              | 28                         |
| Change due to share exchanges                                                             |                      | 162             |                   | 588             | 751                        |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | 577             |                   |                 | 577                        |
| Net changes of items other than shareholders' equity                                      |                      |                 |                   |                 |                            |
| Total changes during period                                                               | —                    | 743             | 6,526             | (313)           | 6,956                      |
| Balance at end of current period                                                          | 12,240               | 11,412          | 98,361            | (2,668)         | 119,346                    |

|                                                                                           | Accumulated other comprehensive income       |                                |                                         |                                           |                                              | Subscription rights to shares | Non-controlling interests | Total net assets |
|-------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------|-----------------------------------------|-------------------------------------------|----------------------------------------------|-------------------------------|---------------------------|------------------|
|                                                                                           | Unrealized holding gain (loss) on securities | Deferred gain (loss) on hedges | Foreign currency translation adjustment | Retirement benefits liability adjustments | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at beginning of current period                                                    | 19,915                                       | (38)                           | 608                                     | (2,293)                                   | 18,192                                       | 117                           | 5,043                     | 135,743          |
| Changes during period                                                                     |                                              |                                |                                         |                                           |                                              |                               |                           |                  |
| Dividends of surplus                                                                      |                                              |                                |                                         |                                           |                                              |                               |                           | (2,407)          |
| Profit attributable to owners of parent                                                   |                                              |                                |                                         |                                           |                                              |                               |                           | 8,934            |
| Change in scope of consolidation                                                          |                                              |                                |                                         |                                           |                                              |                               |                           | —                |
| Purchase of treasury shares                                                               |                                              |                                |                                         |                                           |                                              |                               |                           | (927)            |
| Disposal of treasury shares                                                               |                                              |                                |                                         |                                           |                                              |                               |                           | 28               |
| Change due to share exchanges                                                             |                                              |                                |                                         |                                           |                                              |                               |                           | 751              |
| Change in ownership interest of parent due to transactions with non-controlling interests |                                              |                                |                                         |                                           |                                              |                               |                           | 577              |
| Net changes of items other than shareholders' equity                                      | 4,599                                        | 26                             | (62)                                    | 1,073                                     | 5,636                                        | 51                            | (941)                     | 4,746            |
| Total changes during period                                                               | 4,599                                        | 26                             | (62)                                    | 1,073                                     | 5,636                                        | 51                            | (941)                     | 11,702           |
| Balance at end of current period                                                          | 24,515                                       | (12)                           | 545                                     | (1,220)                                   | 23,828                                       | 169                           | 4,102                     | 147,446          |

## (iv) Consolidated statements of cash flows

(Millions of yen)

|                                                                           | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|---------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Operating activities                                                      |                                                     |                                                     |
| Profit before income taxes                                                | 11,486                                              | 12,828                                              |
| Depreciation                                                              | 7,791                                               | 7,715                                               |
| Changes in net defined benefit asset and net defined benefit liability    | (296)                                               | (308)                                               |
| Increase (decrease) in accrued retirement benefits for directors          | (91)                                                | (29)                                                |
| Increase (decrease) in allowance for doubtful accounts                    | 325                                                 | (62)                                                |
| Impairment loss                                                           | 244                                                 | —                                                   |
| Interest and dividend income                                              | (1,333)                                             | (1,267)                                             |
| Interest expenses                                                         | 266                                                 | 284                                                 |
| Loss (gain) on sales of investment securities                             | (50)                                                | (391)                                               |
| Loss (gain) on valuation of investment securities                         | 103                                                 | 0                                                   |
| Foreign exchange losses                                                   | 50                                                  | 113                                                 |
| Equity in (earnings) losses of unconsolidated subsidiaries and affiliates | (300)                                               | (326)                                               |
| Loss (gain) on sales of fixed assets                                      | (207)                                               | (10)                                                |
| Loss on disposal of fixed assets                                          | 161                                                 | 167                                                 |
| Decrease (increase) in notes and accounts receivable - trade              | (3,204)                                             | 32                                                  |
| Decrease (increase) in inventories                                        | (3,764)                                             | 3,944                                               |
| Increase (decrease) in notes and accounts payable - trade                 | 4,555                                               | (2,551)                                             |
| Increase (decrease) in accrued consumption taxes                          | (157)                                               | (618)                                               |
| Decrease (increase) in other receivables                                  | (554)                                               | (429)                                               |
| Increase (decrease) in other payables                                     | 1,389                                               | 638                                                 |
| Other, net                                                                | 999                                                 | 1,206                                               |
| Subtotal                                                                  | 17,410                                              | 20,935                                              |
| Interest and dividend income received                                     | 1,358                                               | 1,287                                               |
| Interest expenses paid                                                    | (269)                                               | (288)                                               |
| Income taxes paid                                                         | (3,280)                                             | (4,543)                                             |
| Net cash provided by (used in) operating activities                       | 15,217                                              | 17,391                                              |

(Millions of yen)

|                                                                                     | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|-------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Investing activities                                                                |                                                     |                                                     |
| Decrease (increase) in time deposits                                                | (550)                                               | (588)                                               |
| Purchase of fixed assets                                                            | (10,164)                                            | (11,502)                                            |
| Proceeds from sales of fixed assets                                                 | 388                                                 | 229                                                 |
| Purchase of investment securities                                                   | (1,302)                                             | (1,105)                                             |
| Proceeds from sales and redemption of investment securities                         | 1,079                                               | 1,776                                               |
| Payments for acquisition of business                                                | (1,101)                                             | —                                                   |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation *2 | (461)                                               | (1,243)                                             |
| Payments of loans receivable                                                        | (16)                                                | (512)                                               |
| Collection of loans receivable                                                      | 33                                                  | 37                                                  |
| Decrease (increase) in other investments                                            | 154                                                 | 262                                                 |
| Net cash provided by (used in) investing activities                                 | (11,941)                                            | (12,646)                                            |
| Financing activities                                                                |                                                     |                                                     |
| Net increase (decrease) in short-term loans payable                                 | 1,547                                               | (1,221)                                             |
| Proceeds from long-term loans payable                                               | 7,156                                               | 2,660                                               |
| Repayments of long-term loans payable                                               | (3,069)                                             | (8,931)                                             |
| Purchase of treasury shares                                                         | (0)                                                 | (927)                                               |
| Cash dividends paid                                                                 | (2,493)                                             | (2,407)                                             |
| Dividends paid to non-controlling interests                                         | (16)                                                | (12)                                                |
| Repayments of finance lease obligations                                             | (298)                                               | (346)                                               |
| Other, net                                                                          | (1)                                                 | 48                                                  |
| Net cash provided by (used in) financing activities                                 | 2,824                                               | (11,137)                                            |
| Effect of exchange rate changes on cash and cash equivalents                        | 61                                                  | (14)                                                |
| Net increase (decrease) in cash and cash equivalents                                | 6,162                                               | (6,407)                                             |
| Cash and cash equivalents at beginning of period                                    | 14,368                                              | 20,776                                              |
| Increase in cash and cash equivalents from newly consolidated subsidiary            | 25                                                  | —                                                   |
| Cash and cash equivalents at end of period *1                                       | 20,556                                              | 14,368                                              |

## Notes to consolidated financial statements

(Basis of preparation of the consolidated financial statements)

### 1. Basis of preparation

The accompanying consolidated financial statements of Nippon Flour Mills Co., Ltd. (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRS”), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically within Japan so as to present them in a format which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2017 to conform to the classifications used for the year ended March 31, 2018.

Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and mainly operates.

### 2. Scope of consolidation

- (1) Number and names of consolidated subsidiaries  
47 (45 in 2017) companies

Names of major consolidated subsidiaries

NIPPON Donut Co., Ltd., Nippon Rich Co., Ltd., NIPPON ENGINEERING CO., Ltd., NPF Japan Co., Ltd., NIPPON Frozen Foods Co., Ltd., OHMY Co., Ltd., Matsuya Flour Mills Co., Ltd., NIPPON SHOJI Co., Ltd., Fast Foods Co., Ltd., OK Food Industry Co., Ltd., NAGANO TOMATO Co., Ltd., Tofuku Flour Mills Co., Ltd., and Yamato Foods Co., Ltd.

NF Frozen Co., Ltd., which was a consolidated subsidiary until the previous fiscal year, was excluded from the scope of consolidation as the result of absorption-type merger by NIPPON Frozen Foods Co., Ltd. during the first quarter of the current fiscal year. In addition, three companies were newly included in the scope of consolidation due to share acquisition, etc.

- (2) Name of major unconsolidated subsidiaries  
NIPPON Logistics Co., Ltd.

(Reasons for exclusion of unconsolidated subsidiaries from the scope of consolidation)

Each of the 15 unconsolidated subsidiaries is small in scale and their total assets, sales and net profit or loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest) and others do not have a material effect on the consolidated financial statements.

### 3. Application of equity method

- (1) Number of unconsolidated subsidiaries and affiliates accounted for using equity method  
14 (14 in 2017) companies (of which six (six in 2017) unconsolidated subsidiaries and eight (eight in 2017) affiliates)

Names of major equity method companies

NIPPON Logistics Co., Ltd. and Chiba Grain Center Co., Ltd.

- (2) There are nine (ten in 2017) unconsolidated subsidiaries and 16 (15 in 2017) affiliates not accounted for using the equity method. They are not accounted for using the equity method because they have only a minor effect on the consolidated financial statements and have no significance as a whole in terms of net profit or loss (amount corresponding to the equity interest), retained earnings (amount corresponding to the equity interest) and others.

#### 4. Fiscal year end of consolidated subsidiaries

The consolidated subsidiaries whose balance sheet date is different from the consolidated balance sheet date are as follows:

| Company name                                                 | Balance sheet date |
|--------------------------------------------------------------|--------------------|
| Pasta Montana, L.L.C. and nine (ten in 2017) other companies | December 31*       |

\* Financial statements as of the balance sheet date of each consolidated subsidiary have been used. However, necessary adjustments are made on consolidation for significant transactions that occurred between the balance sheet date of these subsidiaries and the consolidated financial statements date.

#### 5. Significant accounting policies

##### (1) Valuation bases and methods for significant assets

###### (i) Securities

###### Other securities

###### Securities with available fair market values

Stated at fair value based on the market price at the end of the fiscal year (unrealized gain or loss is included as a separate component of net assets, and cost of securities sold is determined based on the moving-average method).

###### Securities without available fair market values

Stated at cost using the moving-average method.

###### (ii) Derivatives

Derivatives financial instruments are stated at fair value.

###### (iii) Inventories

###### Merchandise and finished goods

The Company and domestic consolidated subsidiaries mainly adopt the cost method based on the (monthly) gross average method (carrying amounts on the balance sheet are subject to the lower of cost or market value method), and foreign consolidated subsidiaries mainly adopt the lower of cost or market value method, with cost determined by the first-in first-out method.

###### Raw materials and supplies

For raw materials on an immediate sale basis, the Company and domestic consolidated subsidiaries mainly adopt the first-in first-out cost method (carrying amounts on the balance sheet are subject to the lower of cost or market value method). For other raw materials and supplies, they mainly adopt the (monthly) gross average method (carrying amounts on the balance sheet are subject to the lower of cost or market value method). Foreign consolidated subsidiaries mainly adopt the lower of cost or market value method, with cost determined by the first-in first-out method.

##### (2) Depreciation and amortization methods for major depreciable and amortizable assets

###### (i) Property, plant and equipment (excluding leased assets)

The Company and domestic consolidated subsidiaries mainly adopt the declining-balance method and foreign consolidated subsidiaries mainly adopt the straight-line method. However, the Company and domestic consolidated subsidiaries adopt the straight-line method for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives of major items are as follows:

|                                   |               |
|-----------------------------------|---------------|
| Buildings and structures          | 3 to 50 years |
| Machinery, equipment and vehicles | 4 to 12 years |

###### (ii) Intangible assets (excluding leased assets)

The Company and domestic consolidated subsidiaries adopt the straight-line method.

Software for internal use is based on the estimated useful life as internally determined (five years).

###### (iii) Leased assets

The straight-line method is applied on the assumptions that the useful life equals the lease term and the residual value is zero.

For finance lease transactions in which ownership is not transferred commencing on or prior to March 31, 2008, the Company adopts an accounting method similar to that applied to operating lease transactions.

- (3) Accounting policy for significant provisions
  - (i) Allowance for doubtful accounts  
For the Company and domestic consolidated subsidiaries, allowance for doubtful accounts is provided based on past experience for normal receivables and using a specific estimate of the collectability of individual receivables from companies in financial difficulty in order to prepare for losses from bad debt.
  - (ii) Accrued retirement benefits for directors  
To provide for the payment of directors' retirement benefits, the Company and domestic consolidated subsidiaries reserve the amount required as of the end of the current fiscal year based on their internal regulations.
  - (iii) Provision for bonuses  
To prepare for the payment of bonuses to employees, the amount is provided based on the expected amount to be paid.
- (4) Accounting methods for retirement benefits
  - (i) Method of attributing expected retirement benefits to periods  
In calculating retirement benefit obligations, the benefit formula basis is used as the method for attributing the expected retirement benefits to the periods.
  - (ii) Actuarial differences  
Unrecognized actuarial gains and losses are amortized by the straight-line method over a fixed period (ten years) which is within the average remaining service period of employees, starting from the respective fiscal years following the fiscal year in which they arose.
- (5) Significant hedge accounting method
  - (i) Hedge accounting method  
Deferred hedge accounting is applied. Interest rate swaps that satisfy certain requirements are accounted for by the special treatment.
  - (ii) Hedging instruments and hedged items
 

|                       |                                                                                                                                      |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| · Hedging instruments | Interest rate swaps and forward exchange contracts                                                                                   |
| · Hedged items        | Loans payable, receivables and payables denominated in foreign currencies or expected transactions denominated in foreign currencies |
  - (iii) Hedging policy  
For interest rate-related transactions, hedges are entered into solely for avoiding risks arising from possible interest rate changes in the future. For currency-related transactions, forward exchange contracts are used to hedge risks arising from possible fluctuations of foreign exchange rates on transactions denominated in foreign currencies.
  - (iv) Assessment of hedge effectiveness  
The hedge effectiveness of interest rate swaps is assessed by comparing the accumulated cash flow changes of the hedged items and the accumulated cash flow changes of the hedging instruments. However, the assessment of hedge effectiveness has been omitted for interest rate swaps by which the risk of changes in interest rate would be entirely eliminated. For forward foreign exchange contracts, the evaluation of hedge effectiveness has been omitted as significant conditions are identical for the exchange contracts and the hedged items or scheduled transactions and it is assumed that market fluctuations or cash flow changes are offset at the time of commencement of hedging and thereafter.
- (6) Method and period for amortization of goodwill  
Goodwill is amortized by the straight-line method over a period of five to ten years.
- (7) Scope of cash and cash equivalents in consolidated statements of cash flows  
Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.
- (8) Accounting methods for consumption taxes  
Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

(Accounting standards issued but not yet effective, etc.)

- “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, amended on February 16, 2018, Accounting Standards Board of Japan)
- “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, the last amendment was made on February 16, 2018, Accounting Standards Board of Japan)

(1) Summary

When transferring the practical guidelines on accounting standards for tax effect accounting of the Japanese Institute of Certified Public Accountants to the ASBJ, the content was generally preserved; however, the following revisions were deemed necessary and made to the “Implementation Guidance on Tax Effect Accounting,” etc.

(Major revised accounting treatments)

- Treatment of taxable temporary differences pertaining to subsidiary stock, etc., in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets in companies that fall under (Category 1)

(2) Scheduled date of application

These are scheduled to be applied from the beginning of the fiscal year ending March 31, 2019.

(3) Effect of application of the aforementioned accounting standards, etc.

The effect of application of the “Implementation Guidance on Tax Effect Accounting,” etc., on consolidated financial statements is currently under review.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018, Accounting Standards Board of Japan)

(1) Summary

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed comprehensive accounting standards for revenue recognition and published the “Revenue from Contracts with Customers” (IFRS 15 at the IASB and Topic 606 at the FASB) in May 2014. Given that IFRS 15 is to be applied from fiscal years starting on or after January 1, 2018 and that Topic 606 is to be applied from fiscal years starting after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and published them in conjunction with the implementation guidance. The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards incorporating the basic principles of IFRS 15 as a starting point from the standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to be adding alternative accounting treatments without losing comparability if there is an item that should take into account practices, etc., that have been conducted in Japan.

(2) Scheduled date of application

These are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of application of the aforementioned accounting standards, etc.

The effect of application of the “Accounting Standard for Revenue Recognition,” etc., on the consolidated financial statements is currently under review.

(Changes in presentation)

(Consolidated statements of cash flows)

“Loss (gain) on valuation of investment securities,” included in “Other, net” in “Operating activities” in the previous fiscal year, is presented separately from the current fiscal year because the amount becomes significant. In addition, “proceeds from sales of treasury shares” in “Financing activities,” presented separately in the previous fiscal year, is included in “Other, net” in the current fiscal year because the amount becomes insignificant. The consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes in presentation.

As a result, ¥1,206 million presented as “Other, net” in “Operating activities” in the consolidated statements of cash flows for the previous fiscal year has been reclassified as “Loss (gain) on valuation of investment securities” of ¥0 million and “Other, net” of ¥1,206 million. Additionally, ¥0 million presented as “Proceeds from sales of treasury shares” in “Financing activities” has been reclassified as “Other, net.”

(Consolidated balance sheets)

- \*1 Investment securities in unconsolidated subsidiaries and affiliates are as follows:

|                       | (Millions of yen)                |                                  |
|-----------------------|----------------------------------|----------------------------------|
|                       | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
| Investment securities | 5,798                            | 5,490                            |

- \*2 Accumulated reduction entry amount deducted from the acquisition cost of property, plant and equipment due to acceptance of government subsidies and others are as follows:

|  | (Millions of yen)                |                                  |
|--|----------------------------------|----------------------------------|
|  | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|  | 336                              | 336                              |

- \*3 Assets pledged as collateral  
(1) Assets pledged as collateral

|                                       | (Millions of yen)                |                                  |
|---------------------------------------|----------------------------------|----------------------------------|
|                                       | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
| Buildings and structures              | 2,863                            | 3,045                            |
| Machinery and equipment               | 1,818                            | 2,011                            |
| Land                                  | 2,380                            | 2,380                            |
| Property, plant and equipment (other) | 24                               | 26                               |
| Investment securities                 | 329                              | 325                              |
| Investments and other assets (other)  | 411                              | 428                              |
| Total                                 | 7,827                            | 8,217                            |

Of the above, assets pledged as collateral on mortgages of factory foundation are as follows:

|                                       | (Millions of yen)                |                                  |
|---------------------------------------|----------------------------------|----------------------------------|
|                                       | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
| Buildings and structures              | 1,630                            | 1,690                            |
| Machinery and equipment               | 1,524                            | 1,644                            |
| Land                                  | 1,255                            | 1,255                            |
| Property, plant and equipment (other) | 20                               | 20                               |
| Investments and other assets (other)  | 250                              | 266                              |
| Total                                 | 4,681                            | 4,878                            |

(2) Liabilities corresponding to assets pledged as collateral

(Millions of yen)

|                                                        | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|--------------------------------------------------------|----------------------------------|----------------------------------|
| Short-term loans payable                               | 2,530                            | 2,530                            |
| Long-term loans payable<br>(including current portion) | 2,710                            | 2,471                            |
| Notes and accounts payable - trade                     | 813                              | 1,023                            |
| Total                                                  | 6,053                            | 6,024                            |

Of the above, liabilities corresponding to mortgages of factory foundation are as follows:

(Millions of yen)

|                                                        | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|--------------------------------------------------------|----------------------------------|----------------------------------|
| Short-term loans payable                               | 1,230                            | 1,230                            |
| Long-term loans payable<br>(including current portion) | 2,392                            | 2,072                            |
| Total                                                  | 3,622                            | 3,302                            |

\*4 The Company has provided guarantees for borrowings of its employees and others as follows:

(Millions of yen)

|           | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|-----------|----------------------------------|----------------------------------|
| Employees | 12                               | 14                               |

(Consolidated statements of income)

- \*1 Research and development expenses included in general and administrative expenses are as follows:

| (Millions of yen)                                   |                                                     |
|-----------------------------------------------------|-----------------------------------------------------|
| FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
| 3,187                                               | 2,971                                               |

- \*2 Gain on sales of fixed assets represents gain on sales of land and others.
- \*3 Loss on sales and disposal of fixed assets represents loss on retirement and sales of machinery and equipment, and others.
- \*4 Impairment loss

The Company recorded impairment loss on the following assets.

FY2018 (From April 1, 2017 to March 31, 2018)

| Location                           | Purpose             | Type                 |
|------------------------------------|---------------------|----------------------|
| Osaka city, Osaka and other cities | Business-use assets | Buildings and others |

The Company group (the “Group”) performs an impairment test per asset group such as assets group in business-use assets, which are grouped by region and other items based on the complementary characteristics of cash flows, a common asset group, rental assets and idle assets. For the above assets, the Group reduced the book value to the recoverable amount and the corresponding amount recorded as impairment loss in non-operating expenses totaled ¥244 million.

The recoverable amount was measured based on value in use. However, the Group estimated the recoverable amount as zero because future cash flows are not likely.

- \*5 Head office relocation expenses

FY2017 (From April 1, 2016 to March 31, 2017)

These represent expenses to update packaging materials and moving expenses and others due to the change in address for relocating the head office.

## (Consolidated statements of comprehensive income)

## \*1 Reclassification adjustments and tax effects relating to other comprehensive income

(Millions of yen)

|                                                                                       | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|---------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Unrealized holding gain (loss) on securities:                                         |                                                     |                                                     |
| Amount arising during the year                                                        | 4,203                                               | 6,683                                               |
| Reclassification adjustments                                                          | 54                                                  | (5)                                                 |
| Before tax effect adjustments                                                         | 4,257                                               | 6,678                                               |
| Tax effects                                                                           | (1,304)                                             | (2,039)                                             |
| Unrealized holding gain (loss) on securities                                          | 2,953                                               | 4,639                                               |
| Deferred gain (loss) on hedges:                                                       |                                                     |                                                     |
| Amount arising during the year                                                        | (54)                                                | (73)                                                |
| Reclassification adjustments                                                          | 50                                                  | 110                                                 |
| Before tax effect adjustments                                                         | (3)                                                 | 37                                                  |
| Tax effects                                                                           | 1                                                   | (11)                                                |
| Deferred gain (loss) on hedges                                                        | (2)                                                 | 26                                                  |
| Foreign currency translation adjustment:                                              |                                                     |                                                     |
| Amount arising during the year                                                        | 178                                                 | (54)                                                |
| Retirement benefits liability adjustments:                                            |                                                     |                                                     |
| Amount arising during the year                                                        | 348                                                 | 509                                                 |
| Reclassification adjustments                                                          | 774                                                 | 1,023                                               |
| Before tax effect adjustments                                                         | 1,123                                               | 1,533                                               |
| Tax effects                                                                           | (345)                                               | (459)                                               |
| Retirement benefits liability adjustments                                             | 777                                                 | 1,073                                               |
| Share of other comprehensive income of entities<br>accounted for using equity method: |                                                     |                                                     |
| Amount arising during the year                                                        | 37                                                  | (5)                                                 |
| Total other comprehensive income (loss)                                               | 3,944                                               | 5,678                                               |

(Consolidated statements of changes in net assets)

The Companies Act of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

FY2018 (From April 1, 2017 to March 31, 2018)

1. Class and total number of issued shares and treasury shares

(Thousands of shares)

|                          | Number of shares as of April 1, 2017 | Increase in number of shares during fiscal year | Decrease in number of shares during fiscal year | Number of shares as of March 31, 2018 |
|--------------------------|--------------------------------------|-------------------------------------------------|-------------------------------------------------|---------------------------------------|
| Issued shares            |                                      |                                                 |                                                 |                                       |
| Common stock             | 82,524                               | —                                               | —                                               | 82,524                                |
| Treasury shares          |                                      |                                                 |                                                 |                                       |
| Common stock (Note 1, 2) | 2,252                                | 0                                               | 27                                              | 2,225                                 |

- Notes:
1. The increase in the number of treasury shares of common stock was due to the purchase of shares less than one unit.
  2. The decrease in the number of treasury shares of common stock was due to the disposal of 27 thousand shares through the exercise of stock options and the request for purchasing 0 thousand additional shares less than one unit.

2. Subscription rights to shares and treasury subscription rights to shares

| Category                           | Breakdown of subscription rights to shares     | Class of shares to be issued upon exercise of subscription rights to shares | Number of shares to be issued upon exercise of subscription rights to shares (Shares) |          |          |                      | Balance as of March 31, 2018 (Millions of yen) |
|------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------|----------------------|------------------------------------------------|
|                                    |                                                |                                                                             | As of April 1, 2017                                                                   | Increase | Decrease | As of March 31, 2018 |                                                |
| Reporting company (Parent company) | Subscription rights to shares as stock options | —                                                                           | —                                                                                     | —        | —        | —                    | 211                                            |
| Total                              |                                                | —                                                                           | —                                                                                     | —        | —        | —                    | 211                                            |

3. Dividends

(1) Cash dividends paid

| Resolution                                          | Class of shares | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date        | Effective date    |
|-----------------------------------------------------|-----------------|---------------------------------------------|---------------------------|--------------------|-------------------|
| Annual Shareholders Meeting held on June 29, 2017   | Common stock    | 1,286                                       | 16.0                      | March 31, 2017     | June 30, 2017     |
| Board of Directors meeting held on November 7, 2017 | Common stock    | 1,206                                       | 15.0                      | September 30, 2017 | November 30, 2017 |

(2) Dividends for which record date is in the fiscal year but whose effective date is in the following fiscal year

| Resolution                                        | Class of shares | Total amount of dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date    | Effective date |
|---------------------------------------------------|-----------------|---------------------------------------------|---------------------|---------------------------|----------------|----------------|
| Annual Shareholders Meeting held on June 28, 2018 | Common stock    | 1,206                                       | Retained earnings   | 15.0                      | March 31, 2018 | June 29, 2018  |

FY2017 (From April 1, 2016 to March 31, 2017)

1. Class and total number of issued shares and treasury shares

(Thousands of shares)

|                          | Number of shares as of<br>April 1, 2016 | Increase in number of<br>shares during fiscal year | Decrease in number of<br>shares during fiscal year | Number of shares as of<br>March 31, 2017 |
|--------------------------|-----------------------------------------|----------------------------------------------------|----------------------------------------------------|------------------------------------------|
| Issued shares            |                                         |                                                    |                                                    |                                          |
| Common stock (Note 1)    | 165,048                                 | —                                                  | 82,524                                             | 82,524                                   |
| Treasury shares          |                                         |                                                    |                                                    |                                          |
| Common stock (Note 2, 3) | 4,290                                   | 1,228                                              | 3,266                                              | 2,252                                    |

- Notes:
1. The decrease in the number of issued shares of common stock was due to the 1-for-2 share consolidation on October 1, 2016.
  2. The increase in the number of treasury shares of common stock was due to the acquisition of 1,223 thousand shares based on a Board of Directors resolution (of which the increase is 0 thousand shares after the share consolidation) and the purchase of 5 thousand shares less than one unit (of which the increase is 0 thousand shares after the share consolidation).
  3. The decrease in the number of treasury shares of common stock was due to the 1-for-2 share consolidation on October 1, 2016 in the amount of 2,736 thousand shares, the share exchange of 485 thousand shares (after the share consolidation), the disposal of 44 thousand shares through the exercise of stock options and the request for purchasing 0 thousand additional shares less than one unit.

2. Subscription rights to shares and treasury subscription rights to shares

| Category                                    | Breakdown of subscription<br>rights to shares     | Class of shares to<br>be issued upon<br>exercise of<br>subscription rights<br>to shares | Number of shares to be issued upon exercise of<br>subscription rights to shares (Shares) |          |          |                            | Balance<br>as of<br>March<br>31, 2017<br>(Millions of<br>yen) |
|---------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|----------|----------|----------------------------|---------------------------------------------------------------|
|                                             |                                                   |                                                                                         | As of<br>April 1,<br>2016                                                                | Increase | Decrease | As of<br>March 31,<br>2017 |                                                               |
| Reporting<br>company<br>(Parent<br>company) | Subscription rights to shares<br>as stock options | —                                                                                       | —                                                                                        | —        | —        | —                          | 169                                                           |
| Total                                       |                                                   | —                                                                                       | —                                                                                        | —        | —        | —                          | 169                                                           |

### 3. Dividends

#### (1) Cash dividends paid

| Resolution                                          | Class of shares | Total amount of dividends<br>(Millions of yen) | Dividends per share (Yen)<br>(Note) | Record date        | Effective date   |
|-----------------------------------------------------|-----------------|------------------------------------------------|-------------------------------------|--------------------|------------------|
| Annual Shareholders Meeting held on June 29, 2016   | Common stock    | 1,288                                          | 8.0                                 | March 31, 2016     | June 30, 2016    |
| Board of Directors meeting held on November 7, 2016 | Common stock    | 1,119                                          | 7.0                                 | September 30, 2016 | December 5, 2016 |

Note: The Company conducted a 1-for-2 share consolidation on October 1, 2016. The amounts of dividends per share with the record dates on March 31, 2016 and September 30, 2016 are those before the share consolidation. Calculating the amounts after the share consolidation, the dividend per share with the record date on March 31, 2016 would be ¥16.00 (¥12.00 in ordinary dividend and ¥4.00 in commemorative dividend) and that with the record date on September 30, 2016 would be ¥14.00.

#### (2) Dividends for which record date is in the fiscal year but whose effective date is in the following fiscal year

| Resolution                                        | Class of shares | Total amount of dividends<br>(Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date    | Effective date |
|---------------------------------------------------|-----------------|------------------------------------------------|---------------------|---------------------------|----------------|----------------|
| Annual Shareholders Meeting held on June 29, 2017 | Common stock    | 1,286                                          | Retained earnings   | 16.0                      | March 31, 2017 | June 30, 2017  |

(Consolidated statements of cash flows)

- \*1 Cash and cash equivalents as of the year end are reconciled to the accounts reported in the consolidated balance sheets as follows:

(Millions of yen)

|                                               | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|-----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Cash and deposits                             | 23,392                                              | 16,588                                              |
| Time deposits with maturity over three months | (2,835)                                             | (2,219)                                             |
| Cash and cash equivalents                     | 20,556                                              | 14,368                                              |

- \*2 Major components of assets and liabilities of a company that became a consolidated subsidiary in the previous fiscal year resulting from the acquisition of its shares  
Components of assets and liabilities at the time of consolidation of Yamato Foods Co., Ltd. resulting from the acquisition of its shares as well as the bridging between the acquisition cost of Yamato Foods Co., Ltd. and expenditures (net) for its acquisition are presented below.

(Millions of yen)

|                                                              |       |
|--------------------------------------------------------------|-------|
| Current assets                                               | 344   |
| Non-current assets                                           | 1,315 |
| Goodwill                                                     | 609   |
| Current liabilities                                          | (882) |
| Non-current liabilities                                      | (8)   |
| Valuation difference                                         | (10)  |
| Acquisition cost of Yamato Foods Co., Ltd.                   | 1,367 |
| Cash and cash equivalents of Yamato Foods Co., Ltd.          | (123) |
| Expenditures (net) for acquisition of Yamato Foods Co., Ltd. | 1,243 |

(Lease transactions)

(Lessee)

1. Finance leases transactions

Finance lease transactions in which ownership is not transferred

(1) Details of leased assets

Property, plant and equipment

Principally production facilities (machinery, equipment and vehicles) and others in the Food segment.

(2) Depreciation method of leased assets

Depreciation method of leased assets is described in “5. Significant accounting policies (2) Depreciation and amortization methods for major depreciable and amortizable assets” above.

For lease transactions commencing on or prior to March 31, 2008, it is accounted using an accounting method similar to that applied to operating lease transactions as follows:

(i) Amounts equivalent to acquisition cost of leased items, accumulated depreciation, accumulated impairment loss, and year-end balance

(Millions of yen)

|                                   | FY2018 (As of March 31, 2018) |                                     |                             |
|-----------------------------------|-------------------------------|-------------------------------------|-----------------------------|
|                                   | Acquisition cost equivalent   | Accumulated depreciation equivalent | Year-end balance equivalent |
| Buildings and structures          | 2,541                         | 2,329                               | 212                         |
| Machinery, equipment and vehicles | 204                           | 183                                 | 20                          |
| Total                             | 2,746                         | 2,513                               | 232                         |

Note: The acquisition cost equivalent is calculated by including interest to be paid because the year-end balance of future lease payments makes up a small portion of the year-end balance of property, plant and equipment.

(Millions of yen)

|                                   | FY2017 (As of March 31, 2017) |                                     |                             |
|-----------------------------------|-------------------------------|-------------------------------------|-----------------------------|
|                                   | Acquisition cost equivalent   | Accumulated depreciation equivalent | Year-end balance equivalent |
| Buildings and structures          | 2,541                         | 2,249                               | 291                         |
| Machinery, equipment and vehicles | 673                           | 639                                 | 34                          |
| Total                             | 3,215                         | 2,889                               | 325                         |

(ii) Amounts equivalent to future lease payments

(Millions of yen)

|                     | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|---------------------|----------------------------------|----------------------------------|
| Due within one year | 84                               | 93                               |
| Due after one year  | 148                              | 232                              |
| Total               | 232                              | 325                              |

Note: The amounts equivalent to future lease payments are calculated by including interest to be paid because the year-end balance of future lease payments makes up a small portion of the year-end balance of property, plant and equipment.

(iii) Lease payments, reversal of accumulated impairment loss on leased assets, and depreciation equivalent

(Millions of yen)

|                         | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|-------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Lease payments          | 93                                                  | 198                                                 |
| Depreciation equivalent | 93                                                  | 198                                                 |

(iv) Method of calculating depreciation equivalent

The straight-line method is applied on the assumptions that the useful life equals the lease term and the residual value is zero.

2. Operating lease transactions

Future lease payments for non-cancelable operating lease transactions

(Millions of yen)

|                     | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|---------------------|----------------------------------|----------------------------------|
| Due within one year | 21                               | 18                               |
| Due after one year  | 40                               | 33                               |
| Total               | 62                               | 51                               |

(Financial instruments)

1. Conditions of financial instruments

(1) Policy for financial instruments

The Group limits its fund management activities to short-term deposits and others, and procures funds through bank loans and issuances of corporate bonds. It conducts derivative transactions only for the purpose of hedging risks as described below within the scope of actual demand, and no speculative or high risk transactions are allowed in principle.

(2) Details and risks of financial instruments and risk management system

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. The Group reduces the risk by performing credit research into primary trading partners and controlling maturity dates of receivables of each customer and preparing reports on the balance for each customer.

Investment securities are primarily shares in companies with which the Group has business relationships, of which listed shares are exposed to market price fluctuation risk. Consequently, the market values of the listed shares are monitored on a quarterly basis.

Most of notes and accounts payable - trade, which are operating debts, are due within one year.

Among loans payable, short-term loans are mainly operating funds, and long-term loans are mainly for procuring funds relating to capital investments. Though some long-term loans are exposed to interest rate fluctuation risk, the Group hedges that risk by entering into derivative transactions (interest rate swap transactions).

Bonds payable are issued for the purpose of procuring funds for repayment of loans and operating funds.

Derivative transactions are comprised of forward exchange contracts with the purpose to hedge exchange rate fluctuation risk in respect of foreign currency denominated operating payables and interest rate swaps transactions with the purpose to hedge fluctuation risk in interest rates on loans payable. As to hedging instruments, hedged items, hedging policy, assessment of hedge effectiveness and others relating to hedge accounting, please refer to “5. Significant accounting policies (5) Significant hedge accounting method” above.

Derivative transactions are executed and controlled by internal rules for transaction authorization. In order to reduce credit risk, the counterparties to these derivative transactions are limited to major financial institutions with high credit ratings.

Operating payables and loans payable are exposed to liquidity risk. The Group manages the risk by each member company’s preparing a monthly plan for raising funds and other methods.

(3) Supplementary explanation on the fair values of financial instruments

The notional amounts of derivatives in “2. Fair values of financial instruments,” in themselves, do not reflect the market risk relating to the derivative transactions.

2. Fair values of financial instruments

Carrying amounts, fair values and their differences are shown in the following table. The amounts shown in the following tables do not include financial instruments whose fair values are deemed to be extremely difficult to determine (see Note 2 below).

## FY2018 (As of March 31, 2018)

(Millions of yen)

|                                                                                        | Carrying amount (*) | Fair value (*) | Difference |
|----------------------------------------------------------------------------------------|---------------------|----------------|------------|
| (1) Cash and deposits                                                                  | 23,392              | 23,392         | —          |
| (2) Notes and accounts receivable - trade                                              | 45,303              | 45,303         | —          |
| (3) Investment securities                                                              | 56,495              | 56,495         | —          |
| (4) Notes and accounts payable - trade                                                 | (30,200)            | (30,200)       | —          |
| (5) Short-term loans payable<br>(excluding current portion of long-term loans payable) | (18,019)            | (18,019)       | —          |
| (6) Bonds payable (including current portion of bonds payable)                         | (10,000)            | (10,036)       | (36)       |
| (7) Long-term loans payable<br>(including current portion of long-term loans payable)  | (16,584)            | (16,250)       | 334        |
| (8) Derivatives                                                                        | (21)                | (21)           | —          |

(\*) Liabilities are presented in parentheses.

## FY2017 (As of March 31, 2017)

(Millions of yen)

|                                                                                        | Carrying amount (*) | Fair value (*) | Difference |
|----------------------------------------------------------------------------------------|---------------------|----------------|------------|
| (1) Cash and deposits                                                                  | 16,588              | 16,588         | —          |
| (2) Notes and accounts receivable - trade                                              | 41,982              | 41,982         | —          |
| (3) Investment securities                                                              | 52,036              | 52,036         | —          |
| (4) Notes and accounts payable - trade                                                 | (25,623)            | (25,623)       | —          |
| (5) Short-term loans payable<br>(excluding current portion of long-term loans payable) | (16,403)            | (16,403)       | —          |
| (6) Bonds payable                                                                      | (10,000)            | (10,073)       | (73)       |
| (7) Long-term loans payable<br>(including current portion of long-term loans payable)  | (12,497)            | (12,373)       | 123        |
| (8) Derivatives                                                                        | (17)                | (17)           | —          |

(\*) Liabilities are presented in parentheses.

Note 1: Calculation methods of the fair value of financial instruments and matters relating to securities and derivatives

(1) Cash and deposits and (2) Notes and accounts receivable - trade

The book value is used as the fair value, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(3) Investment securities

Stocks are valued at prices on stock exchanges and bonds are valued at prices obtained from financial institutions. For matters concerning securities by holding purpose, please refer to note on "Securities."

(4) Notes and accounts payable - trade and (5) Short-term loans payable

The book value is used as the fair value, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(6) Bonds payable

The fair value of bonds payable with available fair market value is valued at market prices. The fair value of bonds payable without available fair market value is estimated by discounting the total amount of principal and interest at a rate that reflects the remaining periods of the bonds and the credit risk.

(7) Long-term loans payable

The fair value of long-term loans payable is estimated by discounting the total amount of principal and interest using an interest rate that would apply if the full amount of the principal were newly borrowed at the year-end date. Most of long-term loans payable with variable interest rates qualify for special treatment for interest rate swaps and the fair value is calculated by discounting the total amount of principal and interest with the interest rate swaps, using an interest rate that would apply if it were newly borrowed at the year-end date.

(8) Derivatives

Please refer to notes on "Derivatives."

Note 2: Carrying amounts of financial instruments whose fair values are deemed to be extremely difficult to determine

(Millions of yen)

| Category                   | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|----------------------------|----------------------------------|----------------------------------|
| Unlisted stocks and others | 10,359                           | 10,018                           |

Unlisted stocks are not included in "(3) Investment securities" because they have no market prices and their fair values are deemed to be extremely difficult to determine as future cash flow cannot be estimated.

Note 3: Redemption schedule for monetary receivables and securities with maturities after the consolidated balance sheet date

FY2018 (As of March 31, 2018)

(Millions of yen)

|                                       | Within one year | Over one year<br>within five years | Over five years<br>within ten years | Over ten years |
|---------------------------------------|-----------------|------------------------------------|-------------------------------------|----------------|
| Deposits                              | 23,258          | —                                  | —                                   | —              |
| Notes and accounts receivable - trade | 45,303          | —                                  | —                                   | —              |
| Securities and investment securities  |                 |                                    |                                     |                |
| Other securities with maturities      |                 |                                    |                                     |                |
| (1) Bonds (Corporate bonds)           | —               | 425                                | 85                                  | 239            |
| (2) Other                             | 29              | 29                                 | 298                                 | —              |
| Total                                 | 68,591          | 455                                | 384                                 | 239            |

FY2017 (As of March 31, 2017)

(Millions of yen)

|                                          | Within one year | Over one year<br>within five years | Over five years<br>within ten years | Over ten years |
|------------------------------------------|-----------------|------------------------------------|-------------------------------------|----------------|
| Deposits                                 | 16,471          | —                                  | —                                   | —              |
| Notes and accounts receivable -<br>trade | 41,982          | —                                  | —                                   | —              |
| Securities and investment<br>securities  |                 |                                    |                                     |                |
| Other securities with<br>maturities      |                 |                                    |                                     |                |
| (1) Bonds (Corporate bonds)              | 101             | 150                                | 107                                 | 190            |
| (2) Other                                | 27              | 238                                | 186                                 | —              |
| Total                                    | 58,582          | 388                                | 293                                 | 190            |

Note 4: Repayment schedule for short-term loans payable, bonds payable and long-term loans payable after the consolidated balance sheet date

FY2018 (As of March 31, 2018)

(Millions of yen)

|                          | Within one year | Over one year<br>within two years | Over two years<br>within three years | Over three years<br>within four years | Over four years<br>within five years | Over five years |
|--------------------------|-----------------|-----------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|-----------------|
| Short-term loans payable | 18,019          | —                                 | —                                    | —                                     | —                                    | —               |
| Bonds payable            | 5,000           | —                                 | 5,000                                | —                                     | —                                    | —               |
| Long-term loans payable  | 4,508           | 2,394                             | 1,991                                | 766                                   | 875                                  | 6,047           |
| Total                    | 27,528          | 2,394                             | 6,991                                | 766                                   | 875                                  | 6,047           |

FY2017 (As of March 31, 2017)

(Millions of yen)

|                          | Within one year | Over one year<br>within two years | Over two years<br>within three years | Over three years<br>within four years | Over four years<br>within five years | Over five years |
|--------------------------|-----------------|-----------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|-----------------|
| Short-term loans payable | 16,403          | —                                 | —                                    | —                                     | —                                    | —               |
| Bonds payable            | —               | 5,000                             | —                                    | 5,000                                 | —                                    | —               |
| Long-term loans payable  | 2,619           | 3,810                             | 1,805                                | 1,184                                 | 228                                  | 2,848           |
| Total                    | 19,022          | 8,810                             | 1,805                                | 6,184                                 | 228                                  | 2,848           |

## (Securities)

## 1. Other securities

FY2018 (As of March 31, 2018)

(Millions of yen)

|                                                                         | Type                                            | Carrying amount | Acquisition cost | Difference |
|-------------------------------------------------------------------------|-------------------------------------------------|-----------------|------------------|------------|
| Securities whose carrying amount exceeds their acquisition cost         | (1) Stocks                                      | 54,692          | 14,675           | 40,017     |
|                                                                         | (2) Bonds                                       |                 |                  |            |
|                                                                         | (i) Government bonds and local government bonds | —               | —                | —          |
|                                                                         | (ii) Corporate bonds                            | —               | —                | —          |
|                                                                         | (iii) Other                                     | —               | —                | —          |
|                                                                         | (3) Other                                       | 174             | 153              | 21         |
|                                                                         | Subtotal                                        | 54,867          | 14,828           | 40,038     |
| Securities whose carrying amount does not exceed their acquisition cost | (1) Stocks                                      | 553             | 697              | (143)      |
|                                                                         | (2) Bonds                                       |                 |                  |            |
|                                                                         | (i) Government bonds and local government bonds | —               | —                | —          |
|                                                                         | (ii) Corporate bonds                            | 600             | 746              | (145)      |
|                                                                         | (iii) Other                                     | —               | —                | —          |
|                                                                         | (3) Other                                       | 472             | 514              | (41)       |
|                                                                         | Subtotal                                        | 1,627           | 1,957            | (330)      |
| Total                                                                   |                                                 | 56,495          | 16,786           | 39,708     |

Note: Unlisted stocks (carrying amount: ¥4,560 million) are not included in “Other securities” in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

FY2017 (As of March 31, 2017)

(Millions of yen)

|                                                                         | Type                                            | Carrying amount | Acquisition cost | Difference |
|-------------------------------------------------------------------------|-------------------------------------------------|-----------------|------------------|------------|
| Securities whose carrying amount exceeds their acquisition cost         | (1) Stocks                                      | 50,637          | 14,950           | 35,686     |
|                                                                         | (2) Bonds                                       |                 |                  |            |
|                                                                         | (i) Government bonds and local government bonds | —               | —                | —          |
|                                                                         | (ii) Corporate bonds                            | —               | —                | —          |
|                                                                         | (iii) Other                                     | —               | —                | —          |
|                                                                         | (3) Other                                       | 146             | 139              | 6          |
|                                                                         | Subtotal                                        | 50,783          | 15,090           | 35,692     |
| Securities whose carrying amount does not exceed their acquisition cost | (1) Stocks                                      | 322             | 403              | (80)       |
|                                                                         | (2) Bonds                                       |                 |                  |            |
|                                                                         | (i) Government bonds and local government bonds | —               | —                | —          |
|                                                                         | (ii) Corporate bonds                            | 469             | 579              | (109)      |
|                                                                         | (iii) Other                                     | —               | —                | —          |
|                                                                         | (3) Other                                       | 527             | 578              | (51)       |
|                                                                         | Subtotal                                        | 1,319           | 1,561            | (241)      |
| Total                                                                   |                                                 | 52,102          | 16,651           | 35,450     |

Note: Unlisted stocks (carrying amount: ¥4,527 million) are not included in “Other securities” in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

## 2. Other securities sold

FY2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen)

| Type                                            | Proceeds from sales | Total gain on sales | Total loss on sales |
|-------------------------------------------------|---------------------|---------------------|---------------------|
| (1) Stocks                                      | 61                  | 22                  | —                   |
| (2) Bonds                                       |                     |                     |                     |
| (i) Government bonds and local government bonds | —                   | —                   | —                   |
| (ii) Corporate bonds                            | —                   | —                   | —                   |
| (iii) Other                                     | —                   | —                   | —                   |
| (3) Other                                       | 982                 | 28                  | 1                   |
| Total                                           | 1,044               | 50                  | 1                   |

FY2017 (From April 1, 2016 to March 31, 2017)

(Millions of yen)

| Type                                            | Proceeds from sales | Total gain on sales | Total loss on sales |
|-------------------------------------------------|---------------------|---------------------|---------------------|
| (1) Stocks                                      | 827                 | 383                 | 0                   |
| (2) Bonds                                       |                     |                     |                     |
| (i) Government bonds and local government bonds | —                   | —                   | —                   |
| (ii) Corporate bonds                            | 282                 | 2                   | 4                   |
| (iii) Other                                     | —                   | —                   | —                   |
| (3) Other                                       | 451                 | 9                   | 8                   |
| Total                                           | 1,561               | 396                 | 12                  |

## 3. Securities subject to impairment

Regarding impairment of securities, the Company recognized ¥103 million as impairment loss for securities in the current fiscal year.

When the fair value of securities as of the end of the fiscal year declines by greater than or equal to 50% compared to their cost, the Company recognizes impairment losses, and when such decline is between 30% and 50%, the Company recognizes impairment losses for the amount deemed necessary taking into consideration the possibility of a recovery in value. For securities whose fair value is deemed to be extremely difficult to determine, the Company recognizes impairment losses of securities for which actual value at the consolidated balance sheet date declines by greater than or equal to 50 % compared to the cost, in principle, except in cases where there is a possibility of recovery in value.

(Derivatives)

1. Derivatives for which hedge accounting is not applied

FY2018 (From April 1, 2017 to March 31, 2018)

Not applicable

FY2017 (From April 1, 2016 to March 31, 2017)

Not applicable

2. Derivatives for which hedge accounting is applied

(1) Currency-related transactions

FY2018 (As of March 31, 2018)

| Hedge accounting          | Type of transaction        | Major hedged items          | Contract amount, etc.<br>(Millions of yen) | Contract amount, etc. over one year<br>(Millions of yen) | Fair value<br>(Millions of yen) |
|---------------------------|----------------------------|-----------------------------|--------------------------------------------|----------------------------------------------------------|---------------------------------|
| Deferred hedge accounting | Forward exchange contracts |                             |                                            |                                                          |                                 |
|                           | Buy                        |                             |                                            |                                                          |                                 |
|                           | USD                        | Accounts payable - trade    | 943                                        | —                                                        | (18)                            |
|                           | EUR                        |                             | 149                                        | —                                                        | (2)                             |
|                           | Sell                       |                             |                                            |                                                          |                                 |
|                           | USD                        | Accounts receivable - trade | 79                                         | —                                                        | (0)                             |
| Total                     |                            |                             | 1,172                                      | —                                                        | (21)                            |

Note: Calculation methods of fair value Valued at prices obtained from counterparty financial institutions and others.

FY2017 (As of March 31, 2017)

| Hedge accounting          | Type of transaction        | Major hedged items          | Contract amount, etc.<br>(Millions of yen) | Contract amount, etc. over one year<br>(Millions of yen) | Fair value<br>(Millions of yen) |
|---------------------------|----------------------------|-----------------------------|--------------------------------------------|----------------------------------------------------------|---------------------------------|
| Deferred hedge accounting | Forward exchange contracts |                             |                                            |                                                          |                                 |
|                           | Buy                        |                             |                                            |                                                          |                                 |
|                           | USD                        | Accounts payable - trade    | 773                                        | —                                                        | (14)                            |
|                           | EUR                        |                             | 157                                        | —                                                        | (2)                             |
|                           | Sell                       |                             |                                            |                                                          |                                 |
|                           | USD                        | Accounts receivable - trade | 96                                         | —                                                        | (0)                             |
| Total                     |                            |                             | 1,026                                      | —                                                        | (17)                            |

Note: Calculation methods of fair value Valued at prices obtained from counterparty financial institutions and others.

(2) Interest rate-related transactions  
FY2018 (As of March 31, 2018)

| Hedge accounting                          | Type of transaction                                                | Major hedged items      | Contract amount, etc.<br>(Millions of yen) | Contract amount, etc. over one year<br>(Millions of yen) | Fair value<br>(Millions of yen) |
|-------------------------------------------|--------------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------|---------------------------------|
| Special treatment for interest rate swaps | Interest rate swaps transactions<br>Pay fixed and receive floating | Long-term loans payable | 900                                        | 300                                                      | (Note)                          |

Note: The fair value of derivative transactions subject to the special treatment for interest rate swaps is included in the fair value of the underlying long-term loans payable because such derivative transactions are accounted for together with the hedged long-term loans payable.

FY2017 (As of March 31, 2017)

| Hedge accounting                          | Type of transaction                                                | Major hedged items      | Contract amount, etc.<br>(Millions of yen) | Contract amount, etc. over one year<br>(Millions of yen) | Fair value<br>(Millions of yen) |
|-------------------------------------------|--------------------------------------------------------------------|-------------------------|--------------------------------------------|----------------------------------------------------------|---------------------------------|
| Special treatment for interest rate swaps | Interest rate swaps transactions<br>Pay fixed and receive floating | Long-term loans payable | 900                                        | 900                                                      | (Note)                          |

Note: The fair value of derivative transactions subject to the special treatment for interest rate swaps is included in the fair value of the underlying long-term loans payable because such derivative transactions are accounted for together with the hedged long-term loans payable.

(Retirement benefits)

1. Overview of retirement benefit plan adopted by the Company

The Company and certain domestic consolidated subsidiaries have a defined benefit pension plan which includes a defined benefit corporate pension plan and a defined contribution plan, and the Company has established a retirement benefit trust. Certain other domestic consolidated subsidiaries have a retirement lump-sum plan as a defined benefit plan.

In the retirement lump-sum plan partially adopted by the domestic consolidated subsidiaries, liabilities for retirement benefits and retirement benefit cost are calculated using the simplified method.

Certain domestic consolidated subsidiaries are members of multi-employer corporate pension plans.

For such multi-employer plans whereby the amount of plan assets corresponding to the member companies' contributions cannot be calculated reasonably, the same accounting treatment as that for the defined contribution plan is applied.

2. Defined benefit plan

(1) Reconciliation of beginning and ending balances of retirement benefit obligations (excluding plans to which the simplified method is applied)

|                                                                  | (Millions of yen)                                   |                                                     |
|------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
|                                                                  | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
| Balance of retirement benefit obligations at beginning of period | 16,428                                              | 16,506                                              |
| Service cost                                                     | 860                                                 | 863                                                 |
| Interest cost                                                    | 114                                                 | 114                                                 |
| Actuarial gain or loss                                           | 53                                                  | (154)                                               |
| Retirement benefit paid                                          | (1,010)                                             | (902)                                               |
| Balance of retirement benefit obligations at end of period       | 16,446                                              | 16,428                                              |

(2) Reconciliation of beginning and ending balances of plan assets (excluding plans to which simplified method is applied)

|                                               | (Millions of yen)                                   |                                                     |
|-----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
|                                               | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
| Balance of plan assets at beginning of period | 12,803                                              | 12,040                                              |
| Expected return                               | 193                                                 | 181                                                 |
| Actuarial gain or loss                        | 402                                                 | 354                                                 |
| Employer's contribution                       | 943                                                 | 944                                                 |
| Retirement benefit payments                   | (812)                                               | (717)                                               |
| Balance of plan assets at end of period       | 13,529                                              | 12,803                                              |

(3) Reconciliation of beginning and ending balances of net defined benefit liability and net defined benefit asset relating to retirement benefit plans to which the simplified method is applied

(Millions of yen)

|                                                                                    | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Net defined benefit liability and net defined benefit asset at beginning of period | 1,422                                               | 1,400                                               |
| Retirement benefit expenses                                                        | 226                                                 | 213                                                 |
| Retirement benefit paid                                                            | (107)                                               | (131)                                               |
| Contributions to plans                                                             | (48)                                                | (45)                                                |
| Other                                                                              | 24                                                  | (13)                                                |
| Net defined benefit liability and net defined benefit asset at end of period       | 1,519                                               | 1,422                                               |

(4) Reconciliation of ending balances of retirement benefit obligations and plan assets and retirement benefit liabilities and assets in the consolidated balance sheets

(Millions of yen)

|                                                                        | FY2018<br>(As of<br>March 31, 2018) | FY2017<br>(As of<br>March 31, 2017) |
|------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| Retirement benefit obligation for funded plans                         | 17,110                              | 17,060                              |
| Plan assets                                                            | (14,223)                            | (13,480)                            |
|                                                                        | 2,886                               | 3,580                               |
| Retirement benefit obligation for non-funded plans                     | 1,548                               | 1,467                               |
| Net liabilities and assets recorded on the consolidated balance sheets | 4,435                               | 5,048                               |
| Net defined benefit liability                                          | 4,530                               | 5,151                               |
| Net defined benefit asset                                              | (95)                                | (103)                               |
| Net liabilities and assets recorded on the consolidated balance sheets | 4,435                               | 5,048                               |

Note: Figures include those for plans to which the simplified method is applied.

(5) Retirement benefit expenses and the breakdown

(Millions of yen)

|                                                              | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|--------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Service cost                                                 | 860                                                 | 863                                                 |
| Interest cost                                                | 114                                                 | 114                                                 |
| Expected return                                              | (193)                                               | (181)                                               |
| Amortization of actuarial gain or loss                       | 774                                                 | 1,023                                               |
| Retirement benefit expenses based on simplified method       | 226                                                 | 213                                                 |
| Retirement benefit expenses relating to defined benefit plan | 1,783                                               | 2,034                                               |

(6) Retirement benefits liability adjustments

Components of retirement benefits liability adjustments (before tax effect) are as follows:

(Millions of yen)

|                        | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Actuarial gain or loss | 1,123                                               | 1,533                                               |

(7) Accumulated retirement benefits liability adjustments

Components of accumulated retirement benefits liability adjustments (before tax effect) are as follows:

(Millions of yen)

|                                         | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|-----------------------------------------|----------------------------------|----------------------------------|
| Unrecognized actuarial gains and losses | 510                              | 1,634                            |

(8) Matters relating to plan assets

(i) Major breakdown of plan assets

The ratio of major classes in the plan assets are as follows:

|                 | FY2018<br>(As of March 31, 2018)<br>(%) | FY2017<br>(As of March 31, 2017)<br>(%) |
|-----------------|-----------------------------------------|-----------------------------------------|
| Bonds           | 32                                      | 31                                      |
| Stocks          | 37                                      | 38                                      |
| General account | 1                                       | 1                                       |
| Other           | 30                                      | 30                                      |
| Total           | 100                                     | 100                                     |

Note: The total plan assets include a retirement benefit trust established for the corporate pension plan, accounting for 36% of the total plan assets as of the end of the current fiscal year (37% as of the end of the previous fiscal year).

(ii) Method for determining long-term expected rate of return on plan assets

To determine a long-term expected rate of return on plan assets, the Company considers the allocations of current and expected plan assets and the current and expected long-term rates of return from various assets that constitute the plan assets.

(9) Matters relating to calculation basis for actuarial assumptions

Calculation basis for major actuarial assumptions

|                                                  | FY2018<br>(As of March 31, 2018)<br>(%) | FY2017<br>(As of March 31, 2017)<br>(%) |
|--------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Discount rate                                    | Mainly 0.8                              | Mainly 0.8                              |
| Long-term expected rate of return on plan assets | 0.0 - 2.5                               | 0.0 - 2.5                               |
| Expected rate of salary increase                 | 0.0 - 3.9                               | 0.0 - 4.8                               |

### 3. Defined contribution plan

|                                                                                   | (Millions of yen)                                   |                                                     |
|-----------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
|                                                                                   | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
| Required contributions to defined contribution plan for consolidated subsidiaries | 12                                                  | 6                                                   |

### 4. Multi-employer plans

Required contributions to the employees' pension fund (retirement benefit expenses) for multi-employer plans, which are treated similarly to defined contribution plan, totaled ¥17 million for the previous fiscal year and ¥19 million for the current fiscal year.

#### (1) Recent funded status of multi-employer plans

|                                                                                                   | (Millions of yen)                |                                  |
|---------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
|                                                                                                   | FY2018<br>(As of March 31, 2017) | FY2017<br>(As of March 31, 2016) |
| Plan assets                                                                                       | 201,795                          | 186,826                          |
| Total of actuarial benefit obligations under pension plan finance calculation and minimum reserve | 213,489                          | 199,253                          |
| Net                                                                                               | (11,694)                         | (12,426)                         |

#### (2) Ratio of Group's contributions to total contributions in multi-employer plans

FY2018 0.27% (As of March 31, 2017)

FY2017 0.37% (As of March 31, 2016)

#### (3) Supplementary explanation

The main factor for the net amount in (1) above is the deficit for the current fiscal year in the amount of ¥9,489 million.

The ratio in (2) above is not the same as the actual ratio of the Group's contributions.

## (Stock options)

## 1. Corresponding account and amount of stock options charged as expenses

(Millions of yen)

|                                              | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Selling, general and administrative expenses | 79                                                  | 79                                                  |

## 2. Details, size and changes in stock options

## (1) Details of stock options

|                                                  | 2017 Stock Options                                                                                                                                                                                                       | 2016 Stock Options                                                                                                                                                                                                       |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Category and number of grantees                  | Directors of the Company; 13                                                                                                                                                                                             | Directors of the Company; 12                                                                                                                                                                                             |
| Number of stock options by type of shares (Note) | 47,950 shares of common stock                                                                                                                                                                                            | 51,700 shares of common stock                                                                                                                                                                                            |
| Grant date                                       | July 26, 2017                                                                                                                                                                                                            | July 27, 2016                                                                                                                                                                                                            |
| Vesting conditions                               | In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day. | In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day. |
| Vesting period                                   | From July 1, 2017 to June 30, 2018                                                                                                                                                                                       | From July 1, 2016 to June 30, 2017                                                                                                                                                                                       |
| Exercise period                                  | From July 27, 2017 to July 26, 2047                                                                                                                                                                                      | From July 28, 2016 to July 27, 2046                                                                                                                                                                                      |

|                                                  | 2015 Stock Options                                                                                                                                                                                                       | 2014 Stock Options                                                                                                                                                                                                       |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Category and number of grantees                  | Directors of the Company; 11                                                                                                                                                                                             | Directors of the Company; 9                                                                                                                                                                                              |
| Number of stock options by type of shares (Note) | 51,100 shares of common stock                                                                                                                                                                                            | 61,700 shares of common stock                                                                                                                                                                                            |
| Grant date                                       | July 23, 2015                                                                                                                                                                                                            | July 24, 2014                                                                                                                                                                                                            |
| Vesting conditions                               | In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day. | In principle, the eligible person may exercise his/her share subscription rights on a lump sum basis between the subsequent day of the expiration of position as Director of the Company and the 10th day from such day. |
| Vesting period                                   | From July 1, 2015 to June 30, 2016                                                                                                                                                                                       | From July 1, 2014 to June 30, 2015                                                                                                                                                                                       |
| Exercise period                                  | From July 24, 2015 to July 23, 2045                                                                                                                                                                                      | From July 25, 2014 to July 24, 2044                                                                                                                                                                                      |

Note: The number of stock options represents the number of shares. As the Company conducted a 1-for-2 share consolidation on October 1, 2016, the number of shares reflects the amount after the share consolidation.

(2) Size and changes in stock options

The following describes the number of stock options that existed during FY2018 (fiscal year ended March 31, 2018). The number of stock options represents the number of shares.

(i) Number of stock options

|                         | 2017 Stock Options | 2016 Stock Options | 2015 Stock Options | 2014 Stock Options |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| Before vesting (Shares) |                    |                    |                    |                    |
| As of March 31, 2017    | —                  | 51,700             | 41,700             | 43,600             |
| Granted                 | 47,950             | —                  | —                  | —                  |
| Forfeited               | —                  | —                  | —                  | —                  |
| Vested                  | —                  | 8,700              | 8,000              | 10,800             |
| Unvested                | 47,950             | 43,000             | 33,700             | 32,800             |
| After vesting (Shares)  |                    |                    |                    |                    |
| As of March 31, 2017    | —                  | —                  | —                  | —                  |
| Vested                  | —                  | 8,700              | 8,000              | 10,800             |
| Exercised               | —                  | 8,700              | 8,000              | 10,800             |
| Forfeited               | —                  | —                  | —                  | —                  |
| Exercisable             | —                  | —                  | —                  | —                  |

Note: As the Company conducted a 1-for-2 share consolidation on October 1, 2016, the number of shares reflects the amount after the share consolidation.

(ii) Unit price information

|                                             | 2017 Stock Options | 2016 Stock Options | 2015 Stock Options | 2014 Stock Options |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Exercise price (Yen)                        | 1                  | 1                  | 1                  | 1                  |
| Average price per share upon exercise (Yen) | —                  | 1,801              | 1,801              | 1,801              |
| Fair value per share at grant date (Yen)    | 1,667              | 1,512              | 1,590              | 1,008              |

Note: As the Company conducted a 1-for-2 share consolidation on October 1, 2016, per share price reflects the amount after the share consolidation.

3. Method for estimating the fair value of stock options

The method for estimating the fair value of the 2017 stock options granted in the current fiscal year is as follows:

(i) Valuation method: Black-Scholes Model

(ii) Main assumptions and estimation method:

|                                                 | 2017 Stock Options           |
|-------------------------------------------------|------------------------------|
| Volatility of share price (Note 1)              | 22.9%                        |
| Estimated remaining outstanding period (Note 2) | Three years and seven months |
| Estimated dividend (Note 3)                     | ¥30 per share                |
| Risk-free interest rate (Note 4)                | (0.09)%                      |

Notes: 1. Calculated based on the stock market performance for the three years and seven months (from December 2013 to July 2017).

2. Estimated based on the average remaining service period for Directors at the allotment date of the stock options, which is based on the average service period of past Directors and the current service periods of incumbent Directors between their inauguration dates and the allotment date of stock options.

3. Dividend was estimated based on the actual dividends for the fiscal year ended March 31, 2017.

4. The yield on government bonds for the period corresponding to the estimated remaining outstanding period.

4. Method for estimating the number of stock options vested

Because it is difficult to reasonably estimate the number of stock options that will expire in the future, the number here reflects only stock options that have actually been forfeited.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

|                                                                | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|----------------------------------------------------------------|----------------------------------|----------------------------------|
| Deferred tax assets                                            |                                  |                                  |
| Non-deductible accrued enterprise tax                          | 207                              | 177                              |
| Accrued bonuses                                                | 453                              | 439                              |
| Net defined benefit liability                                  | 2,258                            | 2,045                            |
| Loss on valuation of securities                                | 38                               | 38                               |
| Unrealized gain on sales of fixed assets                       | 937                              | 946                              |
| Loss on valuation of non-current assets                        | 68                               | 69                               |
| Other                                                          | 1,783                            | 2,251                            |
| Subtotal deferred tax assets                                   | 5,748                            | 5,967                            |
| Amount offset by deferred tax liabilities                      | 2,900                            | 3,059                            |
| Net deferred tax assets                                        | 2,847                            | 2,908                            |
| Deferred tax liabilities                                       |                                  |                                  |
| Reserve for reduction entry                                    | 2,848                            | 2,846                            |
| Unrealized holding gain (loss) on securities                   | 12,153                           | 10,849                           |
| Gain on contribution of securities to retirement benefit trust | 437                              | 440                              |
| Other                                                          | 1,240                            | 1,142                            |
| Subtotal deferred tax liabilities                              | 16,681                           | 15,278                           |
| Amount offset by deferred tax assets                           | 2,900                            | 3,059                            |
| Net deferred tax liabilities                                   | 13,780                           | 12,219                           |

Notes: 1. The amounts deducted from deferred tax assets in calculating the amounts of deferred tax assets are as follows:

(Millions of yen)

|                                          | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|------------------------------------------|----------------------------------|----------------------------------|
| Amount deducted from deferred tax assets | 2,292                            | 2,080                            |

2. Deferred tax assets and liabilities in the previous fiscal year and the current fiscal year are included in the following accounts in the consolidated balance sheets.

(Millions of yen)

|                                                    | FY2018<br>(As of March 31, 2018) | FY2017<br>(As of March 31, 2017) |
|----------------------------------------------------|----------------------------------|----------------------------------|
| Current assets - deferred tax assets               | 1,465                            | 1,537                            |
| Non-current assets - deferred tax assets           | 1,382                            | 1,371                            |
| Current liabilities - Other                        | 6                                | 1                                |
| Non-current liabilities - deferred tax liabilities | 13,774                           | 12,218                           |

2. Significant components in the reconciliation of difference between the effective statutory tax rate and effective tax rate reflected in the consolidated financial statements are as follows:

|                                                                     | FY2018<br>(As of March 31, 2018)<br>(%) | FY2017<br>(As of March 31, 2017)<br>(%) |
|---------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Effective statutory tax rate                                        | —                                       | 30.9                                    |
| (Adjustments)                                                       |                                         |                                         |
| Non-deductible permanent differences such as entertainment expenses | —                                       | 1.0                                     |
| Non-taxable permanent differences such as dividend income           | —                                       | (0.6)                                   |
| Per capita inhabitant taxes                                         | —                                       | 0.7                                     |
| Special deductions from income tax                                  | —                                       | (1.9)                                   |
| Effect of change in effective tax rate                              | —                                       | —                                       |
| Differences of tax rates at foreign subsidiaries                    | —                                       | (0.3)                                   |
| Other                                                               | —                                       | (1.8)                                   |
| Actual effective tax rate after tax effect accounting               | —                                       | 27.9                                    |

Note: The note is omitted as the difference between the effective statutory tax rate and the actual effective tax rate after tax effect accounting is equal to or less than 5% of the effective statutory tax rate in the current fiscal year.

(Business combination)

FY2018 (From April 1, 2017 to March 31, 2018)

Not applicable

FY2017 (From April 1, 2016 to March 31, 2017)

Business combination through acquisition

1. Summary of business combination

(1) Name and business description of acquired company

|                      |                                  |
|----------------------|----------------------------------|
| Name of acquirer     | NIPPON Donuts Holdings Co., Ltd. |
| Name of acquiree     | Yamato Foods Co., Ltd.           |
| Business description | Management of donut shops, etc.  |

(2) Main reasons for business combination

Yamato Foods Co., Ltd. develops its shops as a franchisee of the Mister Donut and Mos Burger chains. Accordingly, NIPPON Donuts Holdings Co., Ltd. expands its business scale and strengthens its position as a Mister Donut franchisee and the Company believes that it can strengthen its cooperation with Duskin Co., Ltd., which controls the Mister Donut business.

(3) Date of business combination

April 28, 2016

(4) Legal form of business combination

Acquisition of shares for cash consideration

(5) Name of company after business combination

Yamato Foods Co., Ltd.

(6) Percentage of voting rights acquired

100%

(7) Main grounds for determination of the acquiring company

Share acquisition for cash by NIPPON Donuts Holdings Co., Ltd., a consolidated subsidiary of the Company

2. Operating period of acquired company included in the consolidated financial statements

From May 1, 2016 to March 31, 2017

3. Acquisition cost of acquired company and breakdown by type of consideration

|                                   |      |                |
|-----------------------------------|------|----------------|
| Consideration for the acquisition | Cash | ¥1,367 million |
| Acquisition cost                  |      | ¥1,367 million |

4. Details and amount of main acquisition-related costs

|              |             |
|--------------|-------------|
| Advisory fee | ¥36 million |
|--------------|-------------|

5. Goodwill incurred, reason, amortization method and period

(1) Goodwill incurred

¥609 million

(2) Reason

The goodwill is attributable to expected future profitability of the Company.

(3) Amortization method and period

Straight-line method over ten years

6. Amounts and breakdown of assets and liabilities acquired on the date of business combination

|                         |                |
|-------------------------|----------------|
| Current assets          | ¥344 million   |
| Non-current assets      | ¥1,315 million |
| Total assets            | ¥1,659 million |
| Current liabilities     | ¥882 million   |
| Non-current liabilities | ¥8 million     |
| Total liabilities       | ¥891 million   |

7. Approximate amount and calculation method of impact of business combination on consolidated statements of income for the current fiscal year assuming that acquisition was completed at the beginning of the current fiscal year

|                                                |              |
|------------------------------------------------|--------------|
| Net sales                                      | ¥314 million |
| Operating income (loss)                        | ¥(3) million |
| Profit (loss) before income taxes              | ¥(3) million |
| Profit (loss) attributable to owners of parent | ¥(0) million |

(Calculation methods for estimated amount)

The approximate amounts of the impact of the business combination are the differences between the information on net sales and profit or loss on the assumption that the acquisition was completed at the beginning of the current fiscal year and the information on net sales and profit or loss in the consolidated statement of income of the acquiring company.

The above information has not been audited by the Company's independent auditor.

## Transactions under common control

(Making a consolidated subsidiary a wholly owned subsidiary through simplified share exchange)

The Company and Tofuku Flour Mills Co., Ltd. (“Tofuku Flour Mills”), at their respective Board of Directors meetings held on August 4, 2016, resolved that the Company would exchange shares for the acquisition of Tofuku Flour Mills as a wholly owned subsidiary of the Company, making the Company the wholly owning parent (the “Share Exchange”), and concluded a share exchange agreement dated the same day. In accordance with the share exchange agreement, the Company conducted the Share Exchange as of the effective date of November 1, 2016 and Tofuku Flour Mills became a wholly owned subsidiary of the Company.

The common stock of Tofuku Flour Mills was delisted from the Fukuoka Stock Exchange on October 27, 2016 (the final trading day was October 26, 2016).

### 1. Overview of the Share Exchange

#### (1) Name of wholly owned subsidiary and description of business

Name of wholly owned subsidiary      Tofuku Flour Mills Co., Ltd.

Business description      Manufacture and sale of flour and prepared mix

#### (2) Purpose of the Share Exchange

- Optimizing the Group’s value chain by integrating management resources that are dispersed within the Group
- Delivering greater business synergy by avoiding conflict of interests within the Group
- Enabling the Group to distribute management resources and establish management strategies in optimal ways through integrated management of the Group

#### (3) Effective date of the Share Exchange

November 1, 2016

#### (4) Method of the Share Exchange

A share exchange in which the Company becomes the wholly owning parent and Tofuku Flour Mills becomes the wholly owned subsidiary.

The Company conducted the Share Exchange by means of a simplified share exchange that does not require the approval of its general meeting of shareholders pursuant to the provisions of Article 796, paragraph 2 of the Companies Act. As Tofuku Flour Mills received approval for the share exchange agreement at its extraordinary general meeting of shareholders held on September 21, 2016, the Share Exchange was effective as of November 1, 2016.

#### (5) Name of company after business combination

Tofuku Flour Mills Co., Ltd.

## 2. Calculation of acquisition cost

### (1) Acquisition cost of acquired company and breakdown by type of consideration

|                                   |                                   |              |
|-----------------------------------|-----------------------------------|--------------|
| Consideration for the acquisition | Common stock<br>(treasury shares) | ¥751 million |
| Acquisition cost                  |                                   | ¥751 million |

### (2) Description of allotment concerning the Share Exchange

| Company name                                            | The Company<br>(Wholly Owning Parent in<br>Share Exchange) | Tofuku Flour Mills<br>(Wholly Owned Subsidiary in Share<br>Exchange) |
|---------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------|
| Allotment ratio concerning the Share<br>Exchange        | 1                                                          | 0.1                                                                  |
| Number of shares allotted through the Share<br>Exchange | Common stock of the Company: 485,327 shares                |                                                                      |

(Note 1) The Company conducted a 1-for-2 share consolidation on October 1, 2016 according to a resolution at an annual meeting of shareholders held on June 29, 2016. The allotment ratio concerning the Share Exchange is stated based on the stock value of Nippon Flour Mills after the share consolidation.

(Note 2) In calculating the allotment ratio concerning the Share Exchange, the Company asked a third-party organization, which is independent from the Company and Tofuku Flour Mills, to calculate the allotment ratio with the aim of securing the fairness and appropriateness of the calculation.

(Note 3) All the shares allotted by the Company were treasury shares held.

### (3) Summary of accounting treatment

The Company treated the Share Exchange as a transaction under common control in accordance with the accounting standard for business combinations.

## 3. Change in equity of the Company arising from share exchange with non-controlling interests

### (1) Main reason for change in capital surplus

Additional acquisition of shares of subsidiaries

### (2) Increase in capital surplus due to transactions with non-controlling interests

¥619 million

(Asset retirement obligations)

As of March 31, 2018

The Group recognizes liabilities relating to the restoration of real estate to its original state upon withdrawal from real estate based on real estate lease contracts for factories and others as asset retirement obligations. However, the description of this information has been omitted as the total amount of the obligations is immaterial.

As of March 31, 2017

The Group recognizes liabilities relating to the restoration of real estate to its original state upon withdrawal from real estate based on real estate lease contracts for factories and others as asset retirement obligations. However, the description of this information has been omitted as the total amount of the obligations is immaterial.

(Rental property and other real estate)

FY2018 (From April 1, 2017 to March 31, 2018)

The information has been omitted as the total amount of rental property and other real estate is immaterial.

FY2017 (From April 1, 2016 to March 31, 2017)

The information has been omitted as the total amount of rental property and other real estate is immaterial.

(Public facility management)

Not applicable

(Segment information)

[Segment information]

1. Overview of reportable segments

The Group's reportable segments are group components which are regularly reviewed by the Board of Directors using the discrete financial information available to determine the allocation of management resources and evaluate business results.

The Group consists of three main business units classified by product types—Flour Milling, Food and Other. Each business unit formulates business strategies and promotes business activities.

The Group has classified its operations into two reportable segments: Flour Milling and Food.

The Flour Milling segment covers wheat flour, wheat bran, and buckwheat flour, while the Food segment covers wheat flour for home use, premixes, pasta, frozen foods, delicatessen foods, and rice flour.

2. Calculation methods of sales, income (loss), assets, liabilities and other items by reportable segment

The accounting methods used for reportable segments are the same as those described under “Basis of preparation of the consolidated financial statements.”

Profit figures of reportable segments are based on operating income. Inter-segment sales and transfers are based on prevailing market prices.

3. Information on sales, income (loss), assets, liabilities and other items by reportable segment

FY2018 (From April 1, 2017 to March 31, 2018)

|                                                                 | Reportable segments |         |         | Other  | Total   | Adjustments | Amounts recorded on consolidated financial statements |
|-----------------------------------------------------------------|---------------------|---------|---------|--------|---------|-------------|-------------------------------------------------------|
|                                                                 | Flour Milling       | Food    | Total   |        |         |             |                                                       |
| Net sales                                                       |                     |         |         |        |         |             |                                                       |
| Net sales to external customers                                 | 97,752              | 191,643 | 289,396 | 34,099 | 323,495 | —           | 323,495                                               |
| Internal sales or transfers between segments                    | 1,781               | 644     | 2,425   | 2,394  | 4,820   | (4,820)     | —                                                     |
| Total                                                           | 99,533              | 192,288 | 291,821 | 36,494 | 328,316 | (4,820)     | 323,495                                               |
| Segment income                                                  | 5,216               | 4,435   | 9,651   | 374    | 10,025  | 35          | 10,060                                                |
| Segment assets                                                  | 107,136             | 93,983  | 201,120 | 19,004 | 220,125 | 53,202      | 273,328                                               |
| Other items                                                     |                     |         |         |        |         |             |                                                       |
| Depreciation                                                    | 3,001               | 3,561   | 6,563   | 911    | 7,475   | 316         | 7,791                                                 |
| Increase in property, plant and equipment and intangible assets | 2,486               | 6,359   | 8,846   | 1,884  | 10,731  | 8           | 10,739                                                |

- Notes:
1. The “Other” column indicates businesses not included in the reportable segments, including pet food, health food and engineering.
  2. Segment income adjustment of ¥35 million includes elimination of inter-segment transactions and corporate expenses.
  3. Corporate assets included in adjustments of segment assets amounted to ¥54,472 million and mainly comprise the Company's surplus funds (cash and deposits, and securities) and property, plant and equipment concerning administrative departments.
  4. Adjustments amounting to ¥8 million for the increase in property, plant and equipment and intangible assets mainly relate to capital investment by the administrative departments and elimination of inter-segment transactions.
  5. Segment income is adjusted to reconcile total segment income to operating income on the consolidated financial statements.
  6. Depreciation expenses and an increase in property, plant and equipment and intangible assets include an increase in

long-term prepaid expenses and amortization thereof.

7. Different criteria are applied for allocation of non-current assets to each segment and for allocation of relevant depreciation expenses to each segment, respectively.

FY2017 (From April 1, 2016 to March 31, 2017)

(Millions of yen)

|                                                                 | Reportable segments |         |         | Other  | Total   | Adjustments | Amounts recorded on consolidated financial statements |
|-----------------------------------------------------------------|---------------------|---------|---------|--------|---------|-------------|-------------------------------------------------------|
|                                                                 | Flour Milling       | Food    | Total   |        |         |             |                                                       |
| Net sales                                                       |                     |         |         |        |         |             |                                                       |
| Net sales to external customers                                 | 96,940              | 182,231 | 279,171 | 33,760 | 312,932 | —           | 312,932                                               |
| Internal sales or transfers between segments                    | 1,868               | 614     | 2,482   | 2,242  | 4,724   | (4,724)     | —                                                     |
| Total                                                           | 98,808              | 182,845 | 281,653 | 36,003 | 317,657 | (4,724)     | 312,932                                               |
| Segment income                                                  | 4,005               | 6,726   | 10,731  | 831    | 11,563  | 11          | 11,574                                                |
| Segment assets                                                  | 103,254             | 88,064  | 191,319 | 17,042 | 208,361 | 43,713      | 252,074                                               |
| Other items                                                     |                     |         |         |        |         |             |                                                       |
| Depreciation                                                    | 3,271               | 3,266   | 6,538   | 940    | 7,478   | 237         | 7,715                                                 |
| Increase in property, plant and equipment and intangible assets | 3,715               | 5,482   | 9,197   | 1,260  | 10,457  | 1,352       | 11,809                                                |

- Notes:
1. The “Other” column indicates businesses not included in the reportable segments, including pet food, health food and engineering.
  2. Segment income adjustment of ¥11 million includes elimination of inter-segment transactions and corporate expenses.
  3. Corporate assets included in adjustments of segment assets amounted to ¥45,374 million and mainly comprise the Company’s surplus funds (cash and deposits, and securities) and property, plant and equipment concerning administrative departments.
  4. Adjustments amounting to ¥1,352 million for the increase in property, plant and equipment and intangible assets mainly relate to capital investment by the administrative departments and elimination of inter-segment transactions.
  5. Segment income is adjusted to reconcile total segment income to operating income on the consolidated financial statements.
  6. Depreciation expenses and an increase in property, plant and equipment and intangible assets include an increase in long-term prepaid expenses and amortization thereof.
  7. Different criteria are applied for allocation of non-current assets to each segment and for allocation of relevant depreciation expenses to each segment, respectively.

[Related information]

FY2018 (From April 1, 2017 to March 31, 2018)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customer

| Name of customer    | Net sales<br>(Millions of yen) | Name of related segment |
|---------------------|--------------------------------|-------------------------|
| FamilyMart Co.,Ltd. | 48,413                         | Food                    |
| ITOCHU Corporation  | 38,208                         | Flour Milling and Food  |

FY2017 (From April 1, 2016 to March 31, 2017)

1. Information by product and service

This information has been omitted as the same information is disclosed in Segment information.

2. Information by geographical area

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment in the consolidated balance sheet.

3. Information by major customer

| Name of customer    | Net sales<br>(Millions of yen) | Name of related segment |
|---------------------|--------------------------------|-------------------------|
| FamilyMart Co.,Ltd. | 40,486                         | Food                    |
| ITOCHU Corporation  | 35,808                         | Flour Milling and Food  |

[Information on impairment loss on non-current assets by reportable segment]  
FY2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen)

|                 | Flour Milling | Food | Other (Note) | Adjustments and elimination | Total |
|-----------------|---------------|------|--------------|-----------------------------|-------|
| Impairment loss | —             | 24   | 219          | —                           | 244   |

Note: The amounts in “Other” are those relating to the restaurant business and others.

FY2017 (From April 1, 2016 to March 31, 2017)

(Millions of yen)

|                 | Flour Milling | Food | Other (Note) | Adjustments and elimination | Total |
|-----------------|---------------|------|--------------|-----------------------------|-------|
| Impairment loss | —             | —    | —            | —                           | —     |

Note: The amounts in “Other” are those relating to the restaurant business and others.

[Information on amortization and balance of goodwill by reportable segment]

FY2018 (From April 1, 2017 to March 31, 2018)

(Millions of yen)

|                                    | Flour Milling | Food | Other (Note) | Adjustments and elimination | Total |
|------------------------------------|---------------|------|--------------|-----------------------------|-------|
| Amortization during current period | 19            | 17   | 113          | —                           | 149   |
| Balance at end of current period   | 12            | 59   | 520          | —                           | 592   |

Note: The amounts in “Other” are those relating to the restaurant business and others.

FY2017 (From April 1, 2016 to March 31, 2017)

(Millions of yen)

|                                    | Flour Milling | Food | Other (Note) | Adjustments and elimination | Total |
|------------------------------------|---------------|------|--------------|-----------------------------|-------|
| Amortization during current period | 19            | —    | 108          | —                           | 127   |
| Balance at end of current period   | 31            | —    | 632          | —                           | 664   |

Note: The amounts in “Other” are those relating to the restaurant business and others.

[Information on gain on bargain purchase by reportable segment]

FY2018 (From April 1, 2017 to March 31, 2018)

Not applicable

FY2017 (From April 1, 2016 to March 31, 2017)

Not applicable

[Related parties]

FY2018 (From April 1, 2017 to March 31, 2018)

Not applicable

FY2017 (From April 1, 2016 to March 31, 2017)

Not applicable

(Per share information)

(Yen)

|                                | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|--------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Net assets per share           | 1,897.64                                            | 1,784.44                                            |
| Basic profit per share         | 95.34                                               | 111.40                                              |
| Fully diluted profit per share | 95.16                                               | 111.22                                              |

- Notes: 1. The Company conducted a 1-for-2 share consolidation on October 1, 2016. Amounts of net assets per share, basic 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.
2. Basis for the calculation of basic profit per share and fully diluted profit per share is as follows:

|                                                                                                                               | FY2018<br>(From April 1, 2017<br>to March 31, 2018) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Basic profit per share                                                                                                        |                                                     |                                                     |
| Profit attributable to owners of parent<br>(Millions of yen)                                                                  | 7,651                                               | 8,934                                               |
| Amount not attributable to common shareholders<br>(Millions of yen)                                                           | —                                                   | —                                                   |
| Amount pertaining to common stock<br>(Millions of yen)                                                                        | 7,651                                               | 8,934                                               |
| Average number of shares of common stock in<br>the fiscal year (Thousands of shares)                                          | 80,257                                              | 80,203                                              |
| Fully diluted profit per share                                                                                                |                                                     |                                                     |
| Adjustments on profit attributable to owners of<br>parent (Millions of yen)                                                   | —                                                   | —                                                   |
| Increase in common stock (Thousands of shares)                                                                                | 152                                                 | 131                                                 |
| Summary of residual securities not included in<br>calculation of fully diluted profit per share due to<br>non dilutive effect | —                                                   | —                                                   |

(Significant subsequent events)

(Issuance of euro-yen denominated convertible bonds with stock acquisition rights)

At the Board of Directors meeting of the Company held on June 6, 2018, the Company resolved that the Company would issue euro-yen denominated convertible bonds with stock acquisition rights due 2025 (hereinafter referred to as the “Convertible Bonds with Stock Acquisition Rights”, of which the bonds excluding stock acquisition rights, and stock acquisition rights are hereinafter referred to as the “Bonds” and the “Stock Acquisition Rights,” respectively), and payment was completed on June 22, 2018 (London time, hereinafter the same unless otherwise indicated). The summary of the issuance is as follows :

1. Aggregate amount of the Bonds  
Sum of ¥25.0 billion and the total face value of the Bonds regarding substitute bond certificates with stock acquisition right
2. Issue price  
100.5% of the face value of the Bonds (face value of each Bond: ¥10.00 million)
3. Offering Price  
103.0% of the face value of the Bonds
4. Payment Date  
June 22, 2018
5. Maturity Date  
The Company will redeem the Bonds at 100% of their face value on June 20, 2025.
6. Interest Rate  
The Bonds shall not bear any interest.
7. Class and number of shares to be issued upon the exercise of the Stock Acquisition Rights
  - (1) Class  
The Company's common stock.
  - (2) Number of Shares  
The number of common stock to be issued or to be transferred from the Company instead of issuance, upon exercise of the Stock Acquisition Rights (hereinafter issuance or transfer of the Company's common stock shall be referred to as “Allocation” of the Company's common stock), shall be the amount obtained by dividing the total issue price of the Bonds regarding the exercise request by the conversion price described in 9. (2).
8. Total number of the Stock Acquisition Rights  
Sum of 2,500 units and the number of units obtained by dividing the total face value of the Bonds regarding substitute bond certificate by ¥10.00 million
9. Amount to be paid to exercise the Stock Acquisition Rights  
When exercising each Stock Acquisition Right, the Bond regarding the Stock Acquisition Right shall be funded. The price of the Bond shall be equal to the face value of the Bond.  
The conversion price shall be ¥2,296 initially.
10. Exercise period of the stock acquisition rights  
Exercise period shall be from July 6, 2018 to June 6, 2025 (local time of place where exercise request is accepted). However, certain relevant provisions are given in the terms and conditions of issuance.

11. Conditions to exercise the stock acquisition rights

Partial exercise of a stock acquisition right shall not be allowed.

12. Use of fund

- (1) Approximately ¥6.0 billion by the end of March 2020, in preparation for business expansion in Japan and overseas in the future, and for capital investment to rationalize manufacturing and to update facilities
- (2) Approximately ¥2.0 billion by the end of March 2019, for capital investment in Kobe-Konan Mill for the purpose of increasing production capacity of flour milling and food business
- (3) Approximately ¥4.0 billion by the end of March 2020, for capital investment in redevelopment business of “Shinjuku South Entrance Project” at Sendagaya 5-chome
- (4) Approximately ¥6.0 billion by the end of March 2019, for capital investment in construction of new factory of processed noodles managed by a group company and others that are expected to increase production capacity of deli-products business
- (5) Approximately ¥7.0 billion by the end of March 2019, as a fund for purchase of treasury shares with a view to enhancing shareholder returns and improving capital efficiency

(Purchase of treasury shares)

At the Board of Directors meeting of the Company held on June 6, 2018, the Company resolved to purchase treasury shares as follows, in accordance with Article 156 of the Companies Act applicable by replacing the provisions pursuant to Article 165, Paragraph 3 of the said Act.

- |                                            |                                                                                                                    |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| (1) Purpose of purchase of treasury shares | To improve capital efficiency and enhance shareholder returns                                                      |
| (2) Class of shares to be purchased        | The Company's common stock                                                                                         |
| (3) Total number of shares to be purchased | 4,500,000 shares (maximum)<br>(the ratio to the total number of issued shares (excluding treasury shares) : 5.60%) |
| (4) Total amount of purchase               | ¥7,000 million (maximum)                                                                                           |
| (5) Purchase period                        | From June 7, 2018 to March 31, 2019                                                                                |
| (6) Purchase method                        | Market purchase on the Tokyo Stock Exchange                                                                        |

(v) Consolidated supplemental schedules  
(Schedule of bonds payable)

| Company name                 | Security titles                        | Issue date     | Balance at beginning of current period (Millions of yen) | Balance at end of current period (Millions of yen) | Interest rate (%) | Collateral | Maturity       |
|------------------------------|----------------------------------------|----------------|----------------------------------------------------------|----------------------------------------------------|-------------------|------------|----------------|
| Nippon Flour Mills Co., Ltd. | 3rd Series of Unsecured Straight Bonds | April 19, 2013 | 5,000                                                    | 5,000 (5,000)                                      | 0.389             | None       | April 19, 2018 |
| Same as above                | 4th Series of Unsecured Straight Bonds | Same as above  | 5,000                                                    | 5,000                                              | 0.524             | None       | April 17, 2020 |
| Total                        | —                                      | —              | 10,000                                                   | 10,000 (5,000)                                     | —                 | —          | —              |

- Notes: 1. Amounts in parentheses are current portion of bonds.  
2. Repayment schedule for five years after the consolidated balance sheet date is as follows:

(Millions of yen)

| Due within one year | Due after one year within two years | Due after two years within three years | Due after three years within four years | Due after four years within five years |
|---------------------|-------------------------------------|----------------------------------------|-----------------------------------------|----------------------------------------|
| 5,000               | —                                   | 5,000                                  | —                                       | —                                      |

(Schedule of borrowings)

| Category                                            | Balance at beginning of current period (Millions of yen) | Balance at end of current period (Millions of yen) | Average interest rate (%) | Repayment date |
|-----------------------------------------------------|----------------------------------------------------------|----------------------------------------------------|---------------------------|----------------|
| Short-term loans payable                            | 16,403                                                   | 18,019                                             | 0.54                      | —              |
| Current portion of long-term loans payable          | 2,619                                                    | 4,508                                              | 0.74                      | —              |
| Current portion of lease obligations                | 328                                                      | 242                                                | —                         | —              |
| Long-term loans payable (excluding current portion) | 9,877                                                    | 12,075                                             | 0.46                      | 2019 – 2030    |
| Lease obligations (excluding current portion)       | 529                                                      | 481                                                | —                         | 2019 – 2027    |
| Other interest-bearing debt                         | —                                                        | —                                                  | —                         | —              |
| Total                                               | 29,758                                                   | 35,328                                             | —                         | —              |

- Notes: 1. Repayment schedule for long-term loans payable and lease obligations (excluding current portion) for five years after the consolidated balance sheet date is as follows:

(Millions of yen)

|                         | Due after one year within two years | Due after two years within three years | Due after three years within four years | Due after four years within five years |
|-------------------------|-------------------------------------|----------------------------------------|-----------------------------------------|----------------------------------------|
| Long-term loans payable | 2,394                               | 1,991                                  | 766                                     | 875                                    |
| Lease obligations       | 169                                 | 106                                    | 82                                      | 53                                     |

2. Average interest rates are computed using interest rates at the end of the fiscal year.  
3. Average interest rates on lease obligations are not provided because the lease obligations stated in the consolidated balance sheet represent the amounts with interest equivalents not deducted from the total lease payments.

(Schedule of asset retirement obligations)

The amount of asset retirement obligations at the beginning and at the end of the current fiscal year was not more than 1/100 of the amount of total liabilities and net assets at the beginning and at the end of the current fiscal year. Consequently, pursuant to Article 92-2 of the Regulations for Consolidated Financial Statements, this information has been omitted.