

Consolidated Financial Results for the First Half of FY2019 [J-GAAP]

November 6, 2018

Listed company name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange
 Code number: 2001 URL: <https://www.nippon.co.jp/> TEL: 03-3511-5307
 Representative: Masayuki Kondo, President and Chief Operating Officer
 Contact: Naoyuki Tsuda, General Manager of Corporate Communications Group
 Filing date of quarterly financial report: November 14, 2018
 Start of cash dividend payments: November 30, 2018
 Supplementary quarterly materials prepared: Yes
 Quarterly results information meeting held: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the first half of FY2019 (From April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

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

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
First half of FY2019	167,586	4.2%	5,346	18.8%	6,377	16.3%	4,031	13.5%
First half of FY2018	160,760	2.8%	4,501	(16.7)%	5,484	(9.6)%	3,551	(14.5)%

(Note) Comprehensive income: First half of FY2019: ¥6,694 million (-11.4%)
 First half of FY2018: ¥7,551 million (+86.1%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
First half of FY2019	51.16	46.70
First half of FY2018	44.25	44.17

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
First half of FY2019	291,386	157,245	52.3%
FY2018	272,166	156,905	56.0%

(Reference) Equity capital: First half of FY2019: ¥152,402 million
 FY2018: ¥152,307 million

* Effective from the beginning of the first quarter of the fiscal year ending March 31, 2019 (FY2019), the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and for total assets and the equity ratio for the previous fiscal year (FY2018), figures after retrospective application of these accounting standards are presented.

2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2018	—	15.00	—	15.00	30.00
FY2019	—	15.00			
FY2019 (Forecast)			—	15.00	30.00

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

3. Forecast of the consolidated financial results for FY2019 (From April 1, 2018 to March 31, 2019)

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

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share (Yen)
Full year	350,000	8.2%	12,000	19.3%	13,500	13.8%	9,000	17.6%	112.13

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

* Notes

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

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

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

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

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

1) Number of shares outstanding at the end of each period (including treasury shares):	First half of FY2019	82,524,009 shares	FY2018	82,524,009 shares
2) Number of treasury shares at the end of each period:	First half of FY2019	5,030,438 shares	FY2018	2,225,475 shares
3) Average number of shares (quarterly consolidated cumulative period):	First half of FY2019	78,797,450 shares	First half of FY2018	80,253,291 shares

* These consolidated financial results are outside the scope of quarterly review procedures by certified public accountants or an audit corporation.

* Explanation regarding the appropriate use of projected financial results and other special instructions

Descriptions regarding the future, including the financial outlook contained in this material, are based on certain information currently available to the Company and particular assumptions, which are, at the discretion of the Company, deemed reasonable, and actual financial results may significantly vary due to various factors. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Results, (3) Information on forecast of the consolidated financial results” on page 4 for information on preconditions underlying the above outlook and other related information.

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1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Overview of business results

During the first half of the fiscal year ending March 31, 2019, the Japanese economy remained on a moderate recovery track, supported by improvement in both corporate earnings and the labor market. However, the outlook of the Japanese economy is becoming unclear in view of various concerns such as rising crude oil prices and U.S. trade policy.

The food industry is operating in a challenging environment owing to rising labor costs reflecting labor shortages and increasing costs of raw materials and other costs while consumers' marked preference for low prices is persisting. On the other hand, needs for frozen foods and ready-made meals are increasing in line with the change in consumers' lifestyles, such as women's advancement in society and the growing numbers of both dual-income and single-person households.

In these circumstances, in order to respond flexibly and swiftly to the unceasingly changing business environment, the Group is strengthening the business foundation based on the fundamental measures implemented so far that are focused on cost reduction and sales expansion. We are forging ahead with various initiatives, including vigorous investment in promising fields and re-establishment of production sites, with the aim of achieving sustainable growth.

In order to further promote the above-mentioned growth strategy, in June 2018 the Company issued 2025 due euro-yen denominated convertible bond-type bonds with subscription rights to shares, while at the same time, promoting the purchase of treasury shares to enhance shareholder returns and improve capital efficiency.

As a result, consolidated net sales for the first half of fiscal 2019 increased by 4.2% year on year to ¥167,586 million, operating income increased by 18.8% to ¥5,346 million, ordinary income increased by 16.3% to ¥6,377 million, and profit attributable to owners of parent increased by 13.5% to ¥4,031 million. All business segments recorded higher sales and higher profit.

The performance of individual business segments was as follows.

1) Flour Milling

The Group is strengthening quality control in response to the growing preoccupation with the safety and security of food throughout society. At the same time, we are working to strengthen partnerships with customers through product development by quickly identifying and reflecting customer needs, providing useful information, and other measures. Moreover, we conducted vigorous sales & marketing initiatives, including participation in various trade shows and holding of workshops and seminars around Japan, some of which were for management. As a result, both shipped volumes and sales of wheat flour and wheat bran, a by-product, were higher than the levels for the same period of the previous year.

In line with the increase of government sales prices (tax inclusive) of imported wheat by 3.5% on average for the five key products in April 2018, we revised the prices of our products.

As a result, net sales for the Flour Milling segment increased by 5.3% year on year to ¥50,439 million, and operating income increased by 14.7% to ¥2,709 million.

2) Food

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

In the home-use product category, we expanded the REGALO premium pasta brand line and various other product lines. We also ran vigorous sales promotion activities, including a campaign that gave customers a chance to win tickets to a private performance of the Cosmos troupe of Takarazuka Revue and the offering of in-store merchandising proposals. Moreover, we promoted development of products attuned to consumer needs. For example, in response to consumers' increasing desire to spend less time cooking, we launched the Cho-hayayude series of short pasta that is ready after boiling for just 80 seconds, the fastest product of its kind in the industry. As a result, sales of products in this category

increased compared with the same period of the previous year.

In the home-use frozen foods category, we executed merchandising to meet diverse customer needs. To respond to health consciousness, we strengthened the line of products featuring vegetables, centering on the Oh' my Premium series that has the biggest sales in the one-person-portion frozen pasta market. Moreover, we launched Gyu-sukinabe (beef hotpot) and Buta-chigenabe (pork Korean hotpot), both of which are one-person-portion hotpot dishes that are new additions to the Imadoki Gohan series of complete meals. As a result, sales of frozen foods exceeded the level for the same period of the previous year.

In the ready-made meals business, we are promoting construction of new factories to expand sales. In the current year, construction of a new factory is underway in Chita City, Aichi Prefecture. Consequently, sales of the ready-made meals business increased compared with the same period of the previous year.

As a result, net sales of the Food segment increased by 2.6% year on year to ¥98,790 million, and operating income increased by 23.5% to ¥2,644 million.

3) Other

Sales of the engineering business were higher than the level for the same period of the previous year, reflecting an increase in inquiries for large projects.

As a result, net sales for the Other segment increased by 10.5% year on year to ¥18,356 million.

(2) Overview of financial position

1) Assets, liabilities and net assets

Total assets at the end of the first half of fiscal 2019 increased by ¥19,219 million from the previous fiscal year end (March 31, 2018) to ¥291,386 million. This was mainly because cash and deposits, investment securities, property, plant and equipment and notes and accounts receivable - trade increased by ¥11,812 million, ¥3,929 million, ¥1,495 million and ¥1,282 million, respectively.

Total liabilities increased by ¥18,879 million from the previous fiscal year end to ¥134,140 million. This was mainly because convertible bond-type bonds with subscription rights to shares increased by ¥25,119 million, and current portion of bonds payable decreased by ¥5,000 million.

Net assets increased by ¥340 million from the previous fiscal year end to ¥157,245 million. This was mainly attributable to increases of ¥2,824 million and ¥2,675 million in retained earnings and unrealized holding gain (loss) on securities, respectively, and purchase of treasury shares amounting to ¥5,315 million.

Effective from the beginning of the first quarter of fiscal 2019, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and the figures at the end of the previous year after retrospective application of these accounting standards were used for comparison.

2) Cash flows

The balance of cash and cash equivalents at the end of the first half of fiscal 2019 stood at ¥32,443 million, an increase of ¥11,886 million compared with the end of the previous fiscal year. The conditions of cash flows were as follows:

(Operating activities)

Net cash provided by operating activities amounted to ¥5,669 million compared with ¥6,279 million for the same period of the previous year. This mainly reflected ¥5,974 million for profit before income taxes, ¥3,533 million for depreciation, ¥2,297 million for income taxes paid and ¥1,345 million for increase in notes and accounts receivable - trade.

(Investing activities)

Net cash used in investing activities amounted to ¥5,445 million compared with ¥7,376 million for the same period of the previous year. This mainly reflected spending of ¥4,970 million for purchase of

fixed assets.

(Financing activities)

Net cash provided by financing activities amounted to ¥11,731 million compared with ¥3,276 million for the same period of the previous year. The main factors were proceeds from issuance of convertible bond-type bonds with subscription rights to shares amounting to ¥25,041 million, spending of ¥5,323 million for purchase of treasury shares, and redemption of bonds amounting to ¥5,000 million.

(3) Information on forecast of the consolidated financial results

The forecast of the financial results for the fiscal year ending March 31, 2019 is unchanged from the forecasts announced on May 10, 2018.

2. Quarterly Consolidated Financial Information**(1) Quarterly consolidated balance sheets**

(Millions of yen)

	FY2018 (As of March 31, 2018)	First half of FY2019 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	23,392	35,204
Notes and accounts receivable - trade	45,303	46,585
Merchandise and finished goods	14,481	14,225
Work in process	165	83
Raw materials and supplies	18,310	17,957
Other current assets	3,663	4,059
Allowance for doubtful accounts	(172)	(159)
Total current assets	105,143	117,957
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,569	33,079
Machinery, equipment and vehicles, net	17,636	17,333
Land	37,373	37,627
Construction in progress	2,442	4,502
Other, net	1,846	1,820
Total property, plant and equipment	92,867	94,363
Intangible assets		
Goodwill	769	682
Other	654	704
Total intangible assets	1,424	1,387
Investments and other assets		
Investment securities	66,854	70,784
Other assets	6,499	7,450
Allowance for doubtful accounts	(624)	(635)
Total investments and other assets	72,730	77,598
Total non-current assets	167,022	173,349
Deferred assets	—	79
Total assets	272,166	291,386

(Millions of yen)

	FY2018 (As of March 31, 2018)	First half of FY2019 (As of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,200	29,451
Short-term loans payable	22,528	22,009
Current portion of bonds	5,000	–
Income taxes payable	2,466	1,793
Provision for bonuses	611	650
Other current liabilities	16,867	16,639
Total current liabilities	77,675	70,544
Non-current liabilities		
Bonds payable	5,000	5,000
Convertible bond-type bonds with subscription rights to shares	–	25,119
Long-term loans payable	12,075	11,405
Net defined benefit liability	4,530	4,244
Accrued retirement benefits for directors	808	778
Other non-current liabilities	15,170	17,048
Total non-current liabilities	37,585	63,595
Total liabilities	115,261	134,140
Net assets		
Shareholders' equity		
Common stock	12,240	12,240
Capital surplus	11,415	11,413
Retained earnings	103,522	106,346
Treasury shares	(2,635)	(7,951)
Total shareholders' equity	124,542	122,049
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	27,495	30,170
Deferred gain (loss) on hedges	(14)	9
Foreign currency translation adjustment	725	495
Retirement benefits liability adjustments	(440)	(322)
Total accumulated other comprehensive income	27,765	30,353
Subscription rights to shares	211	244
Non-controlling interests	4,385	4,598
Total net assets	156,905	157,245
Total liabilities and net assets	272,166	291,386

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

(Millions of yen)

	First half of FY2018 (From April 1, 2017 to September 30, 2017)	First half of FY2019 (From April 1, 2018 to September 30, 2018)
Net sales	160,760	167,586
Cost of sales	117,298	121,697
Gross profit	43,462	45,889
Selling, general and administrative expenses	38,960	40,542
Operating income	4,501	5,346
Non-operating income		
Interest income	33	49
Dividend income	685	655
Other	500	585
Total non-operating income	1,218	1,290
Non-operating expenses		
Interest expenses	130	118
Foreign exchange losses	21	—
Other	83	140
Total non-operating expenses	235	258
Ordinary income	5,484	6,377
Extraordinary income		
Gain on sales of fixed assets	—	1
Gain on sales of investment securities	22	39
Total extraordinary income	22	40
Extraordinary expenses		
Loss on sales and disposal of fixed assets	58	61
Loss on valuation of investment securities	100	1
Demolition expenses	—	372
Other	66	8
Total extraordinary expenses	224	444
Profit before income taxes	5,281	5,974
Income taxes - current	1,544	1,694
Income taxes - deferred	15	166
Total income taxes	1,560	1,861
Profit	3,721	4,112
Profit attributable to non-controlling interests	169	81
Profit attributable to owners of parent	3,551	4,031

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	First half of FY2018 (From April 1, 2017 to September 30, 2017)	First half of FY2019 (From April 1, 2018 to September 30, 2018)
Profit	3,721	4,112
Other comprehensive income (loss)		
Unrealized holding gain (loss) on securities	3,546	2,579
Deferred gain (loss) on hedges	21	24
Foreign currency translation adjustment	(44)	(227)
Retirement benefits liability adjustments	273	118
Share of other comprehensive income of entities accounted for using equity method	33	86
Total other comprehensive income (loss)	3,830	2,581
Comprehensive income	7,551	6,694
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	7,379	6,619
Comprehensive income attributable to non-controlling interests	171	74

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	First half of FY2018 (From April 1, 2017 to September 30, 2017)	First half of FY2019 (From April 1, 2018 to September 30, 2018)
Operating activities		
Profit before income taxes	5,281	5,974
Depreciation	3,759	3,533
Increase (decrease) in allowance for doubtful accounts	(25)	(0)
Demolition expenses	–	372
Interest and dividend income	(718)	(704)
Interest expenses	130	118
Loss (gain) on sales of investment securities	(31)	(2)
Loss (gain) on valuation of investment securities	100	1
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(152)	(175)
Foreign exchange losses (gains)	17	(55)
Loss (gain) on sales of fixed assets	–	(0)
Loss on disposal of fixed assets	58	62
Decrease (increase) in notes and accounts receivable - trade	(2,384)	(1,345)
Decrease (increase) in inventories	(2,372)	669
Increase (decrease) in notes and accounts payable - trade	2,525	(765)
Other, net	1,483	(315)
Subtotal	7,671	7,365
Interest and dividend income received	729	729
Interest expenses paid	(130)	(127)
Income taxes paid	(1,990)	(2,297)
Net cash provided by (used in) operating activities	6,279	5,669
Investing activities		
Decrease (increase) in time deposits	(346)	11
Purchase of investment securities	(501)	(336)
Proceeds from sales of investment securities	451	190
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(461)	–
Purchase of fixed assets	(6,546)	(4,970)
Proceeds from sales of fixed assets	6	11
Payments of loans receivable	(10)	(388)
Collection of loans receivable	12	9
Decrease (increase) in other investments	17	26
Net cash provided by (used in) investing activities	(7,376)	(5,445)

(Millions of yen)

	First half of FY2018 (From April 1, 2017 to September 30, 2017)	First half of FY2019 (From April 1, 2018 to September 30, 2018)
Financing activities		
Net increase (decrease) in short-term loans payable	793	247
Proceeds from long-term loans payable	4,636	508
Repayments of long-term loans payable	(685)	(1,940)
Redemption of bonds	–	(5,000)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	–	25,041
Proceeds from share issuance to non-controlling shareholders	–	150
Purchase of treasury shares	(0)	(5,323)
Repayments of finance lease obligations	(163)	(132)
Cash dividends paid	(1,286)	(1,206)
Dividends paid to non-controlling interests	(16)	(14)
Other, net	(0)	(598)
Net cash provided by (used in) financing activities	3,276	11,731
Effect of exchange rate changes on cash and cash equivalents	(22)	(68)
Net increase (decrease) in cash and cash equivalents	2,157	11,886
Cash and cash equivalents at beginning of period	14,368	20,556
Increase in cash and cash equivalents from newly consolidated subsidiary	25	–
Cash and cash equivalents at end of period	16,551	32,443

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

Not applicable.

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

Not applicable.

(Segment information)

[Segment information]

I. First Half of FY2018 (From April 1, 2017 to September 30, 2017)**1. Information on sales and income (loss) by reportable segment**

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on quarterly consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	47,888	96,266	144,155	16,605	160,760	—	160,760
Internal sales or transfers between segments	906	332	1,238	1,208	2,446	(2,446)	—
Total	48,794	96,599	145,393	17,814	163,207	(2,446)	160,760
Segment income (loss)	2,361	2,141	4,502	(7)	4,495	6	4,501

Notes: 1. The "Other" column indicates businesses not included in the reportable segments, including pet food, health food and engineering.
 2. Segment income adjustment of ¥6 million includes elimination of inter-segment transactions and corporate expenses.
 3. Segment income (loss) is adjusted to reconcile total segment income to operating income on the quarterly consolidated financial statements.

2. Information about impairment loss on fixed assets and about goodwill etc. by reportable segment

Not applicable.

II. First Half of FY2019 (From April 1, 2018 to September 30, 2018)**1. Information on sales and income (loss) by reportable segment**

(Millions of yen)

	Reportable segments			Other	Total	Adjustments	Amounts recorded on quarterly consolidated financial statements
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	50,439	98,790	149,230	18,356	167,586	—	167,586
Internal sales or transfers between segments	869	360	1,229	1,161	2,391	(2,391)	—
Total	51,308	99,150	150,459	19,518	169,978	(2,391)	167,586
Segment income (loss)	2,709	2,644	5,353	(5)	5,347	(1)	5,346

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 ¥(1) million includes elimination of inter-segment transactions and corporate expenses.
 3. Segment income (loss) is adjusted to reconcile total segment income to operating income on the quarterly consolidated financial statements.

2. Information about impairment loss on fixed assets and about goodwill etc. by reportable segment

Not applicable.