

# Consolidated Financial Results for the First Half of FY2017 [J-GAAP]

November 7, 2016

Listed company name: **Nippon Flour Mills Co., Ltd.**  
 Listing: The 1st section of Tokyo Stock Exchange  
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 Filing date of quarterly financial report: November 14, 2016  
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 Supplementary quarterly materials prepared: Yes  
 Quarterly results information meeting held: Yes (for institutional investors and analysts)

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

## 1. Consolidated financial results for the first half of FY2017 (From April 1, 2016 to September 30, 2016)

### (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	
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
First half of FY2017	156,404	0.8%	5,401	7.2%	6,069	1.9%	4,151	3.4%
First half of FY2016	155,122	5.1%	5,036	34.2%	5,957	40.3%	4,015	28.0%

(Note) Comprehensive income: First half of FY2017: ¥4,057 million (73.8%)  
 First half of FY2016: ¥2,334 million (-56.9%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
First half of FY2017	51.73	51.65
First half of FY2016	48.97	48.92

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

### (2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
First half of FY2017	240,821	137,614	54.9%
FY2016	247,919	135,743	52.7%

(Reference) Equity capital: First half of FY2017: ¥132,310 million  
 FY2016: ¥130,582 million

## 2. Dividends

	Dividends per Share (Yen)				
	1Q-end	2Q-end	3Q-end	Year-end	Full Year
FY2016	—	6.00	—	8.00	14.00
FY2017	—	7.00	—	—	—
FY2017 (Forecast)	—	—	—	14.00	—

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

\* Breakdown of the amount of year-end dividends for FY2016: Common dividend of ¥6.00 per share and commemorative dividend of ¥2.00 per share

\* The Company conducted a 1-for-2 share consolidation on October 1, 2016. Amounts of dividends per share for FY2016 and the amount of interim dividend for FY2017 presented above are the amounts before the share consolidation, the forecast amount of year-end dividend per share for FY2017 presented is the amount after the share consolidation, and the amount of total dividends per share for the full year for FY2017 is not presented (indicated by “—”). When converted to reflect the share consolidation, the amount of interim dividend per share for FY2017 is ¥14.00 and the amount of total dividends per share for the full year of FY2017 is ¥28.00.

## 3. Forecast of the consolidated financial results for FY2017 (From April 1, 2016 to March 31, 2017)

(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)
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change	
Full year	320,000	2.7%	11,100	0.1%	12,500	(1.3)%	8,100	(1.5)%	100.82

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

\* The Company conducted a 1-for-2 share consolidation on October 1, 2016. The forecast amount of profit per share for the full year of FY2017 presented above is the amount after the share consolidation. The amount of profit per share, converted to the amount before the share consolidation, is ¥50.41.

\* Notes

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

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

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

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

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

1) Number of shares outstanding at the end of each period (including treasury shares):	First half of FY2017	82,524,009 shares	FY2016	82,524,009 shares
2) Number of treasury shares at the end of each period:	First half of FY2017	2,736,750 shares	FY2016	2,145,070 shares
3) Average number of shares (quarterly consolidated cumulative period):	First half of FY2017	80,251,582 shares	First half of FY2016	81,992,732 shares

\* The Company conducted a 1-for-2 share consolidation on October 1, 2016. The number of shares issued and outstanding (common stock) was calculated assuming that the share consolidation was conducted at the beginning of the previous fiscal year (FY2016).

\* **Presentation of implementation status for quarterly review procedures**

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to the Quarterly Consolidated Financial Results and the procedure based on this Act was not complete as of the release of the Quarterly Consolidated Financial Results.

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

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

During the first half of the fiscal year ending March 31, 2017, the Japanese economy remained on a moderate recovery track, supported by the fiscal policy of the Japanese government and monetary easing by the Bank of Japan. However, a full-blown recovery of the Japanese economy has yet to materialize because of persisting yen appreciation and a bearish stock market in addition to international risks, such as the slowing of the Chinese economy and other emerging economies in Asia and the Brexit issue.

In the food industry, and particularly in the restaurant and delicatessen market, consumers are becoming more frugal in view of the trend of the Japanese economy.

In order to respond flexibly and swiftly to the rapidly 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 aim to achieve sustainable growth by steadily implementing initiatives to reinforce competitiveness based on a low-cost operation strategy, business expansion in growth fields, enrichment of overseas business, and enhancement of CSR activities.

In R&D, the Group is nurturing buds for forward-looking R&D, including joint research on reducing hardening of bread by alteration of wheat starch and joint development of SETODURE, Japan's first durum wheat, in collaboration with the National Agriculture and Food Research Organization (NARO).

In April 2016, NIPPON Donuts Holdings Co., Ltd., a subsidiary of the Company, acquired all the shares in Yamato Foods Co., Ltd., which operates donut shops. As a result, Yamato Foods Co., Ltd. has become a consolidated subsidiary of the Company.

In September, the Company acquired 1,223,000 shares of its own stock for ¥922 million. On October 1, the Company conducted a 1-for-2 share consolidation and changed the number of shares constituting one tradable unit from 1,000 shares to 100 shares. Moreover, on November 1, Tofuku Flour Mills Co., Ltd., previously a consolidated subsidiary, became a wholly owned subsidiary of the Company through a share exchange. This was done in order to continuously increase the corporate value of both companies while achieving further synergy through enhanced collaboration.

The Company relocated its head office in August to the newly built head office building in Kojimachi, Chiyoda-ku, Tokyo. Taking this opportunity, we will endeavor to achieve another round of growth.

As a result, consolidated net sales for the first half under review increased by 0.8% year on year to ¥156,404 million, operating income increased by 7.2% year on year to ¥5,401 million, ordinary income increased by 1.9% year on year to ¥6,069 million, and profit attributable to owners of parent increased by 3.4% to ¥4,151 million.

The performance of individual business segments was as follows.

#### 1) Flour Milling

In line with the decrease of government sales prices of imported wheat by 7.1% on average for the five key products in April 2016, we revised the prices of wheat flour products.

As well as strengthening quality control, the Group reinforced proposal-driven sales by precisely identifying market needs with a view to offering products that deliver substantial value to customers and providing useful information. Moreover, we conducted sales & marketing initiatives, including participation in various trade shows and holding of workshops and seminars around Japan, some of which were for management. Although these initiatives resulted in higher sales volumes of wheat flour and wheat bran, a by-product, compared with the same period of the previous year, sales revenue decreased compared with the same period of the previous year owing to the price revision.

As a result, net sales for the Flour Milling segment decreased by 3.5% year on year to ¥49,339 million, while operating income increased by 4.7% to ¥1,848 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, and strove to strengthen development and technological capabilities to address changing needs. However, sales of products in

the professional-use category decreased compared with the same period of the previous year.

In the home-use product category, we vigorously promoted proposal-driven sales by offering in-store merchandising proposals, for example. We introduced several new products. These included the Traditional Hotel's Secret Recipe series of one-person-portion retort pasta sauces, a new brand supervised by Hotel New Grand. In addition, we released the HOME DELI series, a new brand of seasoning mixes. We also introduced Nippon Linseed Oil Premium Rich that contains more omega-3 fatty acids (alpha-Linolenic acid) than the Company's previous linseed oil. However, sales of products in the home-use product category decreased compared with the same period of the previous year, partly because demand for linseed-related home-use products flatlined.

In the home-use frozen food category, as well as conducting campaigns including the Premium Allowance Campaign, we enriched lineups of the Oh' my Premium series of one-person-portion frozen pasta dishes, the Imadoki Gohan series of rice dishes in trays, and the Yokubari Plate series of one-plate dishes consisting of a main dish and staples. Moreover, sales of the Oh' my Big series of large-portion dishes were brisk following a complete redesign. As a result, sales of frozen foods for home use exceeded the level for the same period of the previous year.

Sales of deli-products increased compared with the same period of the previous year.

As a result, net sales of the Food segment increased by 2.6% year on year to ¥90,840 million, and operating income increased by 5.4% to ¥3,359 million.

### 3) Other

Sales of the engineering business were lower than for the same period of the previous year, but sales of the pet care business were higher because of an increase in sales volumes.

As a result, net sales for the Other segment increased by 5.2% year on year to ¥16,224 million, and operating income increased by 130.9% to ¥204 million.

## (2) Qualitative information on consolidated financial position

Total assets at the end of the first half under review decreased by ¥7,098 million from the previous fiscal year end (March 31, 2016) to ¥240,821 million. This was mainly because cash and deposits and notes and accounts receivable - trade decreased by ¥5,174 million and ¥2,541 million, respectively.

Total liabilities decreased by ¥8,969 million from the previous fiscal year end to ¥103,206 million. This was mainly because short-term loans payable and notes and accounts payable - trade decreased by ¥5,792 million and ¥2,012 million, respectively.

Net assets increased by ¥1,871 million from the previous fiscal year end to ¥137,614 million. This was mainly attributable to the increases in retained earnings and treasury shares by ¥2,862 million and ¥901 million, respectively.

### (Cash flows)

The balance of cash and cash equivalents at the end of the first half under review stood at ¥15,735 million, a decrease of ¥5,040 million compared with the end of the previous fiscal year.

The conditions of cash flows were as follows:

Net cash provided by operating activities amounted to ¥8,582 million compared with ¥7,255 million for the same period of the previous year. This mainly reflected ¥5,970 million for income before income taxes, ¥3,690 million for depreciation and ¥2,618 million for income taxes paid.

Net cash used in investing activities amounted to ¥6,505 million compared with ¥2,635 million for the same period of the previous year. This mainly reflected spending of ¥5,146 million for purchase of non-current assets and ¥1,243 million for purchase of shares of subsidiaries resulting in change in scope of consolidation.

Net cash used in financing activities amounted to ¥6,795 million compared with ¥2,638 million for the same period of the previous year. This mainly reflected spending of ¥5,759 million for repayments

of long-term loans payable and ¥1,288 million for cash dividends paid.

**(3) Qualitative information on forecast of the consolidated financial results**

The forecast of the financial results for the fiscal year ending March 31, 2017 is unchanged from the forecasts announced on May 13, 2016.

**2. Information about the Summary of Business Results (Notes)**

**(1) Significant changes in subsidiaries during the current quarter**

There is no related information.

**(2) Adoption of special accounting methods for preparation of quarterly consolidated financial statements**

There is no related information.

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

Changes in accounting policies

(Adoption of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ PITF No. 32 issued on June 17, 2016) in accordance with the revision of the Corporation Tax Act of Japan. Accordingly, the Company has changed the depreciation method applied to facilities attached to buildings and structures purchased on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on financial statements for the first half of the fiscal year ending March 31, 2017 is immaterial.

**(4) Additional information**

(Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the fiscal year ending March 31, 2017, the Company has adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Implementation Guidance No. 26 issued on March 28, 2016).

**3. Quarterly Consolidated Financial Statements****(1) Quarterly consolidated balance sheets**

(Millions of yen)

	FY2016 (As of March 31, 2016)	First half of FY2017 (As of September 30, 2016)
<b>Assets</b>		
Current assets		
Cash and deposits	22,432	17,258
Notes and accounts receivable - trade	41,775	39,233
Merchandise and finished goods	14,955	13,714
Work in process	42	74
Raw materials and supplies	18,029	16,825
Other	4,003	4,152
Allowance for doubtful accounts	(221)	(152)
Total current assets	101,017	91,107
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	28,907	32,691
Machinery, equipment and vehicles, net	17,319	16,982
Land	34,239	34,335
Construction in progress	3,035	767
Other, net	1,739	1,873
Total property, plant and equipment	85,242	86,650
Intangible assets		
Goodwill	181	730
Other	651	646
Total intangible assets	833	1,377
Investments and other assets		
Investment securities	55,370	55,658
Other	5,768	6,347
Allowance for doubtful accounts	(313)	(319)
Total investments and other assets	60,826	61,685
Total non-current assets	146,902	149,713
Total assets	247,919	240,821

(Millions of yen)

	FY2016 (As of March 31, 2016)	First half of FY2017 (As of September 30, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	27,976	25,964
Short-term loans payable	24,685	18,893
Income taxes payable	2,770	1,777
Provision for bonuses	528	634
Other	15,680	13,900
Total current liabilities	71,641	61,169
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	11,387	12,781
Provision for retirement benefits	5,972	5,790
Provision for directors' retirement benefits	930	876
Other	12,243	12,588
Total non-current liabilities	40,534	42,037
Total liabilities	112,176	103,206
<b>Net assets</b>		
Shareholders' equity		
Capital stock	12,240	12,240
Capital surplus	10,669	10,672
Retained earnings	91,834	94,697
Treasury shares	(2,354)	(3,255)
Total shareholders' equity	112,389	114,354
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,915	20,018
Deferred gain or loss on hedges	(38)	(23)
Foreign currency translation adjustment	608	(101)
Remeasurements of defined benefit plans	(2,293)	(1,938)
Total accumulated other comprehensive income	18,192	17,955
Subscription rights to shares	117	130
Non-controlling interests	5,043	5,174
Total net assets	135,743	137,614
Total liabilities and net assets	247,919	240,821



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

(Millions of yen)

	First half of FY2016 (From April 1, 2015 to September 30, 2015)	First half of FY2017 (From April 1, 2016 to September 30, 2016)
Net sales	155,122	156,404
Cost of sales	115,122	114,049
Gross profit	40,000	42,355
Selling, general and administrative expenses	34,963	36,953
Operating income	5,036	5,401
Non-operating income		
Interest income	32	35
Dividend income	776	667
Other	419	508
Total non-operating income	1,228	1,211
Non-operating expenses		
Interest expenses	192	159
Foreign exchange losses	–	243
Other	116	141
Total non-operating expenses	308	544
Ordinary income	5,957	6,069
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	111	383
Total extraordinary income	111	384
Extraordinary losses		
Loss on sales and retirement of non-current assets	113	97
Business structure improvement expenses	296	–
Building demolition expenses	–	70
Expenses related to relocation of the head office	–	285
Other	9	30
Total extraordinary losses	419	483
Income before income taxes	5,648	5,970
Income taxes - current	1,773	1,643
Income taxes - deferred	(138)	44
Total income taxes	1,635	1,687
Profit	4,013	4,282
Profit (loss) attributable to non-controlling interests	(1)	131
Profit attributable to owners of parent	4,015	4,151

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

(Millions of yen)

	First half of FY2016 (From April 1, 2015 to September 30, 2015)	First half of FY2017 (From April 1, 2016 to September 30, 2016)
Profit	4,013	4,282
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(1,854)	117
Deferred gains or losses on hedges	(5)	15
Foreign currency translation adjustment	(9)	(697)
Remeasurements of defined benefit plans, net of tax	138	355
Share of other comprehensive income of entities accounted for using equity method	51	(15)
Total other comprehensive income (loss)	(1,678)	(225)
Comprehensive income	2,334	4,057
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	2,333	3,914
Comprehensive income attributable to non-controlling interests	1	143

**(3) Quarterly consolidated statements of cash flows**

(Millions of yen)

	First half of FY2016 (From April 1, 2015 to September 30, 2015)	First half of FY2017 (From April 1, 2016 to September 30, 2016)
<b>Cash flows from operating activities</b>		
Income before income taxes	5,648	5,970
Depreciation	3,701	3,690
Amortization of goodwill	173	61
Increase (decrease) in allowance for doubtful accounts	(207)	(57)
Business structure improvement expenses	296	–
Interest and dividend income	(808)	(702)
Interest expenses	192	159
Loss (gain) on sales of investment securities	(120)	(386)
Loss (gain) on valuation of investment securities	2	17
Share of (profit) loss of entities accounted for using equity method	(77)	(152)
Foreign exchange losses (gains)	(18)	239
Loss (gain) on sales of non-current assets	(0)	(0)
Loss on retirement of non-current assets	115	99
Decrease (increase) in notes and accounts receivable - trade	491	2,469
Decrease (increase) in inventories	3,344	2,355
Increase (decrease) in notes and accounts payable - trade	(3,947)	(2,026)
Other, net	(576)	(1,096)
<b>Subtotal</b>	<b>8,210</b>	<b>10,639</b>
Interest and dividend income received	843	723
Interest expenses paid	(194)	(161)
Income taxes paid	(1,603)	(2,618)
<b>Net cash provided by (used in) operating activities</b>	<b>7,255</b>	<b>8,582</b>
<b>Cash flows from investing activities</b>		
Decrease (increase) in time deposits	(936)	29
Purchase of investment securities	(673)	(710)
Proceeds from sales of investment securities	950	1,070
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(1,243)
Purchase of non-current assets	(2,127)	(5,146)
Proceeds from sales of non-current assets	7	0
Payments of loans receivable	(0)	(504)
Collection of loans receivable	37	12
Other, net	107	(13)
<b>Net cash provided by (used in) investing activities</b>	<b>(2,635)</b>	<b>(6,505)</b>

(Millions of yen)

	First half of FY2016 (From April 1, 2015 to September 30, 2015)	First half of FY2017 (From April 1, 2016 to September 30, 2016)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	631	21
Proceeds from long-term loans payable	1,595	1,344
Repayments of long-term loans payable	(1,681)	(5,759)
Purchase of treasury shares	(2,002)	(926)
Proceeds from sales of treasury shares	–	0
Repayments of lease obligations	(181)	(174)
Cash dividends paid	(994)	(1,288)
Dividends paid to non-controlling interests	(5)	(11)
Other, net	–	(0)
Net cash provided by (used in) financing activities	(2,638)	(6,795)
Effect of exchange rate change on cash and cash equivalents	(9)	(322)
Net increase (decrease) in cash and cash equivalents	1,972	(5,040)
Cash and cash equivalents at beginning of period	12,847	20,776
Cash and cash equivalents at end of period	14,820	15,735

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

There is no related information.

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

There is no related information.

**(Segment information, etc.)**

[Segment information]

## I. First half of FY2016 (From April 1, 2015 to September 30, 2015)

## 1. Information of sales and income (loss) by reporting segment

(Millions of yen)

	Reporting segments			Other (Note) 1	Total	Adjustments (Note) 2	Amounts recorded on quarterly consolidated statements of income (Note) 3
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	51,118	88,575	139,693	15,428	155,122	—	155,122
Internal sales or transfers between segments	1,062	268	1,330	858	2,189	(2,189)	—
Total	52,180	88,843	141,024	16,287	157,311	(2,189)	155,122
Segment income	1,764	3,185	4,950	88	5,038	(2)	5,036

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

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

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

## II. First half of FY2017 (From April 1, 2016 to September 30, 2016)

## 1. Information of sales and income (loss) by reporting segment

(Millions of yen)

	Reporting segments			Other (Note) 1	Total	Adjustments (Note) 2	Amounts recorded on quarterly consolidated statements of income (Note) 3
	Flour Milling	Food	Total				
Net sales							
Net sales to external customers	49,339	90,840	140,179	16,224	156,404	—	156,404
Internal sales or transfers between segments	1,092	334	1,426	1,167	2,593	(2,593)	—
Total	50,431	91,174	141,606	17,391	158,998	(2,593)	156,404
Segment income	1,848	3,359	5,207	204	5,411	(10)	5,401

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

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

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