

Consolidated Financial Results for the Third Quarter of FY2019 [J-GAAP]

February 6, 2019

Listed company name: **Nippon Flour Mills Co., Ltd.**
 Listing: The 1st section of Tokyo Stock Exchange
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 Representative: Masayuki Kondo, President and Chief Operating Officer
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 Filing date of quarterly financial report: February 13, 2019
 Start of cash dividend payments: —
 Supplementary quarterly materials prepared: None
 Quarterly results information meeting held: None

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

1. Consolidated financial results for the third quarter of FY2019 (From April 1, 2018 to December 31, 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	
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
3Q of FY2019	254,992	4.0%	8,729	14.5%	10,500	12.8%	6,839	9.5%
3Q of FY2018	245,108	3.2%	7,622	(15.7)%	9,311	(10.8)%	6,243	(12.7)%

(Note) Comprehensive income: 3Q of FY2019: ¥4,920 million (-63.8%)
 3Q of FY2018: ¥13,593 million (+16.5%)

	Profit per Share (Yen)	Fully Diluted Profit per Share (Yen)
3Q of FY2019	87.55	78.73
3Q of FY2018	77.80	77.65

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
3Q of FY2019	284,857	152,629	51.9%
FY2018	272,166	156,905	56.0%

(Reference) Equity capital: 3Q of FY2019: ¥147,766 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)
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change	Amount
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):	3Q of FY2019	82,524,009 shares	FY2018	82,524,009 shares
2) Number of treasury shares at the end of each period:	3Q of FY2019	5,926,096 shares	FY2018	2,225,475 shares
3) Average number of shares (quarterly consolidated cumulative period):	3Q of FY2019	78,125,020 shares	3Q of FY2018	80,256,199 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.

Contents

1. Qualitative Information on Quarterly Consolidated Financial Results	2
(1) Overview of business results	2
(2) Overview of financial position	4
(3) Information on forecast of the consolidated financial results.....	4
2. Quarterly Consolidated Financial Information.....	5
(1) Quarterly consolidated balance sheets.....	5
(2) Quarterly consolidated statements of income and comprehensive income	7
(Quarterly consolidated statements of income)	7
(Quarterly consolidated statements of comprehensive income).....	8
(3) Notes on quarterly consolidated financial information	9
(Notes on going concern assumption)	9
(Notes to significant changes in the amount of shareholders' equity).....	9
(Segment information).....	9

1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Overview of business results

(Millions of yen)

	First nine months of Fiscal 2018	First nine months of Fiscal 2019	Difference	Change
Net sales	245,108	254,992	9,884	104.0%
Operating income	7,622	8,729	1,106	114.5%
Ordinary income	9,311	10,500	1,188	112.8%
Profit attributable to owners of parent	6,243	6,839	596	109.5%

During the first nine months 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 U.S. trade policy.

The food industry is operating in a challenging environment owing to rising raw materials prices and increasing labor costs, logistics costs, and other costs while consumers' marked preference for low prices is persisting. In addition, in light of the progress concerning international trade agreements, represented by the enforcement of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP also known as TPP11), there are concerns about the impact of step-by-step tariff elimination.

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 increasing sales and reducing costs. 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, and at the same time, the Company purchased treasury shares step by step until December 2018 to enhance shareholder returns and improve capital efficiency. Moreover, the Company is increasing production capacity to further expand the overseas business.

As a result, consolidated net sales for the first nine months of fiscal 2019 increased by 4.0% year on year to ¥254,992 million, operating income increased by 14.5% to ¥8,729 million, ordinary income increased by 12.8% to ¥10,500 million, and profit attributable to owners of parent increased by 9.5% to ¥6,839 million. All business segments recorded higher sales and higher profit.

The performance of individual business segments was as follows.

1) Flour Milling

(Millions of yen)

	First nine months of Fiscal 2018	First nine months of Fiscal 2019	Difference	Change
Net sales	73,646	77,970	4,324	105.9%
Operating income	3,835	4,249	414	110.8%

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.

In line with the increase of government sales prices (tax inclusive) of imported wheat by 3.5% and by 2.2% on average for the five key products in April 2018 and October 2018, respectively, we

revised the prices of our products in June 2018 and December 2018, respectively.

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.

As a result, net sales for the Flour Milling segment increased by 5.9% year on year to ¥77,970 million, and operating income increased by 10.8% to ¥4,249 million.

2) Food

(Millions of yen)

	First nine months of Fiscal 2018	First nine months of Fiscal 2019	Difference	Change
Net sales	145,875	149,249	3,373	102.3%
Operating income	3,581	4,217	636	117.8%

In the professional-use category, the Group engaged in vigorous marketing, including participation in the “JAPAN’S FOOD” EXPORT FAIR and various other 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 are promoting development focusing on particular preferences and functionality corresponding to change in consumer needs. We continued vigorous sales promotion activities to expand sales of the REGALO premium pasta brand line and other mainstay products. In the context of consumers’ increasing desire to spend less time cooking, we are seeing strong sales of 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. Strong demand for flaxseed-related food products, which are considered to be beneficial for health, is also expected to continue. 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, the Oh’ my Premium series and the *obento* lunch-box pasta series performed robustly, and we introduced products featuring vegetables in both these series in view of consumers’ rising health consciousness. In addition, shipment of the Yokubari Plate series of complete well-balanced meals consisting of a main dish and staples increased strongly. 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 have promoted construction of new factories since the previous year, which led to higher sales. 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 2.3% year on year to ¥149,249 million, and operating income increased by 17.8% to ¥4,217 million.

3) Other

(Millions of yen)

	First nine months of Fiscal 2018	First nine months of Fiscal 2019	Difference	Change
Net sales	25,586	27,772	2,186	108.5%
Operating income	207	248	40	119.7%

Sales of the pet care business were lower than the level for the same period of the previous year as a result of little growth of the sales volume. 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 8.5% year on year to ¥27,772 million, and operating income increased by 19.7% to ¥248 million.

(2) Overview of financial position

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018	Difference
Current assets	105,143	113,625	8,482
Non-current assets	167,022	171,155	4,132
Deferred assets	–	76	76
Total assets	272,166	284,857	12,691
Current liabilities	77,675	70,126	(7,548)
Non-current liabilities	37,585	62,101	24,515
Total liabilities	115,261	132,228	16,966
Total net assets	156,905	152,629	(4,275)
Total liabilities and net assets	272,166	284,857	12,691

Total assets at the end of the first nine months of fiscal 2019 increased by ¥12,691 million from the previous fiscal year end (March 31, 2018) to ¥284,857 million. This was mainly because cash and deposits, property, plant and equipment and notes and accounts receivable - trade increased by ¥6,282 million, ¥6,509 million and ¥4,534 million, respectively, and investment securities decreased by ¥3,158 million.

Total liabilities increased by ¥16,966 million from the previous fiscal year end to ¥132,228 million. This was mainly because convertible bond-type bonds with subscription rights to shares increased by ¥25,114 million, and current portion of bonds payable decreased by ¥5,000 million.

Net assets decreased by ¥4,275 million from the previous fiscal year end to ¥152,629 million. This was mainly attributable to an increase of ¥4,468 million in retained earnings, a decrease of ¥2,244 million in unrealized holding gain (loss) on securities, and purchase of treasury shares amounting to ¥6,993 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.

(3) Information on forecast of the consolidated financial results

In the food industry, the enforcement of the CPTPP and the EU-Japan Economic Partnership Agreement (EPA) is expected to bring about a great change in the environment. The Group will respond flexibly to such change by continuing to promote product development attuned to customer needs.

The forecast of the financial results for the fiscal year ending March 31, 2019 is unchanged from the forecasts announced on May 10, 2018: net sales of ¥350.0 billion, operating income of ¥12.0 billion, ordinary income of ¥13.5 billion, and profit attributable to owners of parent of ¥9.0 billion.

Regarding dividends, the current plan calls for a full-year dividend of ¥30 per share.

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

(Millions of yen)

	FY2018 (As of March 31, 2018)	Third Quarter of FY2019 (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	23,392	29,674
Notes and accounts receivable - trade	45,303	49,837
Merchandise and finished goods	14,481	14,498
Work in process	165	76
Raw materials and supplies	18,310	16,532
Other current assets	3,663	3,186
Allowance for doubtful accounts	(172)	(179)
Total current assets	105,143	113,625
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	33,569	32,837
Machinery, equipment and vehicles, net	17,636	17,925
Land	37,373	39,930
Construction in progress	2,442	6,939
Other, net	1,846	1,744
Total property, plant and equipment	92,867	99,377
Intangible assets		
Goodwill	769	651
Other	654	703
Total intangible assets	1,424	1,354
Investments and other assets		
Investment securities	66,854	63,696
Other assets	6,499	7,373
Allowance for doubtful accounts	(624)	(646)
Total investments and other assets	72,730	70,423
Total non-current assets	167,022	171,155
Deferred assets	-	76
Total assets	272,166	284,857

(Millions of yen)

	FY2018 (As of March 31, 2018)	Third Quarter of FY2019 (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,200	30,876
Short-term loans payable	22,528	20,668
Current portion of bonds	5,000	-
Income taxes payable	2,466	856
Provision for bonuses	611	305
Other current liabilities	16,867	17,419
Total current liabilities	77,675	70,126
Non-current liabilities		
Bonds payable	5,000	5,000
Convertible bond-type bonds with subscription rights to shares	-	25,114
Long-term loans payable	12,075	12,223
Net defined benefit liability	4,530	4,169
Accrued retirement benefits for directors	808	798
Other non-current liabilities	15,170	14,795
Total non-current liabilities	37,585	62,101
Total liabilities	115,261	132,228
Net assets		
Shareholders' equity		
Common stock	12,240	12,240
Capital surplus	11,415	11,430
Retained earnings	103,522	107,990
Treasury shares	(2,635)	(9,629)
Total shareholders' equity	124,542	122,032
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	27,495	25,250
Deferred gain (loss) on hedges	(14)	(10)
Foreign currency translation adjustment	725	757
Retirement benefits liability adjustments	(440)	(263)
Total accumulated other comprehensive income	27,765	25,734
Subscription rights to shares	211	266
Non-controlling interests	4,385	4,596
Total net assets	156,905	152,629
Total liabilities and net assets	272,166	284,857

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

(Millions of yen)

	Third quarter of FY2018 (From April 1, 2017 to December 31, 2017)	Third quarter of FY2019 (From April 1, 2018 to December 31, 2018)
Net sales	245,108	254,992
Cost of sales	178,583	184,936
Gross profit	66,524	70,056
Selling, general and administrative expenses	58,901	61,327
Operating income	7,622	8,729
Non-operating income		
Interest income	47	73
Dividend income	1,226	1,297
Share of profit of entities accounted for using equity method	236	236
Other	516	573
Total non-operating income	2,026	2,180
Non-operating expenses		
Interest expenses	198	176
Other	139	232
Total non-operating expenses	337	409
Ordinary income	9,311	10,500
Extraordinary income		
Gain on sales of fixed assets	71	3
Gain on sales of investment securities	22	40
Insurance income	–	18
Total extraordinary income	94	62
Extraordinary expenses		
Loss on sales and disposal of fixed assets	73	100
Loss on valuation of investment securities	100	30
Demolition expenses	–	372
Other	76	30
Total extraordinary expenses	249	533
Profit before income taxes	9,156	10,028
Income taxes - current	2,376	2,528
Income taxes - deferred	295	493
Total income taxes	2,671	3,021
Profit	6,484	7,007
Profit attributable to non-controlling interests	240	167
Profit attributable to owners of parent	6,243	6,839

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

	Third quarter of FY2018 (From April 1, 2017 to December 31, 2017)	Third quarter of FY2019 (From April 1, 2018 to December 31, 2018)
Profit	6,484	7,007
Other comprehensive income (loss)		
Unrealized holding gain (loss) on securities	6,565	(2,390)
Deferred gain (loss) on hedges	14	4
Foreign currency translation adjustment	82	36
Retirement benefits liability adjustments	411	177
Share of other comprehensive income of entities accounted for using equity method	35	84
Total other comprehensive income (loss)	7,109	(2,086)
Comprehensive income	13,593	4,920
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	13,332	4,804
Comprehensive income attributable to non-controlling interests	260	116

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

Notes: 1. The "Other" column indicates businesses not included in the 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 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. Third quarter of FY2019 (From April 1, 2018 to December 31, 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	77,970	149,249	227,219	27,772	254,992	—	254,992
Internal sales or transfers between segments	1,321	547	1,869	5,738	7,607	(7,607)	—
Total	79,292	149,796	229,088	33,511	262,600	(7,607)	254,992
Segment income	4,249	4,217	8,467	248	8,715	13	8,729

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 ¥13 million includes elimination of inter-segment transactions and corporate expenses.
 3. Segment income 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.