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Summary of Financial Statements for the Third Quarter of Fiscal 2018 [Japanese Standards]

January 30, 2018

Listed Company Name: Nisshin Seifun Group Inc. Registered on Tokyo Stock Exchange
Code: 2002
URL: http://www.nisshin.com
Representative: Nobuki Kemmoku, Representative Director and President
Contact: Hideki Machida, General Manager, Public Communications Department (General Administration Division)
Tel.: +81-3-5282-6650
Date to submit the Quarterly Securities Report: February 8, 2018
Date to start distributing dividends: —
Supplementary materials for this summary of financial statements: Yes
Results briefing for financial results: None

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Third Quarter of Fiscal 2018 (April 1, 2017 to December 31, 2017)

(1) Consolidated Business Results

(The percentages indicate the rates of increase or decrease compared with the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First nine months of Fiscal 2018	402,550	(1.0)	21,881	11.4	26,003	9.6	18,087	14.9
First nine months of Fiscal 2017	406,514	(3.2)	19,635	4.9	23,721	5.4	15,746	7.2

(Note) Comprehensive income: First nine months of Fiscal 2018 ¥28,912 million (up 99.3%)
First nine months of Fiscal 2017 ¥14,505 million (down 18.2%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
First nine months of Fiscal 2018	60.48	60.42
First nine months of Fiscal 2017	52.18	52.12

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2017	584,377	417,472	69.0
March 31, 2017	557,568	406,805	70.6

(Reference) Equity capital: December 31, 2017: ¥403,381 million March 31, 2017: ¥393,620 million

2. Dividends

	Dividend per share				
	1Q End	2Q End	3Q End	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2017	—	13.00	—	13.00	26.00
Fiscal 2018	—	14.00	—		
Fiscal 2018 (forecast)				15.00	29.00

(Note) Revision to the latest forecast of dividends: Yes

3. Forecast of Consolidated Business Results for the Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(The percentages indicate the rates of increase or decrease compared with the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	540,000	1.5	26,700	4.7	31,000	2.2	21,200	8.9	71.01

(Note) Revision to the latest forecast of business results: Yes

* Notes

(1) Changes in important subsidiaries during the period under review (changes in specified subsidiaries involving a change in the scope of consolidation): None

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Related Notes (3) Notes on Quarterly Consolidated Financial Statements [Adoption of Special Accounting Treatment for Preparing Quarterly Consolidated Financial Statements]” on page 10 of the Attachment.

(3) Changes in accounting policies, changes in accounting estimates and revisions restated

1) Changes in accounting policies associated with the revisions of accounting standards, etc.: None
2) Changes in accounting policies other than the above: None
3) Changes in accounting estimates: None
4) Revisions restated: None

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

1) Number of shares issued and outstanding (including treasury shares)	As of December 31, 2017	304,357,891	As of March 31, 2017	304,357,891
2) Number of treasury shares	As of December 31, 2017	7,494,597	As of March 31, 2017	2,374,365
3) Average number of shares outstanding	First nine months of Fiscal 2018	299,075,168	First nine months of Fiscal 2017	301,785,382

* Audits are not required for quarterly earnings reports.

* Statement regarding the proper use of financial forecasts and other special remarks

(1) The statements contained in this document are based on various assumptions and do not constitute any guarantee or definite promise that projections of future performance or related business policies will actually be realized. For details of assumptions for financial forecasts and other related matters, please refer to “1. Qualitative Information for the Period under Review (3) Forecast of Consolidated Business Results and Other Forward-looking Information” on page 4 of the Attachment.

(2) Supplementary materials (Japanese version only) for this report can be found on the Company’s website.

Contents of the Attachment

1. Qualitative Information for the Period under Review

(1) Business Performance

[Overview of the Period under Review]

During the first nine months of the fiscal year ending March 31, 2018, the Japanese economy recovered modestly, primarily atop improvement in corporate earnings and the country's employment and personal income picture, coupled with an increase in capital expenditures. Consumption, meanwhile, showed similar signs of a turnaround. Nevertheless, various causes for concern were evident, including continued belt-tightening behavior among consumers, escalating labor costs due to labor shortages, and sociopolitical instability abroad.

Under these conditions, the Group created synergies by strengthening cooperation among its operating companies, capitalizing on its comprehensive group-wide capabilities in the quest for further growth. Guided by this, the Group launched initiatives under a medium-term management plan, dubbed "NNI-120 II," scheduled to conclude in fiscal 2021 (year ending March 31, 2021). Together with an emphasis on restructuring the earnings foundation in core businesses, the Group is moving apace toward solid profit growth through self-sustained business growth, including that of acquired businesses, and through new strategic investments. Additionally, the Group is taking a more proactive stance to shareholder returns, and conducted a purchase of treasury shares with an upper cap of ¥10 billion.

The Group took steps to aggressively launch and expand sales of new products in each business in a bid to energize markets, and continued efforts to ensure cost competitiveness and strengthen its business structure both domestically and abroad, including through the development of an optimized production framework. The Group also continued to expand the overseas business, and stepped up its advertising and promotion activities primarily through cosponsorship of sports and a variety of other events.

As a result, consolidated net sales for the first nine months of the fiscal year ending March 31, 2018, decreased 1.0% year on year to ¥402,550 million. Along with falling wheat flour prices in the previous year, this reflected the effects of the exclusion of a subsidiary from the scope of consolidation following the transfer of its shares to another entity. In terms of profits, due to growth in shipments of high-value-added products matched to consumer needs, measures to improve profitability, including cost reduction efforts, and the shifting of advertising and other promotion expenses to the fourth quarter of the year, operating profit was ¥21,881 million, up 11.4% year on year. Ordinary profit increased by 9.6% to ¥26,003 million, and profit attributable to owners of parent rose by 14.9% to ¥18,087 million.

[Business Overview by Segment]

1) Flour Milling Segment

In the flour milling business, we conducted aggressive sales expansion measures in an adverse market environment characterized by continued belt-tightening among consumers. Also in June 2017, and again in December 2017, the Company revised its commercial wheat flour prices in response to the government's decision to change the prices of five classes of imported wheat. On average, the Government's price for imported wheat rose 4.6% in April 2017 and 3.6% in October 2017. As a result, shipments of commercial wheat flour in Japan increased year on year, driven largely by changes in demand accompanying wheat flour price revisions.

From the perspectives of production and distribution, we continued to advance measures to enhance productivity and to reduce fixed and other costs. Regarding food safety, we actively promoted additional measures related to the new JFS-E-C certification for food management systems, including by expanding the scope to cover both our head office and all plants in Japan.

The price of bran, a byproduct of the milling process, was weaker throughout the period.

In the overseas business, sales were flat year on year, despite increased shipments overall thanks to aggressive sales expansion, mainly reflecting lower product prices due to falling raw wheat prices in the previous year. In terms of profits, conditions were challenging, with sales competition encountered mainly in the North America region. In Canada, construction concluded in October 2017 to boost by approximately 80% the production capacity of Canadian subsidiary Rogers Foods Ltd.'s Chilliwack Plant. Elsewhere, construction to boost by approximately 70% the production capacity of U.S. subsidiary Miller Milling Company, LLC's Saginaw Plant is on track and scheduled to conclude in early 2019.

As a result, net sales of the Flour Milling Segment decreased 1.8% year on year to ¥175,252 million, due largely to the impact of falling wheat flour prices last year. Operating profit, meanwhile, increased 5.8% to ¥7,759 million, as cost reductions in Japan and the response to strategic outlays made in the previous year offset the impact on performance from competition in the overseas business.

2) Processed Food Segment

In the processed food business, for household-use products, in addition to efforts to expand the lineup of our strong-selling bottle-type products designed to address needs arising from an increase in eating alone and demand for meals that are easy to prepare, we enacted initiatives designed to stimulate consumption, including event co-sponsorship and leveraging digital marketing. In commercial-use products, we launched new products tailored to customer needs and carried out proposal activities geared toward garnering new customers. In the prepared dishes and other prepared foods business, we have developed and are steadily expanding a comprehensive prepared dishes and other prepared foods business that can provide full lineups across wide-ranging categories of products. We also took steps last year to augment capacity at a prepared noodle production site in western Japan, and completed construction of the new Nagoya Plant. As a result, sales in the processed food business were lower overall year on year, mainly due to effects from the exclusion of a subsidiary from the scope of consolidation in the previous year following the transfer of its shares to another entity. This outcome came despite brisk growth in shipments of pastas, pasta sauces, prepared dishes and other prepared foods and frozen foods.

Also, in response to revised prices for commercial wheat flour due to the government's decision to revise the prices of imported wheat, the Company in July 2017 and in January 2018 revised prices for its household-use wheat flour and commercial prepared mix products.

In the overseas business, sales in the prepared mix business were higher year on year. Elsewhere, operations are running smoothly at a production plant for pasta sauces and other cooked and processed foods in Vietnam and a pasta plant in Turkey. Both sites were built as part of efforts to develop a globally optimized, cost-competitive production framework.

In the yeast and biotechnology business, sales in the yeast business were higher year on year, the result of brisk shipments mainly of fillings. Similarly, sales in biotechnology were higher, primarily from an increase in shipments of raw materials for diagnostic pharmaceuticals. On a related note, in July 2017, the decision was made at overseas subsidiary Oriental Yeast India Pvt. Ltd. to build a yeast plant in India.

In the healthcare foods business, sales were higher year on year, reflecting growth in shipments of raw materials for pharmaceuticals.

As a result, net sales of the Processed Food Segment decreased 0.9% year on year to ¥193,167 million. Operating profit increased 16.0% to ¥11,402 million, as growth in shipments of high-value-added products tailored to consumer needs, cost reduction efforts, and the shifting of advertising and promotion expenses to the fourth quarter of the year offset expenses incurred in the launch of the new Nagoya Plant in the prepared dishes and other prepared foods business.

3) Others Segment

In the pet food business, sales were higher year on year, reflecting the aggressive launch of new products and the enactment of campaigns and other sales expansion efforts.

In the engineering business, sales increased year on year, mainly due to growth in contracted processing and equipment sales.

In the mesh cloths business, sales were up from a year earlier, reflecting strong shipments of industrial materials and molded plastic products primarily for automotive components.

As a result, net sales of the Others Segment increased 3.4% to ¥34,131 million, and operating profit increased 16.7% to ¥2,539 million, primarily atop improved plant construction profitability in the engineering business.

(2) Financial Position

The status of assets, liabilities and net assets on a consolidated basis at the end of the period under review was as follows.

Current assets increased ¥8,870 million from the previous fiscal year-end to ¥247,728 million, due largely to an increase in notes and accounts receivable – trade. Non-current assets increased ¥17,939 million to ¥336,648 million, primarily due to increases in property, plant and equipment and investment securities, etc. As a result, total assets increased ¥26,809 million from the previous fiscal year-end to ¥584,377 million. Meanwhile, current liabilities increased ¥9,887 million to ¥99,721 million, mainly reflecting increases in notes and accounts payable – trade. Non-current liabilities increased ¥6,255 million to ¥67,184 million. As a result, total liabilities rose ¥16,142 million from the previous fiscal year-end to ¥166,905 million. Net assets increased ¥10,666 million to ¥417,472 million, including an increase due to profit attributable to owners of parent for the period, decreases due to the payment of dividends and the purchase of treasury shares, and an increase in accumulated other comprehensive income.

(3) Forecast of Consolidated Business Results and Other Forward-looking Information

The Group will continue to fulfill our mission to secure the stable supply of safe and reliable wheat flour and other staple foods. Furthermore, we will steadily implement strategies formulated under our medium-term management plan, “NNI-120 II.” We are committed to working in every business to develop new high-value-added, core products and pursue advertising and other sales promotion measures, along with productivity enhancements and other cost-reduction efforts. At the same time, we will promote expansion in overseas business. Furthermore, we are defining our vision for how the Group should be and wants to be as we look ahead at changes in the operating environment over the next 10 to 20 years, and we are formulating growth phase management plans that stimulate growth and development as we bring our comprehensive group-wide capabilities to the fore.

Taking into account factors such as brisk shipments of high-value-added products in the Processed Food Segment and increased plant construction orders in the engineering business under the Others Segment, consolidated net sales for the fiscal year ending March 31, 2018 are forecast to rise 1.5% year on year to ¥540,000 million. Operating profit is projected to climb 4.7% to ¥26,700 million, with ordinary profit expected to increase 2.2% to ¥31,000 million. Profit attributable to owners of parent is expected to increase 8.9% year on year to ¥21,200 million. These forecasts have been revised from the projections released on May 12, 2017.

Revision of Forecast of Consolidated Business Results for Year Ending March 31, 2018
(April 1, 2017 to March 31, 2018)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecast (A) (Announced May 12, 2017)	535,000	26,000	30,000	20,100	67.32
Revised forecast (B)	540,000	26,700	31,000	21,200	71.01
Change (B-A)	5,000	700	1,000	1,100	
% change	0.9	2.7	3.3	5.5	
(Reference) Previous Year Results (Year ended March 31, 2017)	532,040	25,511	30,329	19,466	64.50

With respect to dividends, while the Company planned to pay a year-end dividend of ¥14 per share, one of the basic policies of its management plan is to maintain a payout ratio of at least 40% on a consolidated basis. Consequently, in line with the revision to previous projections, the Company plans to upwardly revise the per-share dividend by ¥1 to ¥15 (up ¥2 from the previous fiscal year). This will lead to a full-year dividend of ¥29 per share, up ¥3 from the previous fiscal year. This is set to result in an actual dividend increase for a fifth consecutive year.

Revision of Dividend Forecast for the Year Ending March 31, 2018

	Full-year Dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Previous forecast (Announced May 12, 2017)	–	14.00	–	14.00	28.00
Revised Forecast				15.00	29.00
Results for Year	–	14.00	–		
(Reference) Previous Year Results (Year Ended March 31, 2017)	–	13.00	–	13.00	26.00

2. Quarterly Consolidated Financial Statements and Related Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2017 (As of March 31, 2017)	Fiscal 2018 Third Quarter (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	85,458	85,304
Notes and accounts receivable – trade	69,584	76,465
Securities	7,094	7,558
Inventories	64,012	65,242
Other	12,906	13,375
Allowance for doubtful accounts	(197)	(217)
Total current assets	238,858	247,728
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	55,441	55,621
Machinery, equipment and vehicles, net	39,296	39,081
Land	41,447	42,282
Other, net	8,654	12,327
Total property, plant and equipment	144,840	149,312
Intangible assets		
Goodwill	7,050	5,918
Other	8,039	6,903
Total intangible assets	15,089	12,821
Investments and other assets		
Investment securities	151,963	167,999
Other	6,938	6,627
Allowance for doubtful accounts	(122)	(112)
Total investments and other assets	158,779	174,514
Total non-current assets	318,709	336,648
Total assets	557,568	584,377

(Millions of yen)

	Fiscal 2017 (As of March 31, 2017)	Fiscal 2018 Third Quarter (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	40,320	46,433
Short-term loans payable	9,745	8,522
Income taxes payable	5,437	2,770
Accrued expenses	18,265	16,743
Other	16,065	25,250
Total current liabilities	89,833	99,721
Non-current liabilities		
Long-term loans payable	4,967	7,436
Deferred tax liabilities	26,687	30,885
Provision for repairs	1,509	1,144
Net defined benefit liability	20,881	20,695
Other	6,883	7,021
Total non-current liabilities	60,928	67,184
Total liabilities	150,762	166,905
Net assets		
Shareholders' equity		
Capital stock	17,117	17,117
Capital surplus	12,898	12,915
Retained earnings	293,165	303,163
Treasury shares	(2,026)	(11,804)
Total shareholders' equity	321,154	321,392
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65,475	76,069
Deferred gains or losses on hedges	93	(31)
Foreign currency translation adjustment	7,836	6,752
Remeasurements of defined benefit plans	(939)	(801)
Total accumulated other comprehensive income	72,466	81,989
Subscription rights to shares	175	189
Non-controlling interests	13,009	13,900
Total net assets	406,805	417,472
Total liabilities and net assets	557,568	584,377

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

[Quarterly Consolidated Statements of Income]

(Millions of yen)

	First nine months of Fiscal 2017 (April 1, 2016 to December 31, 2016)	First nine months of Fiscal 2018 (April 1, 2017 to December 31, 2017)
Net sales	406,514	402,550
Cost of sales	286,046	280,029
Gross profit	120,468	122,521
Selling, general and administrative expenses	100,833	100,640
Operating profit	19,635	21,881
Non-operating income		
Interest income	115	211
Dividend income	2,145	2,119
Share of profit of entities accounted for using equity method	1,679	1,701
Other	433	433
Total non-operating income	4,373	4,465
Non-operating expenses		
Interest expenses	152	160
Foreign exchange losses	64	22
Share issuance cost	–	54
Other	70	105
Total non-operating expenses	287	343
Ordinary profit	23,721	26,003
Extraordinary income		
Gain on sales of non-current assets	381	936
Gain on sales of investment securities	395	5
Gain on sales of shares of subsidiaries and associates	1,862	–
Total extraordinary income	2,639	941
Extraordinary losses		
Loss on retirement of non-current assets	249	324
Impairment loss	717	–
Total extraordinary losses	966	324
Profit before income taxes	25,394	26,620
Total income taxes	8,729	7,516
Profit	16,664	19,103
Profit attributable to non-controlling interests	917	1,016
Profit attributable to owners of parent	15,746	18,087

[Quarterly Consolidated Statements of Comprehensive Income]

(Millions of yen)

	First nine months of Fiscal 2017 (April 1, 2016 to December 31, 2016)	First nine months of Fiscal 2018 (April 1, 2017 to December 31, 2017)
Profit	16,664	19,103
Other comprehensive income		
Valuation difference on available-for-sale securities	7,611	10,527
Deferred gains or losses on hedges	529	(136)
Foreign currency translation adjustment	(10,237)	(808)
Remeasurements of defined benefit plans	152	110
Share of other comprehensive income of entities accounted for by the equity method	(214)	115
Total other comprehensive income (loss)	(2,158)	9,808
Comprehensive income	14,505	28,912
(Breakdown)		
Comprehensive income attributable to owners of parent	14,706	27,610
Comprehensive income (loss) attributable to non-controlling interests	(200)	1,301

(3) Notes on Quarterly Consolidated Financial Statements

[Notes on the Premise of a Going Concern]

There are no applicable matters to be reported.

[Notes on a Significant Change in Shareholders' Equity]

Based on a resolution by the Board of Directors on May 12, 2017, the Company purchased 5,334,900 shares as treasury shares, at a cost of ¥9,999 million.

In line with this purchase, the value of treasury shares during the first nine months of the year ending March 31, 2018 increased by ¥9,777 million, bringing the total value of treasury shares to ¥11,804 million as of the end of the period.

Purchases of treasury shares based on this resolution were concluded on October 6, 2017.

[Adoption of Special Accounting Treatment for Preparing Quarterly Consolidated Financial Statements]

Tax expenses are calculated in accordance with Paragraph 12, "Method for Using the Statutory Effective Tax Rate," of the Practical Guidelines on Tax-Effect Accounting for Preparation of Interim Financial Statements, pursuant to the provision of Paragraph 19 of the Guidance on the Accounting Standard for Quarterly Financial Reporting.

The amount of tax adjustments is included in "Total income taxes."

[Segment Information, etc.]

[Segment information]

I. First nine months of Fiscal 2017 (April 1, 2016 to December 31, 2016)

1. Information about net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Carried on quarterly consolidated statements of income (Note 3)
	Flour Milling	Processed Food	Total				
Net sales							
Sales to external customers	178,503	194,992	373,496	33,018	406,514	–	406,514
Intersegment sales and transfers	12,970	325	13,295	1,877	15,172	(15,172)	–
Total	191,474	195,318	386,792	34,895	421,687	(15,172)	406,514
Segment profit	7,331	9,827	17,158	2,175	19,334	300	19,635

Notes: 1. Business segment of “Others” is excluded from reportable segment, which includes pet food, engineering, mesh cloths, handling and storage businesses.
2. Segment profit adjustment refers to intersegment transaction eliminations and other.
3. Segment profit has been adjusted for the operating profit appearing in the quarterly consolidated statements of income.

2. Information about impairment losses on non-current assets and goodwill by reporting segment

(Material impairment losses related to non-current assets)

Regarding equipment for manufacturing raw materials for pharmaceuticals in the Processed Food Segment, due to changes in the market environment, the recoverable value of these assets fell below their book value, prompting the Company to lower the book value of these assets to their recoverable value. Consequently, the Company booked this reduction as an impairment loss. The extraordinary loss resulting from this reduction was ¥717 million.

II. First nine months of Fiscal 2018 (April 1, 2017 to December 31, 2017)

1. Information about net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Carried on quarterly consolidated statements of income (Note 3)
	Flour Milling	Processed Food	Total				
Net sales							
Sales to external customers	175,252	193,167	368,419	34,131	402,550	–	402,550
Intersegment sales and transfers	12,045	315	12,360	1,647	14,007	(14,007)	–
Total	187,297	193,482	380,779	35,778	416,558	(14,007)	402,550
Segment profit	7,759	11,402	19,161	2,539	21,700	180	21,881

Notes: 1. Business segment of "Others" is excluded from reportable segment, which includes pet food, engineering, mesh cloths, handling and storage businesses.

2. Segment profit adjustment refers to intersegment transaction eliminations and other.

3. Segment profit has been adjusted for the operating profit appearing in the quarterly consolidated statements of income.