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

July 27, 2017

Listed Company Name: Nisshin Seifun Group Inc. Registered on Tokyo Stock Exchange
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Date to submit the Quarterly Securities Report: August 10, 2017
Date to start distributing dividends: —
Supplementary documents 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 First Quarter of Fiscal 2018 (April 1, 2017 to June 30, 2017)

(1) Consolidated Business Results

(The percentages indicate the rates of increase or decrease compared with the same period of the previous fiscal 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 three months of Fiscal 2018	130,788	(3.8)	6,185	19.3	7,960	10.1	5,521	5.1
First three months of Fiscal 2017	135,923	(2.6)	5,184	3.6	7,227	4.3	5,252	13.4

(Note) Comprehensive income: First three months of Fiscal 2018: ¥7,166 million (up 109.1%)
First three months of Fiscal 2017: ¥3,427 million (down 56.2%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
First three months of Fiscal 2018	18.32	18.31
First three months of Fiscal 2017	17.41	17.38

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2017	559,789	405,668	70.1
March 31, 2017	557,568	406,805	70.6

(Reference) Equity capital: June 30, 2017: ¥392,551 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	—				
Fiscal 2018 (forecast)		14.00	—	14.00	28.00

(Note) Revision to the latest forecast of dividends: None

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

(The full-year percentages indicate the rates of increase or decrease compared with the previous fiscal year, the percentages for the first half are comparisons with the same period of the previous fiscal 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
First half	264,000	(2.7)	12,000	4.4	14,000	(0.9)	9,400	(7.4)	31.27
Full year	535,000	0.6	26,000	1.9	30,000	(1.1)	20,100	3.3	67.32

(Note) Revision to the latest forecast of business results: None

* 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 June 30, 2017	304,357,891	As of March 31, 2017	304,357,891
2) Number of treasury shares	As of June 30, 2017	4,386,792	As of March 31, 2017	2,374,365
3) Average number of shares outstanding	First three months of Fiscal 2018	301,323,571	First three months of Fiscal 2017	301,712,464

* 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 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 three months of the fiscal year ending March 31, 2018, the pace of recovery of the Japanese economy lacked vigor, reflecting persistent belt-tightening among consumers. This outcome came despite the continuation of a modest economic recovery thanks to a turnaround in domestic demand, including corporate capital investments, and a bottoming out in consumption. The global economy, meanwhile, continued to face uncertainty, with robust economic performance from the United States and Europe counterbalanced by concerns surrounding the departure of the UK from the European Union, among other issues.

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. Additionally, the Group launched initiatives under a new 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 aiming for solid profit growth through self-sustained business growth, including that of acquired businesses, and through M&As and other new strategic investments, while taking a more proactive stance to shareholder returns.

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 enhance cost competitiveness and strengthen its business structure both domestically and abroad, including through the development of an optimized production framework.

With respect to performance, consolidated net sales for the first three months of the fiscal year ending March 31, 2018, decreased 3.8% year on year to ¥130,788 million. Along with lower product prices accompanying falling raw wheat prices, this reflected the effects of the exclusion of Daisen Ham Co., Ltd. from the scope of consolidation following the transfer of its shares to another entity. In terms of profits, however, due to measures to improve profitability, including cost reduction efforts, operating profit was ¥6,185 million, up 19.3% year on year. Ordinary profit increased by 10.1% to ¥7,960 million, and profit attributable to owners of parent rose by 5.1% to ¥5,521 million.

[Business Overview by Segment]

1) Flour Milling Segment

In the flour milling business, shipments of commercial wheat flour in Japan increased year on year, reflecting aggressive sales expansion measures and progress in attracting new customers, despite an adverse market environment characterized by continued belt-tightening among consumers.

Also in June 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.

From the perspectives of production and distribution, we advanced measures to enhance productivity, notably by concentrating production at large-scale plants located near ports in Japan, and carried out measures 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 Tsurumi Plant was the first Japanese food company to obtain JFS-E-C certification in September 2016.

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

In the overseas business, sales were lower year on year, despite increased shipments overall thanks to aggressive sales expansion, mainly reflecting lower product prices due to falling raw wheat prices. Furthermore, construction is moving forward to boost by approximately 80% the production capacity of Canadian subsidiary Rogers Foods Ltd.'s Chilliwack Plant, scheduled to begin enhanced operations in autumn 2017. Construction is also on track to boost by approximately 70% the production capacity of U.S. subsidiary Miller Milling Company, LLC's Saginaw Plant, which is expected to begin enhanced operations in early 2019.

As a result, net sales of the Flour Milling Segment decreased 6.6% year on year to ¥57,406 million. Operating profit, meanwhile, decreased 2.9% to ¥1,963 million.

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 conducted sales promotion measures—notably TV commercials—among other initiatives designed to stimulate consumption. 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 built new production sites and moved to augment production capacity. As a result, sales in the processed food business were lower overall year on year, mainly due to effects from the exclusion of Daisen Ham Co., Ltd. from the scope of consolidation in September 2016 following the transfer of its shares to another entity. This outcome came despite brisk growth in shipments of pastas, prepared dishes and other prepared foods and frozen foods.

In the overseas business, sales were higher atop strong prepared mix business performance. 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. Sales in biotechnology were also higher, primarily from an increase in testing performed on an outsourcing basis. 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 lower year on year, reflecting a decline in sales of consumer products despite an increase in shipments of raw materials for pharmaceuticals.

As a result, net sales of the Processed Food Segment decreased 2.0% year on year to ¥63,422 million. Operating profit increased 31.5% to ¥3,520 million.

3) Others Segment

In the pet food business, shipments mainly of the Kaiseki series and other premium pet food were brisk chiefly due to sales promotion efforts, including the aggressive launch of new products and TV commercials and campaigns, resulting in higher sales year on year.

In the engineering business, sales increased year on year, mainly due to robust growth in orders for projects in the mainstay plant engineering business, coupled with similar growth in processing performed on an outsourcing basis and equipment sales.

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

As a result, net sales of the Others Segment increased 2.3% to ¥9,960 million, and operating profit increased 69.3% to ¥621 million.

(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 decreased ¥197 million from the previous fiscal year-end to ¥238,661 million, due largely to a decrease in notes and accounts receivable – trade. Non-current assets increased ¥2,417 million from the previous fiscal year-end to ¥321,127 million, primarily due to decreases in property, plant and equipment and intangible assets, coupled mainly with an increase in investment securities. As a result, total assets increased ¥2,220 million from the previous fiscal year-end to ¥559,789 million. Meanwhile, current liabilities increased ¥2,618 million to ¥92,451 million, primarily due to increases in notes and accounts payable – trade. Non-current liabilities increased ¥739 million to ¥61,668 million. As a result, total liabilities increased ¥3,358 million from the previous fiscal year-end to ¥154,120 million. Net assets decreased ¥1,137 million to ¥405,668 million, chiefly reflecting an increase due to profit attributable to owners of parent for the period, a decrease due to the payment of dividends and a decrease due to the purchase of treasury shares.

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

The Japanese economy is facing concerns over its future, including continued belt-tightening among consumers fueled, among other things, by falling birthrates and an aging society, as well as worries about the country’s future. Adding to this is geopolitical uncertainty abroad, most notably the governing style of the current US presidential administration and the problems surrounding the United Kingdom’s exit from the EU (Brexit). Similarly, the Group’s business environment is projected to remain adverse due, in part, to the continued preference for lower-priced options among consumers in Japan. Under these circumstances, the Group will continue to fulfill our mission to secure the stable supply of safe and reliable wheat flour and other staple foods. By bringing the Group’s comprehensive group-wide capabilities to the fore, we will pursue steady implementation of strategies formulated under our new 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, the now largely agreed upon economic partnership agreement (EPA) between Japan and Europe is expected to impact industries related to the Company’s own operations. Consequently, we will continue to pay close attention to trends and respond appropriately to this EPA and the Trans-Pacific Partnership (TPP) trade agreement.

As a result of the above factors, consolidated net sales for the fiscal year ending March 31, 2018 are forecast to rise 0.6% year on year to ¥535,000 million, operating profit is projected to climb 1.9% to ¥26,000 million, ordinary profit is expected to decrease 1.1% to ¥30,000 million, and profit attributable to owners of parent is expected to increase 3.3% year on year to ¥20,100 million. These forecasts remain in line with initial projections.

With respect to dividends, one of the basic policies of the new medium-term management plan is to maintain a payout ratio of at least 40% on a consolidated basis. Consequently, in line with initial projections, the Company plans to pay a full-year dividend of ¥28 per share, up ¥2 from the previous fiscal year. This is set to result in an actual dividend increase for a fifth consecutive year.

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 First Quarter (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	85,458	84,626
Notes and accounts receivable – trade	69,584	66,967
Securities	7,094	7,260
Inventories	64,012	63,172
Other	12,906	16,819
Allowance for doubtful accounts	(197)	(184)
Total current assets	238,858	238,661
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	55,441	54,801
Machinery, equipment and vehicles, net	39,296	37,989
Land	41,447	41,238
Other, net	8,654	10,180
Total property, plant and equipment	144,840	144,210
Intangible assets		
Goodwill	7,050	6,502
Other	8,039	7,484
Total intangible assets	15,089	13,986
Investments and other assets		
Investment securities	151,963	156,292
Other	6,938	6,758
Allowance for doubtful accounts	(122)	(120)
Total investments and other assets	158,779	162,930
Total non-current assets	318,709	321,127
Total assets	557,568	559,789

(Millions of yen)

	Fiscal 2017 (As of March 31, 2017)	Fiscal 2018 First Quarter (As of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	40,320	42,218
Short-term loans payable	9,745	9,412
Income taxes payable	5,437	2,054
Accrued expenses	18,265	15,300
Other	16,065	23,466
Total current liabilities	89,833	92,451
Non-current liabilities		
Long-term loans payable	4,967	4,452
Deferred tax liabilities	26,687	28,001
Provision for repairs	1,509	1,463
Net defined benefit liability	20,881	20,896
Other	6,883	6,853
Total non-current liabilities	60,928	61,668
Total liabilities	150,762	154,120
Net assets		
Shareholders' equity		
Capital stock	17,117	17,117
Capital surplus	12,898	12,909
Retained earnings	293,165	294,759
Treasury shares	(2,026)	(6,015)
Total shareholders' equity	321,154	318,770
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65,475	68,700
Deferred gains or losses on hedges	93	72
Foreign currency translation adjustment	7,836	5,885
Remeasurements of defined benefit plans	(939)	(877)
Total accumulated other comprehensive income	72,466	73,780
Subscription rights to shares	175	188
Non-controlling interests	13,009	12,929
Total net assets	406,805	405,668
Total liabilities and net assets	557,568	559,789

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

[Quarterly Consolidated Statements of Income]

(Millions of yen)

	First three months of Fiscal 2017 (April 1, 2016 to June 30, 2016)	First three months of Fiscal 2018 (April 1, 2017 to June 30, 2017)
Net sales	135,923	130,788
Cost of sales	96,407	91,022
Gross profit	39,516	39,765
Selling, general and administrative expenses	34,331	33,580
Operating profit	5,184	6,185
Non-operating income		
Interest income	37	38
Dividend income	1,254	1,081
Share of profit of entities accounted for using equity method	768	604
Other	160	169
Total non-operating income	2,221	1,893
Non-operating expenses		
Interest expenses	55	51
Foreign exchange losses	102	22
Other	21	44
Total non-operating expenses	178	118
Ordinary profit	7,227	7,960
Extraordinary income		
Gain on sales of non-current assets	42	276
Gain on sales of investment securities	357	1
Total extraordinary income	399	277
Extraordinary losses		
Loss on retirement of non-current assets	42	70
Total extraordinary losses	42	70
Profit before income taxes	7,584	8,167
Total income taxes	2,044	2,275
Profit	5,539	5,892
Profit attributable to non-controlling interests	287	371
Profit attributable to owners of parent	5,252	5,521

[Quarterly Consolidated Statements of Comprehensive Income]

(Millions of yen)

	First three months of Fiscal 2017 (April 1, 2016 to June 30, 2016)	First three months of Fiscal 2018 (April 1, 2017 to June 30, 2017)
Profit	5,539	5,892
Other comprehensive income		
Valuation difference on available-for-sale securities	1,898	3,198
Deferred gains or losses on hedges	(106)	(34)
Foreign currency translation adjustment	(3,828)	(1,953)
Remeasurements of defined benefit plans	51	36
Share of other comprehensive income of affiliates accounted for by the equity method	(126)	26
Total other comprehensive income	(2,111)	1,273
Comprehensive income	3,427	7,166
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,491	6,835
Comprehensive income attributable to non-controlling interests	(63)	330

(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]

At a meeting of the Board of Directors on May 12, 2017, the Company resolved to purchase treasury shares, with an upper cap of 7 million shares or a total value of ¥10,000 million.

At the end of the first quarter of the fiscal year ending March 31, 2018, the Company purchased 2,153,700 treasury shares with a total value of ¥4,041 million. Primarily as a result of this purchase, the value of treasury shares increased by ¥3,989 million during first three months of the fiscal year, for a total value of ¥6,015 million as of the end of the first quarter of the fiscal year ending March 31, 2018.

[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 three months of Fiscal 2017 (April 1, 2016 to June 30, 2016)

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	61,479	64,707	126,186	9,737	135,923	–	135,923
Intersegment sales and transfers	4,604	121	4,726	643	5,369	(5,369)	–
Total	66,084	64,828	130,912	10,380	141,293	(5,369)	135,923
Segment profit	2,022	2,677	4,700	366	5,067	117	5,184

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.

II. First three months of Fiscal 2018 (April 1, 2017 to June 30, 2017)

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	57,406	63,422	120,828	9,960	130,788	–	130,788
Intersegment sales and transfers	3,922	122	4,044	472	4,516	(4,516)	–
Total	61,328	63,544	124,872	10,432	135,305	(4,516)	130,788
Segment profit	1,963	3,520	5,483	621	6,104	80	6,185

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.