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Summary of Financial Statements for the Third Quarter of Fiscal 2017 [Japanese Standards]

January 30, 2017

Listed Company Name: Nisshin Seifun Group Inc. Registered on Tokyo Stock Exchange
Code: 2002
URL: http://www.nisshin.com
Representative: Hiroshi Oeda, Representative Director and President
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Date to submit the Quarterly Securities Report: February 13, 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 Third Quarter of Fiscal 2017 (April 1, 2016 to December 31, 2016)

(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 income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First nine months of Fiscal 2017	406,514	(3.2)	19,635	4.9	23,721	5.4	15,746	7.2
First nine months of Fiscal 2016	419,761	8.3	18,722	18.8	22,512	12.5	14,695	12.2

(Note) Comprehensive income: First nine months of Fiscal 2017 ¥14,505 million (down 18.2%)
First nine months of Fiscal 2016 ¥17,722 million (down 36.7%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
First nine months of Fiscal 2017	52.18	52.12
First nine months of Fiscal 2016	48.75	48.67

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2016	543,805	392,728	70.0
March 31, 2016	550,305	386,485	67.8

(Reference) Equity capital: December 31, 2016: ¥380,664 million March 31, 2016: ¥373,375 million

2. Dividends

	Dividend per share				
	1Q End	2Q End	3Q End	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2016	—	12.00	—	12.00	24.00
Fiscal 2017	—	13.00	—		
Fiscal 2017 (forecast)				13.00	26.00

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

3. Forecast of Consolidated Business Results for the Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		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	535,000	(3.9)	24,500	3.1	28,800	2.5	19,200	9.3	63.62

(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 "Matters Concerning Summary Information (Notes)" on page 6 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.: Yes
2) Changes in accounting policies other than the above: None
3) Changes in accounting estimates: None
4) Revisions restated: None

Note: For details, please refer to "Matters Concerning Summary Information (Notes)" on page 6 of the Attachment.

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

1) Number of shares issued and outstanding (including treasury shares)	As of December 31, 2016	304,357,891	As of March 31, 2016	304,357,891
2) Number of treasury shares	As of December 31, 2016	2,479,387	As of March 31, 2016	2,674,306
3) Average number of shares outstanding	First nine months of Fiscal 2017	301,785,382	First nine months of Fiscal 2016	301,432,068

* Status of execution of the quarterly review of financial statements

Because this Summary of Financial Statements is not subject to the review of quarterly financial statements under the Financial Instruments and Exchange Act, the procedures for said review are not completed at the time of disclosing this summary.

* 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 "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 nine months of the fiscal year ending March 31, 2017, the Japanese economy continued to show signs of a modest recovery, led by a turnaround in consumer spending and exports. Meanwhile, global economic uncertainty continued to mount, particularly in light of the exit of the United Kingdom from the EU and the outcome of the United States presidential election.

Under these conditions, 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 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 ensure cost competitiveness and strengthen its business structure both domestically and abroad. In the flour milling business, these efforts focused on consolidating production at large-scale plants located near ports, and in the processed food business on building an optimal production framework globally. Elsewhere, the Group pursued initiatives to boost brand value, primarily through sports sponsorship, and conducted advertising and promotional activities through event cosponsorship and other channels. In September of last year, in a move to optimize the business portfolio, the Group transferred all of its shares of Daisen Ham Co., Ltd. (a consolidated subsidiary).

As a result, consolidated net sales for the first nine months of the fiscal year ending March 31, 2017, including net sales from a newly consolidated prepared dishes and other prepared foods subsidiary acquired in January 2016, decreased 3.2% year on year to ¥406,514 million, mainly reflecting falling raw wheat prices and the effects of foreign currency exchange rates for overseas businesses against a strengthening yen. In terms of profits, due to measures to improve profitability, including cost reduction efforts, and consolidated results from the new subsidiary, operating income was ¥19,635 million, up 4.9% year on year. Ordinary income increased by 5.4% to ¥23,721 million, and profit attributable to owners of parent rose by 7.2% to ¥15,746 million.

[Business Overview by Segment]

1) Flour Milling Segment

In the flour milling business, despite aggressive sales expansion measures, shipments of commercial wheat flour in Japan were largely flat against the previous year, primarily due to the impact of demand volatility sparked by price revisions for wheat flour.

Also in July 2016 and January 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 declined 7.1% in April 2016, and by 7.9% in October 2016.

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. We also completed construction to increase holding capacity by 25% at a raw wheat silo at the Tsurumi Plant in June 2016, and strengthened our structure for securing, storing and stably supplying raw wheat greater than ever before in response to demand. Also, in a first for food companies in Japan, in September 2016 the Tsurumi Plant, followed by the Chita Plant in December 2016, was accredited with the new "(*) JFS-E-C" certification for food safety management systems thanks to its strong promotion of food safety measures, among other efforts.

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 raw wheat prices and the effect of foreign currency exchange rates for overseas businesses against a strengthening yen. Construction is moving forward to boost by around 80% the production capacity of Canadian subsidiary Rogers Foods Ltd.’s Chilliwack Plant. The plant is scheduled to begin operations in autumn 2017, and is marking steady progress toward that goal. Furthermore, in October 2016, the Saginaw Plant for American subsidiary Miller Milling Company, LLC made a decision to add an additional roughly 70% in production capacity, with preparations to do so moving ahead smoothly.

As a result, net sales of the Flour Milling Segment decreased 10.6% year on year to ¥178,503 million. Operating income, meanwhile, declined 0.8% to ¥7,331 million.

* JFS-E-C
This is a new standard, related to food safety management systems developed in Japan, published in July 2016 by the Japan Food Safety Management Association (JFSM).

2) Processed Food Segment

In the processed food business, for household-use products, in addition to expanding the lineup of our strong-selling bottle-type flour series 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 and co-sponsored seasonal illumination events—among other proactive initiatives designed to stimulate consumption. In commercial-use products, we launched new products tailored to customer needs and aggressively 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 wide-ranging categories of products. As a result, sales in the processed food business were higher overall compared to a year earlier despite continued belt-tightening among consumers. This outcome reflected the impact of brisk growth in shipments of pastas, prepared dishes and other prepared foods, as well as benefits from the consolidation of Joyous Foods Co., Ltd. in January 2016.

Also, in response to lower prices for commercial wheat flour due to the government’s decision to revise the prices of imported wheat, the Company in August 2016 revised prices for its household-use wheat flour and commercial prepared mix products. A similar price revision will take place in February 2017.

In the overseas business, sales were lower as competition in the Southeast Asian market intensified. 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 were on a par with the previous year.

In the healthcare foods business, sales were lower year on year, reflecting sluggish shipments of raw materials for pharmaceuticals, as well as lower prices, despite brisk sales of consumer products driven by promotion of marketing measures.

As a result, net sales of the Processed Food Segment increased 4.3% from the same period of the previous fiscal year to ¥194,992 million. Operating income increased 5.6% to ¥9,827 million.

3) Others Segment

In the pet food business, shipments mainly of JP Style brand and other premium pet food were brisk chiefly due to sales promotion measures including the aggressive launch of new products and TV commercials and campaigns, resulting in higher sales compared to the same period of the previous fiscal year.

In the engineering business, sales decreased year on year, mainly due to struggling growth in orders for projects in the mainstay plant engineering business.

In the mesh cloths business, sales were down from last year, reflecting sluggishness for screen printing materials.

As a result, net sales of the Others Segment decreased 0.4% to ¥33,018 million, and operating income increased 13.3% to ¥2,175 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 ¥824 million from the previous fiscal year-end to ¥232,574 million, due largely to an increase in cash and deposits, and decreases in short-term investment securities and inventories, etc. Noncurrent assets decreased ¥5,675 million to ¥311,231 million, primarily due to decreases in property, plant and equipment and intangible assets, and increases in investment securities, etc. As a result, total assets decreased ¥6,499 million from the previous fiscal year-end to ¥543,805 million. Meanwhile, current liabilities shrank ¥15,375 million to ¥91,427 million, mainly reflecting decreases in notes and accounts payable – trade and short-term loans payable. Noncurrent liabilities increased ¥2,631 million to ¥59,649 million. As a result, total liabilities declined ¥12,743 million from the previous fiscal year-end to ¥151,076 million. Net assets increased ¥6,243 million to ¥392,728 million, including an increase due to profit attributable to owners of parent for the period, a decrease due to the payment of dividends and a decrease in accumulated other comprehensive income.

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

The Japanese economy is facing concerns over the direction of future developments, including geopolitical uncertainty abroad, most notably the actions of the U.S. presidential administration and problems caused by the departure of the U.K. from the European Union, along with related volatility in foreign currency exchange rates and interest rates. 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. Through 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 products and pursue advertising and other sales promotion measures designed from the customer's perspective, along with productivity enhancements and other cost-reduction efforts. At the same time, we will promote expansion in overseas business.

Furthermore we will continue to pay close attention to trends in and respond appropriately to negotiations related to the Trans-Pacific Partnership (TPP) trade agreement, the Japan-EU Economic Partnership Agreement (EPA), and the Regional Comprehensive Economic Partnership (RCEP).

Taking into account factors such as falling prices of raw wheat, foreign currency exchange rates for overseas businesses against a strengthening yen, and the deconsolidation of a subsidiary, consolidated net sales for the fiscal year ending March 31, 2017 are forecast to decline 3.9% year on year to ¥535,000 million. Despite weak bran prices and poor performance in raw materials for pharmaceuticals, operating income is projected to climb 3.1% to ¥24,500 million due to expanded sale of high-value-added products and improved profitability from cost reduction measures. Ordinary income is expected to increase 2.5% to ¥28,800 million, and profit attributable to owners of parent is expected to increase 9.3% year on year to ¥19,200 million. These forecasts are unchanged from the projections released in October 2016.

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 year-end dividend of ¥13, up ¥1 from the previous fiscal year, and a full-year dividend of ¥26 per share, up ¥2 from the previous fiscal year. This is set to result in an actual dividend increase for a fourth consecutive year.

2. Matters Concerning Summary Information (Notes)

(1) Changes in Important Subsidiaries during the Period under Review

[Changes in specified subsidiaries involving a change in the scope of consolidation]

There are no applicable matters to be reported.

However, while it is not considered a change in specified subsidiaries, the Company sold all of the shares of its former consolidated subsidiary Daisen Ham Co., Ltd., held by its consolidated subsidiaries, in September 2016, causing it to be excluded from the scope of consolidation.

(2) 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 “Income taxes – deferred” is included in “Total income taxes.”

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Revisions Restated

[Changes in accounting policies]

In accordance with revisions to corporate tax law in Japan, the Company has applied the “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Reform” (PITF No. 32, June 17, 2016) from the first quarter of the current fiscal year. The subsequent result is a switch from the declining-balance method to the straight-line method for depreciation and amortization pertaining to equipment for buildings and structures purchased after April 1, 2016.

These monetary effects had a negligible impact on financial performance for the first nine months of the fiscal year ending March 31, 2017.

(4) Additional Information

[Changes in accounting period of consolidated subsidiary]

For more accurate disclosure in consolidated financial statements, from the first quarter of the current fiscal year, the fiscal accounting date of December 31 for consolidated subsidiary Joyous Foods Co., Ltd. has been changed to March 31.

In line with this decision, income/loss for the period beginning with the merger date for the subsidiary, January 29, 2016, through March 31, 2016 has been adjusted within changes in retained earnings.

[Implementation guidance on recoverability of deferred tax assets]

From the first quarter of the current fiscal year, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2016 (As of March 31, 2016)	Fiscal 2017 Third Quarter (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	61,665	79,196
Notes and accounts receivable – trade	72,871	73,550
Short-term investment securities	13,790	5,921
Inventories	72,038	61,379
Other	13,242	12,729
Allowance for doubtful accounts	(210)	(203)
Total current assets	233,398	232,574
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	56,657	54,867
Machinery, equipment and vehicles, net	43,079	38,134
Land	42,152	40,973
Other, net	9,450	7,472
Total property, plant and equipment	151,339	141,448
Intangible assets		
Goodwill	8,610	6,466
Other	9,879	7,744
Total intangible assets	18,489	14,210
Investments and other assets		
Investment securities	140,347	148,913
Other	6,854	6,781
Allowance for doubtful accounts	(124)	(122)
Total investments and other assets	147,077	155,572
Total noncurrent assets	316,907	311,231
Total assets	550,305	543,805

(Millions of yen)

	Fiscal 2016 (As of March 31, 2016)	Fiscal 2017 Third Quarter (As of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	51,348	40,233
Short-term loans payable	15,219	10,617
Income taxes payable	5,227	3,695
Provision	238	195
Accrued expenses	18,534	17,040
Other	16,233	19,645
Total current liabilities	106,802	91,427
Noncurrent liabilities		
Long-term loans payable	4,386	4,805
Provision	1,521	1,562
Net defined benefit liability	21,892	20,920
Deferred tax liabilities	22,621	25,737
Other	6,595	6,623
Total noncurrent liabilities	57,017	59,649
Total liabilities	163,820	151,076
Net assets		
Shareholders' equity		
Capital stock	17,117	17,117
Capital surplus	12,834	12,872
Retained earnings	281,324	289,444
Treasury stock	(2,289)	(2,118)
Total shareholders' equity	308,987	317,316
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	55,974	63,628
Deferred gains or losses on hedges	(301)	279
Foreign currency translation adjustment	9,859	453
Remeasurements of defined benefit plans	(1,144)	(1,013)
Total accumulated other comprehensive income	64,387	63,347
Subscription rights to shares	147	168
Non-controlling interests	12,962	11,895
Total net assets	386,485	392,728
Total liabilities and net assets	550,305	543,805

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

[Quarterly Consolidated Statements of Income]

(Millions of yen)

	First nine months of Fiscal 2016 (April 1, 2015 to December 31, 2015)	First nine months of Fiscal 2017 (April 1, 2016 to December 31, 2016)
Net sales	419,761	406,514
Cost of sales	302,547	286,046
Gross profit	117,214	120,468
Selling, general and administrative expenses	98,492	100,833
Operating income	18,722	19,635
Non-operating income		
Interest income	151	115
Dividends income	2,085	2,145
Equity in earnings of affiliates	1,239	1,679
Other	527	433
Total non-operating income	4,003	4,373
Non-operating expenses		
Interest expenses	126	152
Foreign exchange losses	–	64
Other	87	70
Total non-operating expenses	213	287
Ordinary income	22,512	23,721
Extraordinary income		
Gain on sales of noncurrent assets	–	381
Gain on sales of investment securities	6	395
Gain on sales of stocks of subsidiaries and affiliates	–	1,862
Total extraordinary income	6	2,639
Extraordinary losses		
Loss on retirement of noncurrent assets	339	249
Impairment loss	–	717
Total extraordinary losses	339	966
Profit before income taxes	22,178	25,394
Total income taxes	6,810	8,729
Profit	15,368	16,664
Profit attributable to non-controlling interests	672	917
Profit attributable to owners of parent	14,695	15,746

[Quarterly Consolidated Statements of Comprehensive Income]

(Millions of yen)

	First nine months of Fiscal 2016 (April 1, 2015 to December 31, 2015)	First nine months of Fiscal 2017 (April 1, 2016 to December 31, 2016)
Profit	15,368	16,664
Other comprehensive income		
Valuation difference on available-for-sale securities	5,841	7,611
Deferred gains or losses on hedges	(126)	529
Foreign currency translation adjustment	(3,477)	(10,237)
Remeasurements of defined benefit plans	193	152
Share of other comprehensive income of affiliates accounted for by the equity method	(77)	(214)
Total other comprehensive income (loss)	2,353	(2,158)
Comprehensive income	17,722	14,505
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,985	14,706
Comprehensive income attributable to non-controlling interests	(263)	(200)

(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]

There are no applicable matters to be reported.

[Segment Information, etc.]

[Segment information]

I. First nine months of Fiscal 2016 (April 1, 2015 to December 31, 2015)

1. Information about net sales, 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	199,714	186,897	386,612	33,149	419,761	–	419,761
Intersegment sales and transfers	14,086	365	14,451	3,816	18,268	(18,268)	–
Total	213,800	187,263	401,064	36,966	438,030	(18,268)	419,761
Segment income	7,390	9,304	16,695	1,919	18,615	106	18,722

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

2. Information about impairment losses on noncurrent assets and goodwill by reporting segment

(Material changes in amount of goodwill)

From the first quarter of the current fiscal year, the Company has applied the “Revised Accounting Standard for Business Combinations” and other accounting standards. The reduction in goodwill resulting from this change was ¥1,252 million in the Flour Milling Segment.

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

1. Information about net sales, 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 income	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 income adjustment refers to intersegment transaction eliminations and other.
3. Segment income has been adjusted for the operating income appearing in the quarterly consolidated statements of income.

2. Information about impairment losses on noncurrent assets and goodwill by reporting segment

   (Material impairment losses related to noncurrent 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.