



**Briefing Session on the First Half of  
Fiscal Year Ending March 31, 2014 (FY2014)  
Business Results**

**November 13, 2013**

Nippon Flour Mills Co., Ltd.  
<http://www.nippon.co.jp>



First Half of FY2014  
Performance Overview and Outlook

November 13, 2013

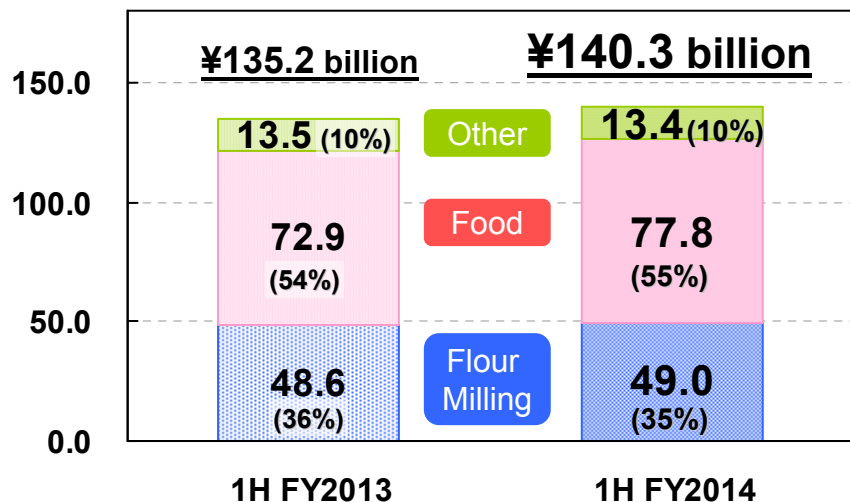
# First Half of FY2014 Performance Overview

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# Consolidated Business Results for 1H FY2014 (1)

## Net sales

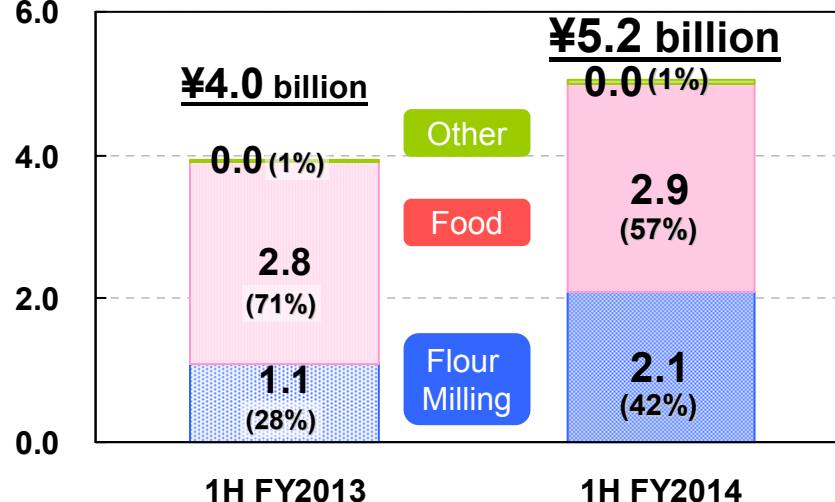
(Billions of yen)



## Operating income

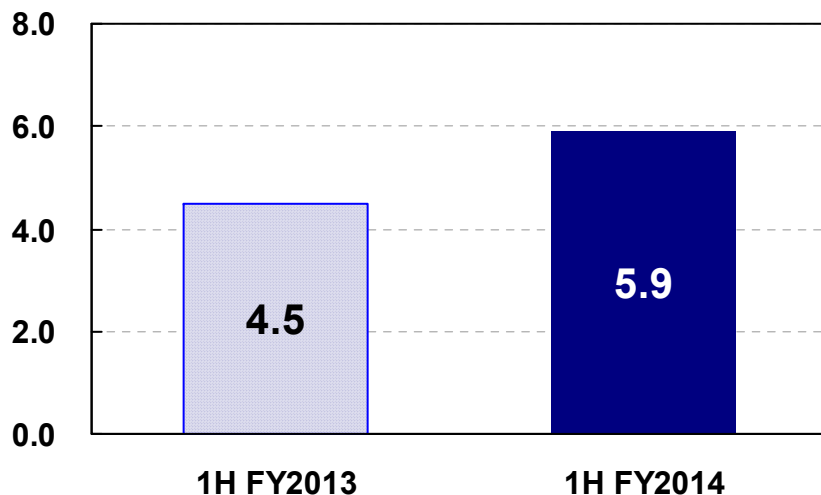
(Billions of yen)

(Less than hundred million Japanese yen cutting off)



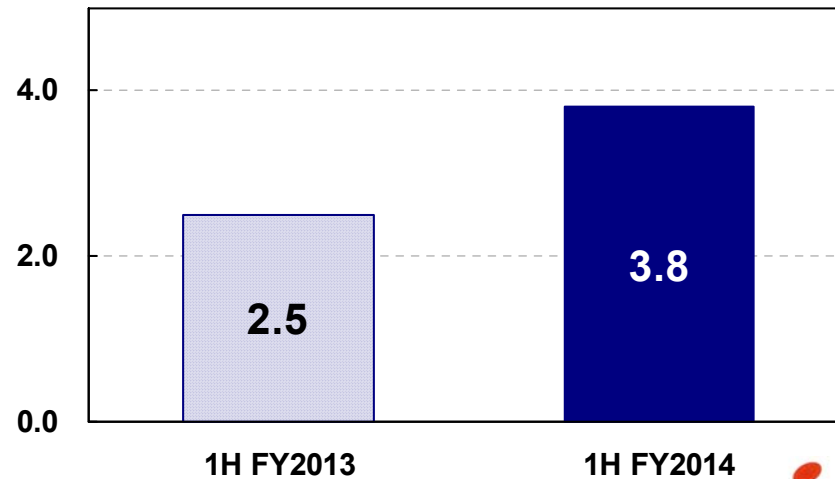
## Ordinary income

(Billions of yen)



## Net income

(Billions of yen)



# Consolidated Business Results for 1H FY2014 (2)

## Business results for FY2013 and results forecast for FY2014

(Millions of yen)

	FY2014 (Forecast)	FY2013	Change	Change (%)
Net sales	290,000	271,069	18,931	7.0%
Operating income	11,000	9,713	1,287	13.3%
Ordinary income	11,500	10,906	594	5.4%
Net income	7,200	7,008	192	2.7%

## Highlights of business results for 1H FY2014 and results forecast for FY2014

- Sales expansion and cost reduction led to an increase in net sales and a substantial profit increase.
- Group management reinforced both in Japan and overseas.
- Steady progress compared with the full-year forecast. Sustainable growth continued.

# Company's History and Business

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# History

117 years of history

## Management history

Expansion was accelerated by mergers

The Company implemented many large-scale mergers and expanded its business during the period from the very start of its foundation to the early Showa period, not only in Japan but also to foreign countries including mainland China.

Expanded business through a series of business transformations like ecdysis of a cicada

\*Ecdysis

Flour milling segment

Meiji (1868-1912) Taisho (1912-1926) Showa (1926-1989) Heisei (1989-)

1896: Founded with the latest western-style mechanical milling.

1914: Start of buckwheat milling

## History of business diversification

1969: Started corn flour milling  
1975: Started rice flour milling

Promoted business growth and technological innovation in the post-war era while expanding the scope of the business through diversification.

**Nippon Flour Mills Co., Ltd.**  
founded in 1896.



1897: Innovative product sales method



The distributor system under the manufacturer's initiative was adopted to clearly indicate the manufacturer name, quality and grade.

Food segment

## Ingredients

1959: Joined the premix business



2013: Acquisition of an equity stake in Nagano Tomato

## Processed food

1955: Launched "Oh'my Cut Macaroni"

2003: Advanced into the soybean business (tie-up with OK Food Industry)

## Frozen food



1973: Launched "Cream Croquette"

## Delicatessen

1991: Joined the delicatessen business

Other segment

1969: Launched "Family Germ" (healthcare business)

1989: Started full-scale operation of the pet food business for home use



## \*Ecdysis:

A process of molting. Insects such as cicadas undergo metamorphosis from nymphs to adults.

# Business Contents

Composition of net sales by business segment for 1H FY2014 (accumulated)

38 consolidated subsidiaries  
15 affiliates accounted for by the equity method

Pan-no-hana

Health food

Biotechnology business

Pet food

Sports club

Cosmetics



Other segment  
¥13.4 billion

Ingredients

10%

Food segment  
¥77.8 billion



Net sales  
¥140.3 billion

Processes food

55%



Flour milling segment  
¥49.0 billion

Professional-use wheat flour

35%

Frozen food

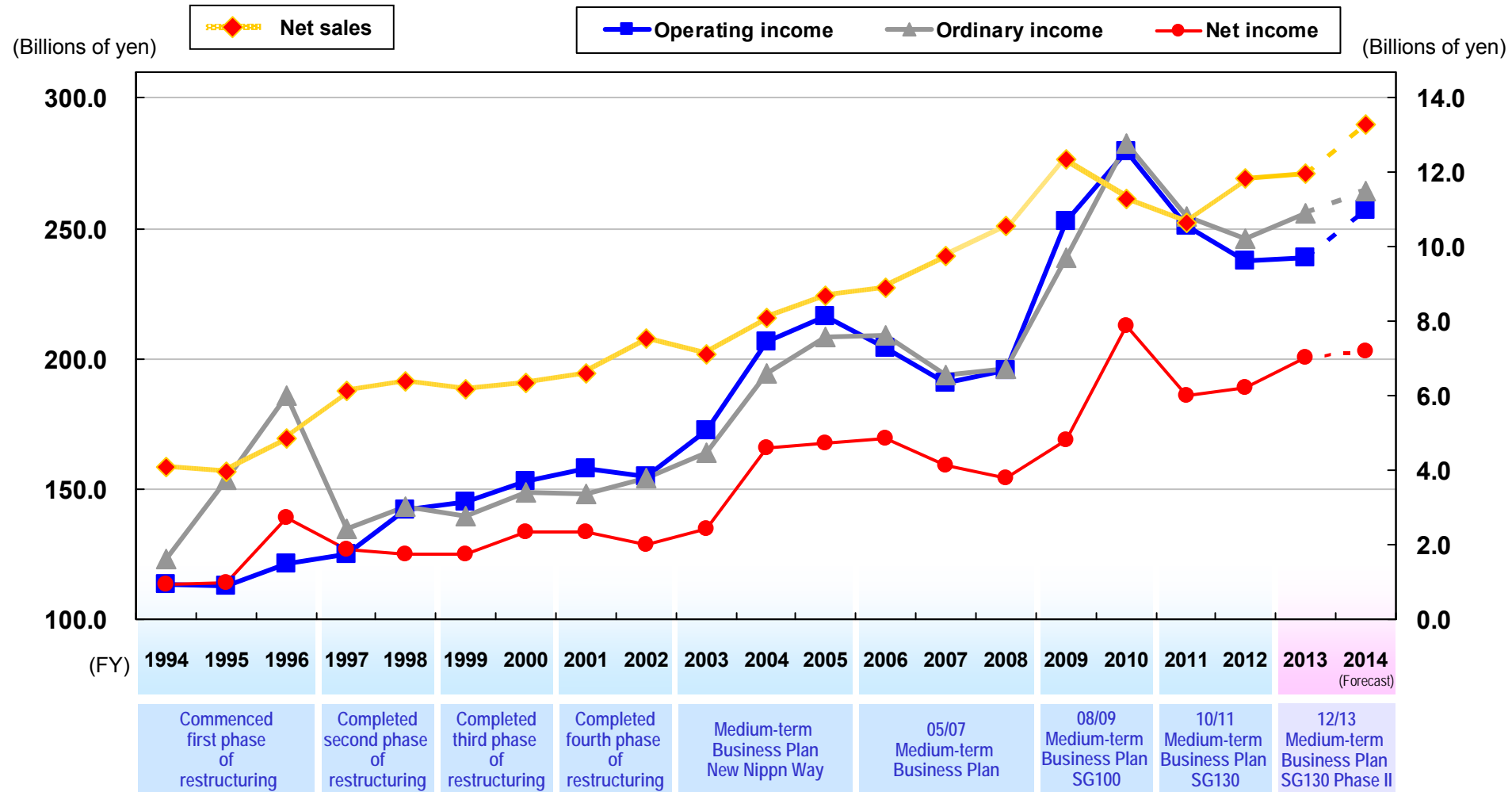


Delicatessen





# Sustainable Growth Trajectory



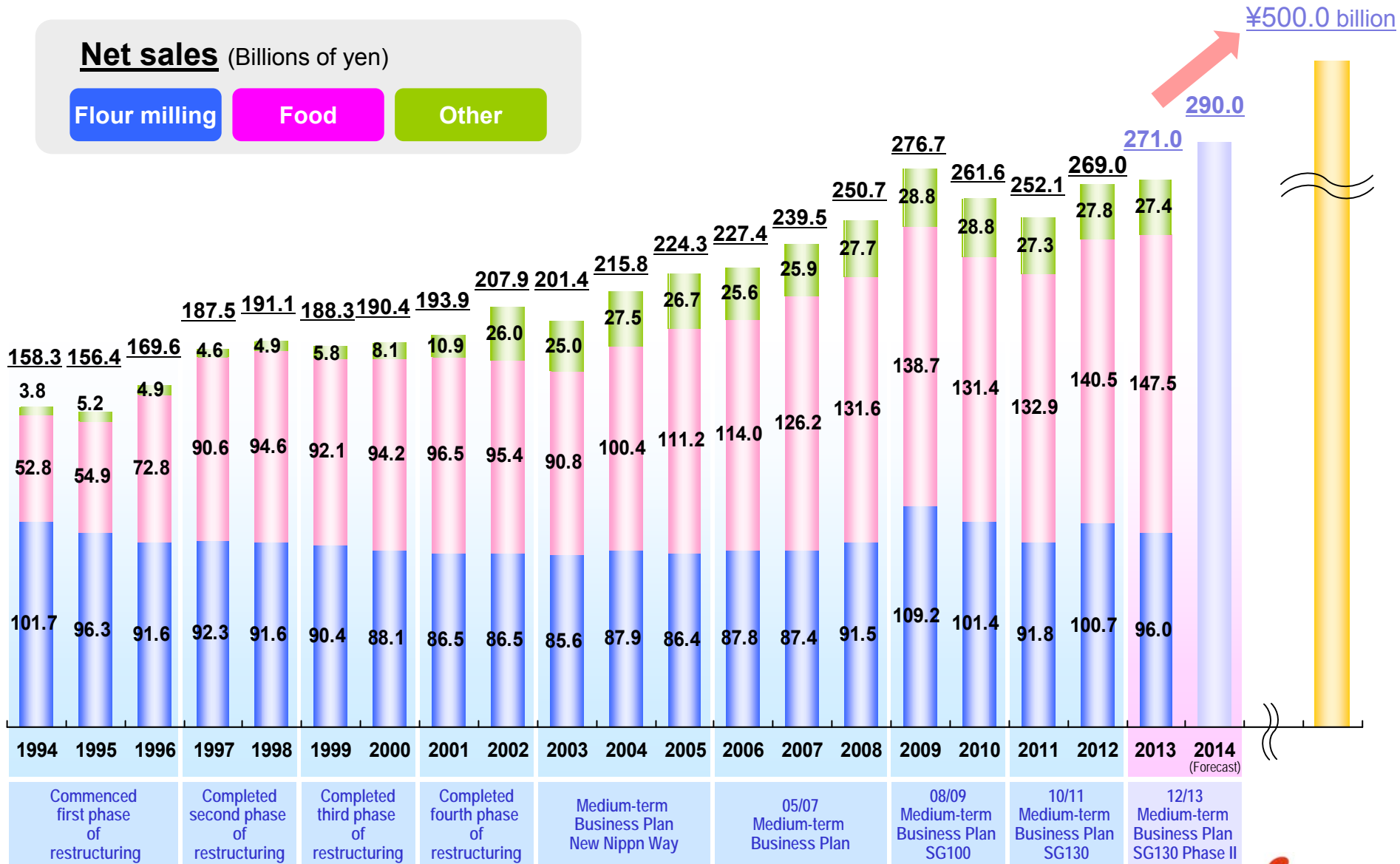
# Growth Trajectory and Future Direction (1)

**Net sales** (Billions of yen)

Flour milling

Food

Other



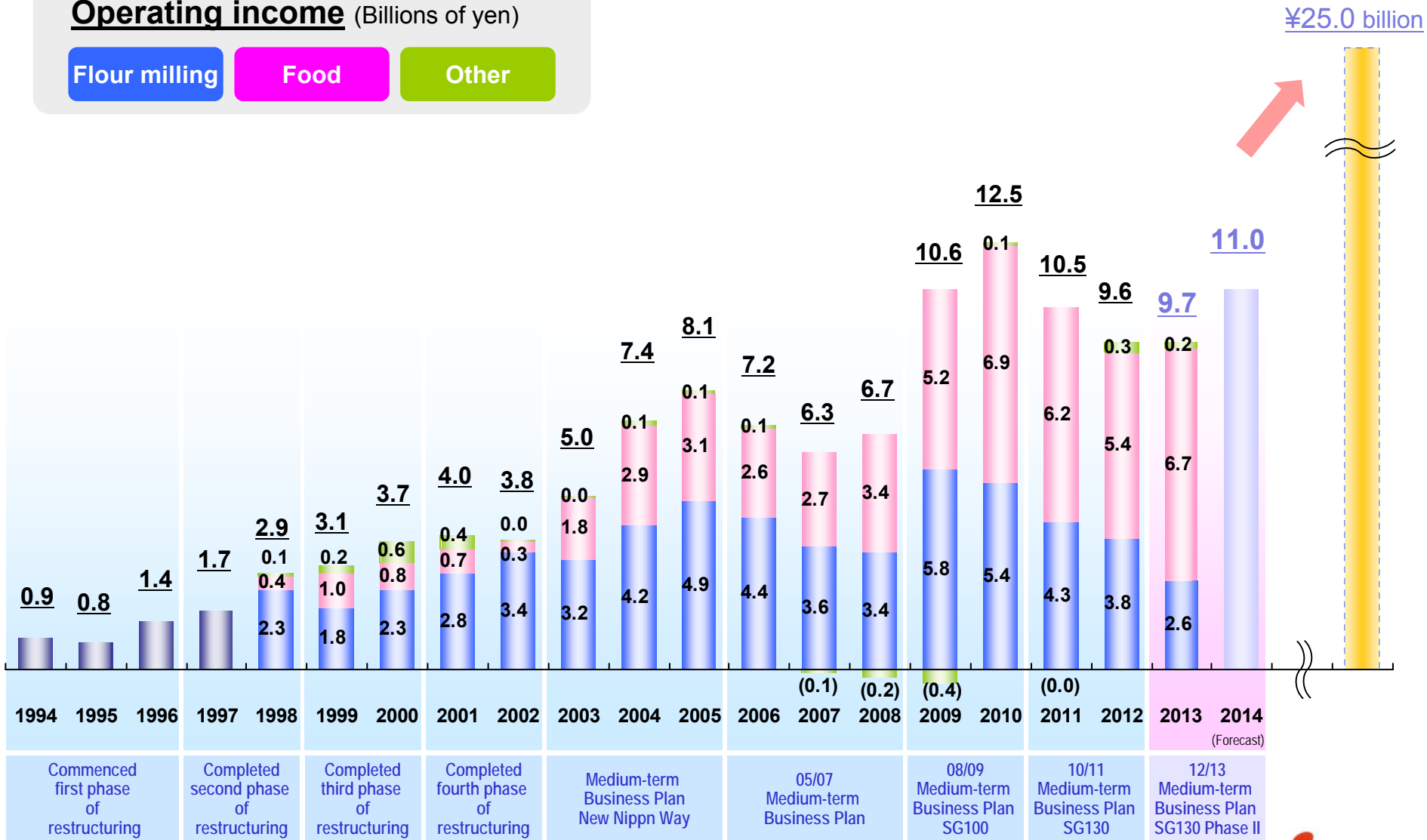
# Growth Trajectory and Future Direction (2)

**Operating income** (Billions of yen)

Flour milling

Food

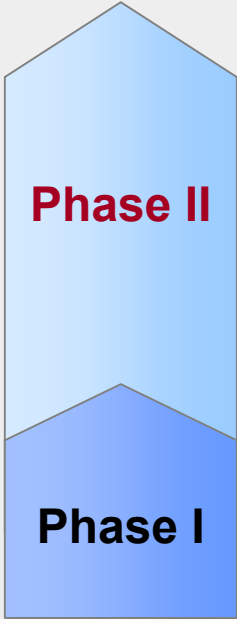
Other



# Growth Direction

**Long-term vision  
(consolidated basis)**  
 Net sales: ¥500 billion  
 Operating income: ¥25 billion

**FY2014 (final year)  
Numerical targets  
(consolidated basis)**  
 Net sales: ¥290 billion  
 Operating income: ¥11 billion



**Phase II**

**FY2014**  
Accelerate the pace of sustainable growth  
Achieve numerical targets

**FY2013**  
A year in which to fully assess changes in the business environment  
Strengthen fundamental earnings power

**Phase I**

**FY2011 to FY2012**  
Build a foundation that is capable of strengthening fundamental earnings power

## Sustainable Growth



Domestic operating environment

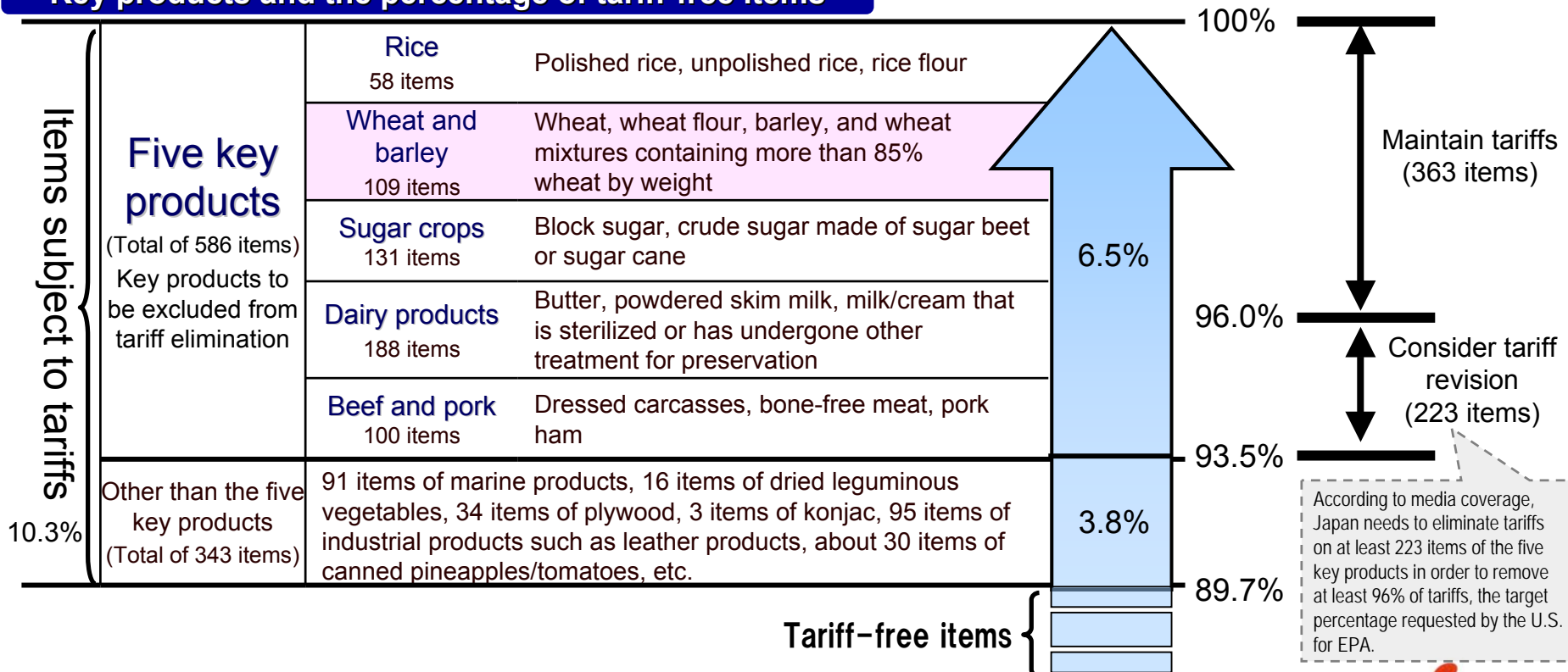
- Rising cost of imported resources
- Weak consumer spending
- Strong yen
- Deregulation
- TPP
- Power shortages
- Business tax cuts, consumption tax hike
- CO<sub>2</sub> reductions
- Aging society

# Trans-Pacific Partnership (TPP): Present Situation

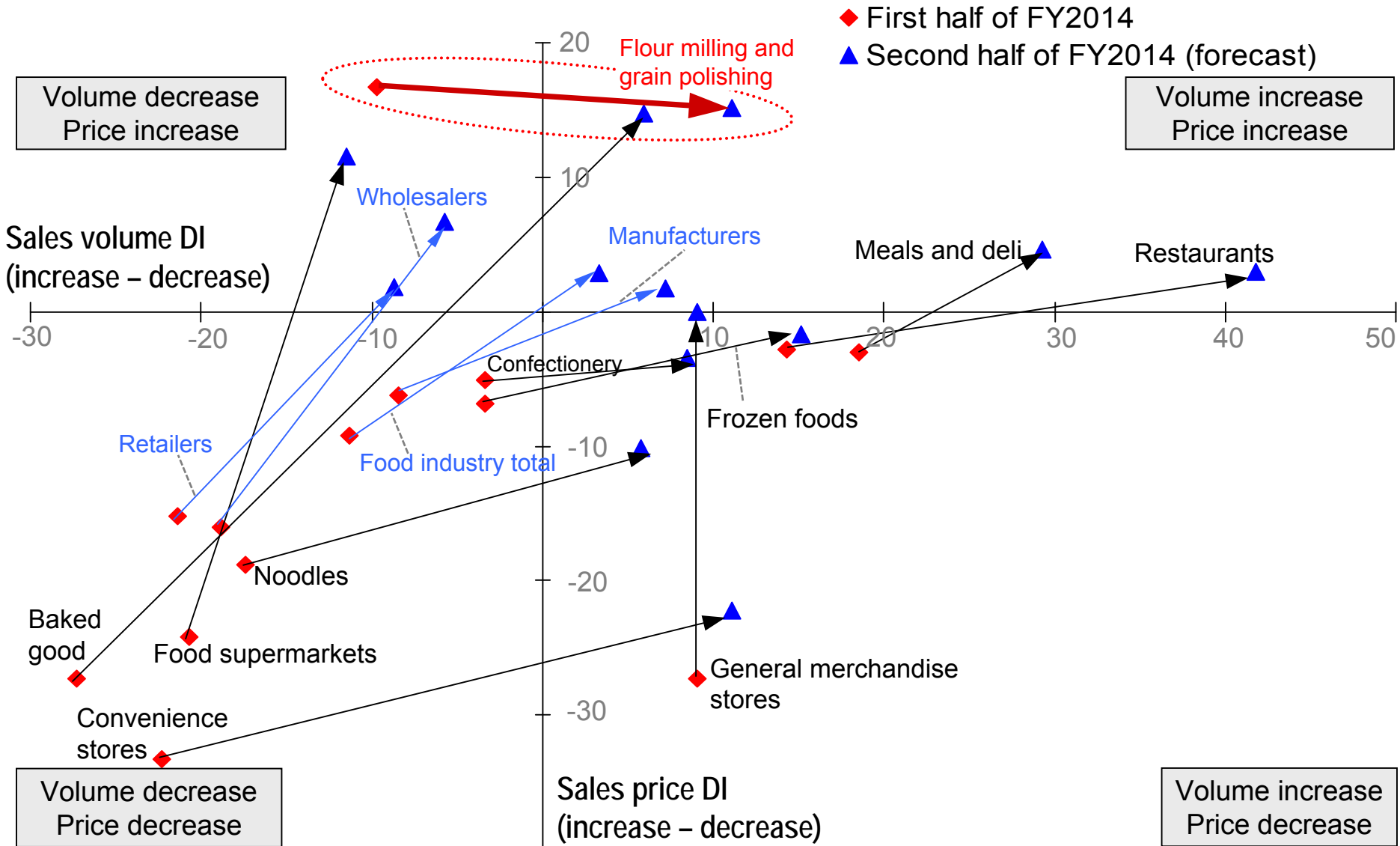
## TPP negotiations

- TPP negotiations in Bali, Indonesia, in October 2013 (Bali round)
- TPP Leaders Statement issued upon conclusion of the Bali round did not include any reference to a “political-level agreement,” although this was the Bali round’s target.
- Administrative-level negotiations on issues are ongoing and preparations are underway for a ministerial meeting in December 2013 with the objective of completing a comprehensive agreement.
- The Agriculture, Forestry and Fisheries Committees of the House of Councilors and the House of Representatives both adopted a resolution in April 2013, which states that Japan will withdraw from negotiations if exceptions of five key agricultural products from tariff eliminations are not allowed. However, Japan is requested by other TPP negotiating countries to eliminate tariffs on more items. The LDP has started discussing the possibility of eliminating some tariffs of the five key products (586 items).

## Key products and the percentage of tariff-free items



# Business Environment



Source: "Food Industry Trend Survey (July 2013),"  
Japan Finance Corporation

# Nippon Flour Mills Group Strengths

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# Nippon Flour Mills Group Strengths (1)

Quality  
(technical capabilities)



Offer the highest quality products both in Japan and overseas

Cost competitiveness



Kobe Konan Mill with high productivity

Vibrant people



Workplace improvement, training

Brand  
(wide-ranging product lineup)



Multiple brands gaining customer confidence

Customer satisfaction (CS)

Customer Centers      Technical Centers



Follow-up systems to enhance CS

High degree of transparency

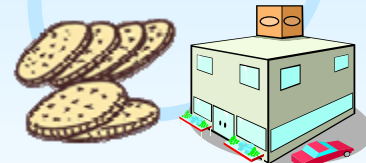
IR meeting      Website IR pages



Vigorous corporate information disclosure

Relationships with leading customers

Baked goods      Noodles

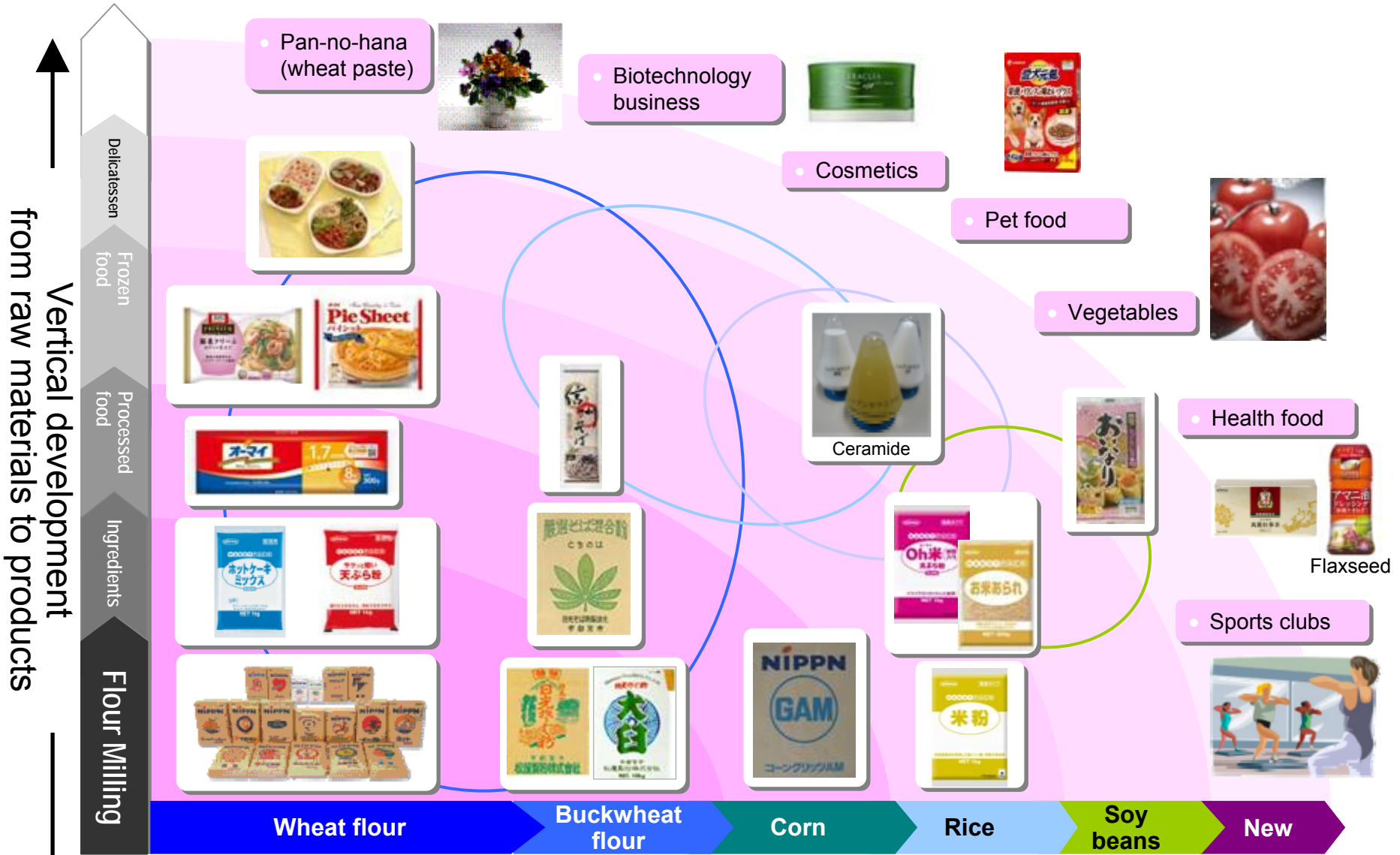


Confectionery      Volume retailers

Multifaceted global food enterprise



# Nippon Flour Mills Group Strengths (2)



Horizontal development of technologies to utilize ingredients



# Nippon Flour Mills Group Strengths (3)

Abundant lineup and high technical capabilities

## Wheat flour

- Japan's first company employing flour milling machinery
- High technical capabilities backed by a long history



## Buckwheat flour



- Comprehensive manufacturing system covering all buckwheat flour products from buckwheat flour to buckwheat flour mixtures

## Comprehensive manufacturer of cereal products

## Corn



- Only corn products manufacturer among major flour milling companies

## Rice flour



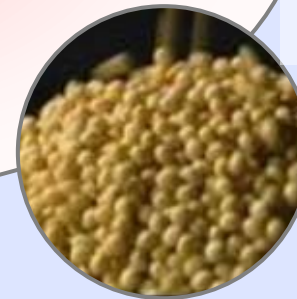
- Applications widening to baked goods, noodles, and western-style confectionery, as well as to Japanese-style confectionery such as "dango"

## Tomato



- Cultivation of "Manaka," the Company's original brand tomato, based on contracts as an ingredient of tomato ketchup

## Soy bean



- Focus on wider possibilities of soybeans besides traditional fried tofu

# Nippon Flour Mills Group Comprehensive Services

**NIPPN**

Flour milling segment, food segment, other segment (health food, engineering, etc.)



Processed food business



Frozen food business



Delicatessen business



Processed food business (soy bean)



Tomato business

**Nippon Flour Mills Group offers comprehensive food-related services by leveraging its multifaceted capabilities.**

**NIPPN**

- Group companies:  
57 subsidiaries and 25 affiliates  
Of which, 38 consolidated subsidiaries and 15 affiliates accounted for by the equity method
- Number of employees:  
Nippon Flour Mills Co., Ltd.: 1,125  
Nippon Flour Mills Group: 3,471  
(As of September 30, 2013)



Junco flora school

Cultural business



Sports business



Biotechnology business



Wholesale business



Food services business (franchisees)

**NIPPN**

# Nippon Flour Mills Group Growth Strategy

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# Flour Milling Business Low Cost Operation Strategy (1)

## Kobe-Konan Mill production line

All processed from flour milling to production of premixes in small-quantity packages completed at a single mill

Wheat discharged from ship to silo  
Wheat storage

Milling

Small packaging, pre-mixture

Shipping

Small packaging, pre-mixture plant

Raw materials silo

Milling plant

Wheat discharged from ship to silo  
Wheat storage



# Flour Milling Business Low Cost Operation Strategy (2)

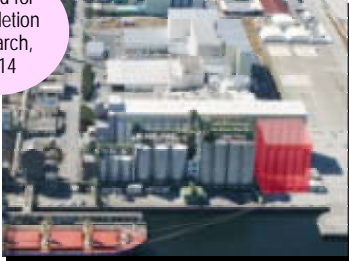
## Upgrade and expand own raw material wheat silos

- Increase storage capacity for raw material wheat (current capacity of 200,000 tons to 300,000 tons, an increase of 50%)
- Approximate investment of ¥10 billion
- Chiba, Kobe-Konan (stage 2 construction), Fukuoka, and Chita Mills



Raw material wheat silos

Slated for completion in March, 2014



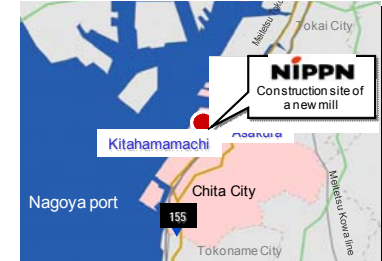
Chiba Mill



Kobe-Konan Mill

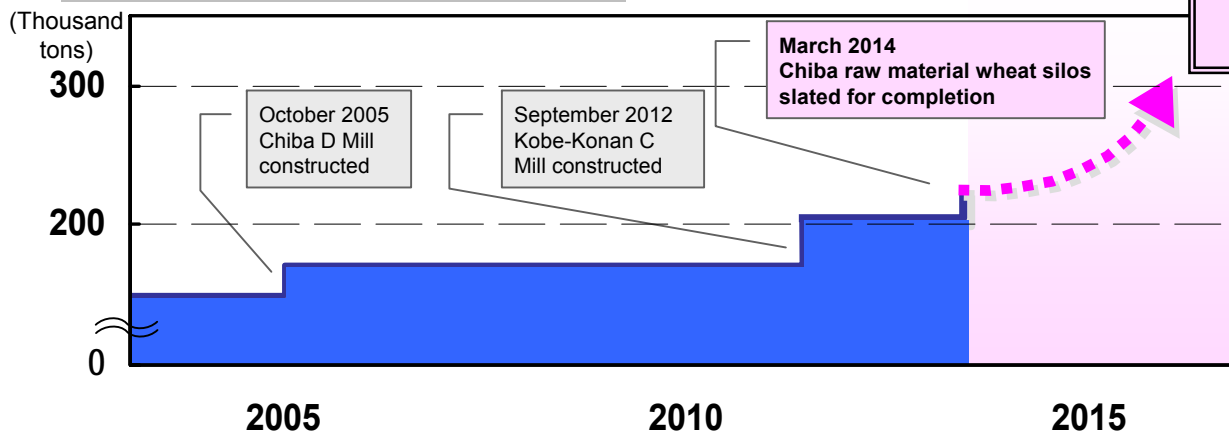


Fukuoka Mill



Chita Mill

### Storage capacity at our silos



Storage capacity set to increase by 100,000 tons by FY2016 (Chiba, Kobe, Fukuoka, Chita)

Benefits of building our own silos include storage fee income, suction fee income and reduction in raw material pick-up costs



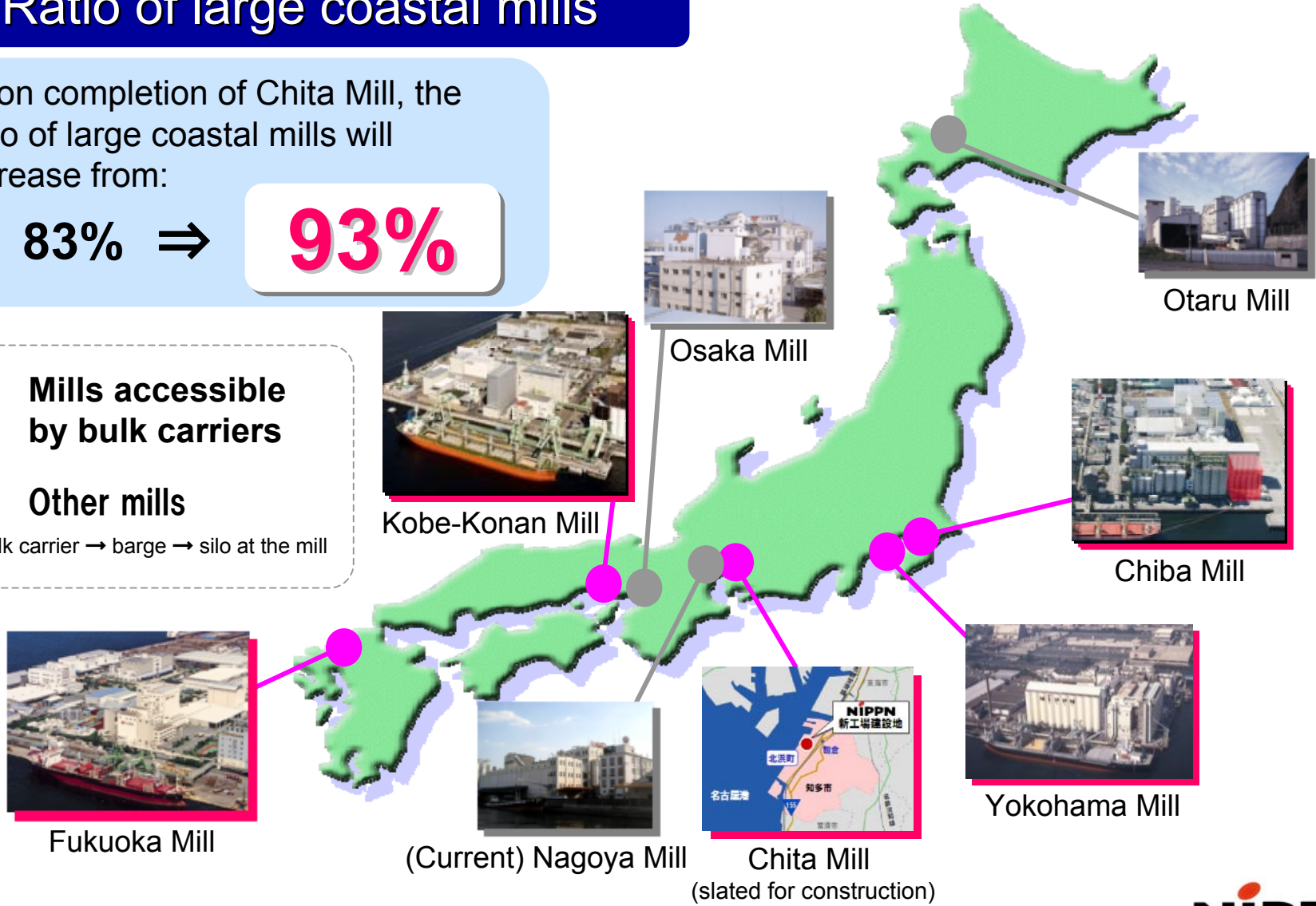
# Flour Milling Business Low Cost Operation Strategy (3)

## Ratio of large coastal mills

Upon completion of Chita Mill, the ratio of large coastal mills will increase from:

83% ⇒ **93%**

● : Mills accessible by bulk carriers  
 ● : Other mills  
 E.g.: Bulk carrier → barge → silo at the mill



# Flour Milling Business Sales Strategy

Increase market share by establishing a sales system corresponding to the market



Grasping of market needs

National sales strategy

Major customers with nationwide presence

Bakeries

Proposing new products



Noodles

Proposing improvement of price-quality relation



Convenience stores

Collaboration with the delicatessen business



Regional sales strategy

Wholesalers

Strengthening of development



Major customers with regional presence

Narrowing the target and proposing new products

Sales strategy for emerging markets





# Business Strategy in Food Segment

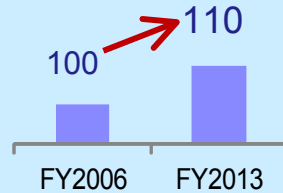
( FY2013 sales indexed to FY2006 )

## <Performance>

## <Outlook>



Food ingredients

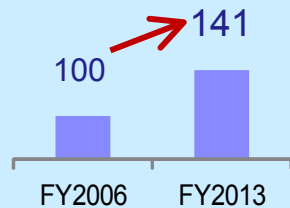


- Handy Pack Series a hit product
- Higher sales to major users (bread makers, delicatessens, restaurants etc.)
- Growth in sales of mixes containing rice flour, seasonings etc.
- Sales growth overseas

- New products and sales promotion ideas tailored to each user business format
- Develop new functional products
- Source good quality, reasonably priced food ingredients



Processed foods

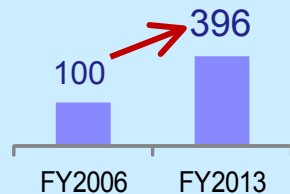


- Increase in sales to volume retailers and delicatessens
- Integrated product development bringing together development, processing research and marketing teams
- Unique hit products (Japanese deep-fried chicken mix requiring minimal frying oil, Kin-no Pasta, flaxseed, Barilla etc.)
- Entry into the soy food market

- Roll out sales campaigns aimed at consumers
- Propose menu ideas to volume retailers and restaurants
- Develop PB and 100 yen products
- Develop new products that are functional and environmentally friendly



Home-use frozen foods

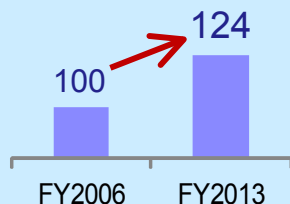


- Oh'my Premium Frozen Spaghetti Dishes hit products
- Cod roe spaghetti for boxed meals , Korean pancakes etc. hit products
- Development and higher sales of own-brand products for volume retailers

- Develop and propose new products
- Boost sales to wholesalers and volume retailers
- Expand sales channels to include home delivery and online shopping



Delicatessen



- Restructuring of production sites and related growth in orders
- Sales growth driven by new menu ideas

- Raise productivity
- Anticipate consumer trends
- Propose menu ideas based on unique ingredients
- Secure high-quality workers

# Topics in Food Segment

## 10th anniversary of Oh'my Premium series

Oh'my Premium series celebrated its 10th anniversary. The lineup comprises 18 dishes. Count on ever-evolving Oh'my Premium series.



Convenient paper tray

Selection of pasta suited to the sauce



Authentic flavor simply by heating in a microwave oven

Easy-to-open tray

FSC-certified paper used for the tray

## Non-commoditizing of commodity products

### Oh'my Spaghetti



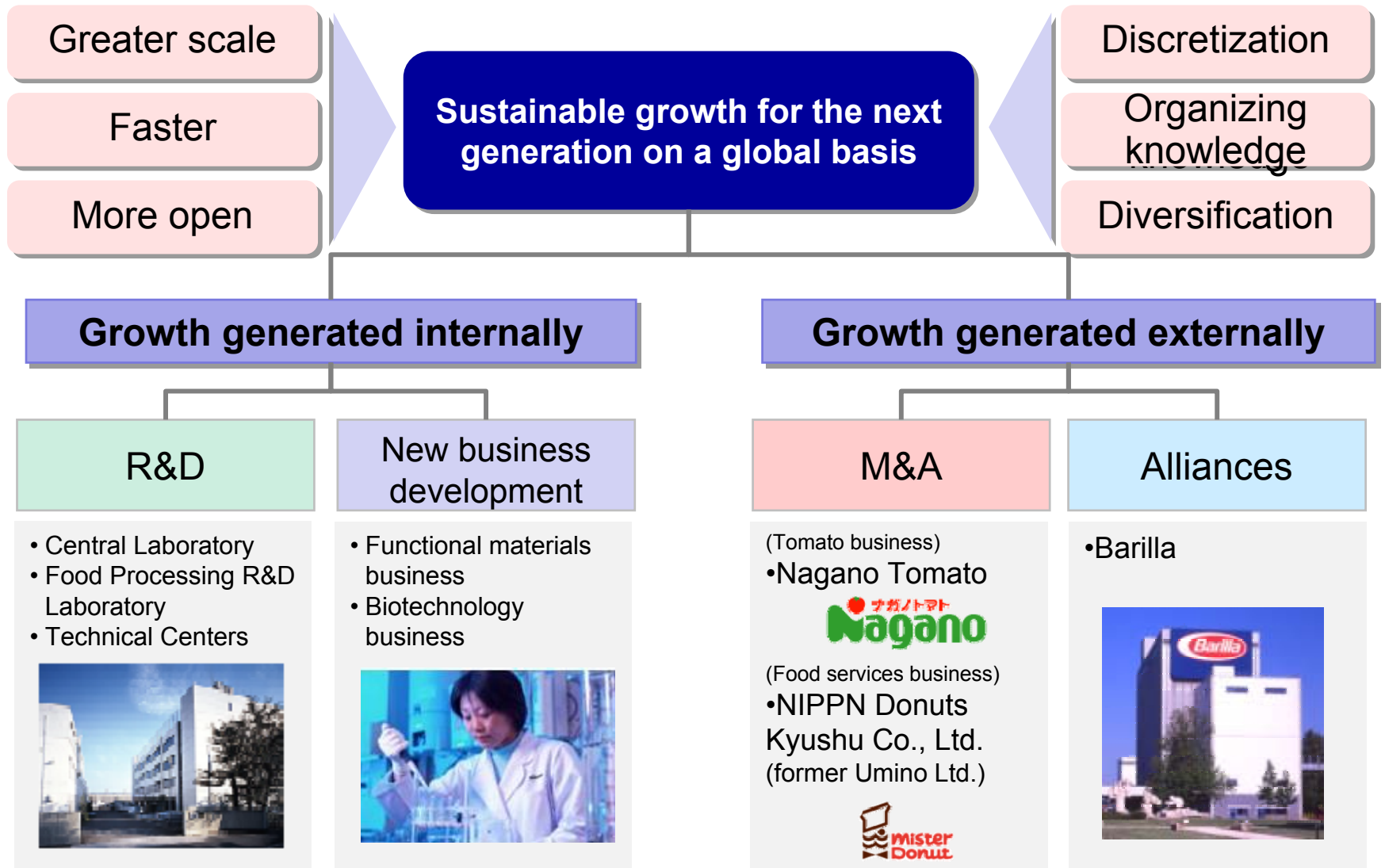
### Rakuten Eagles Spaghetti



- Collaboration with a professional baseball team
- Extension of the sales period because the team became the league champion
- Contribution to vitalization of the region

# Review the Business Structure and Business Portfolio (1)

(Source: The Japan Industrial Management & Accounting Institute)



# Review the Business Structure and Business Portfolio (2)

## Nagano Tomato Co., Ltd.

Entry to new business field

**Acquired 51% of the equity and made Nagano Tomato a consolidated subsidiary**

- Diversification of the food business field
- Cost reduction through joint procurement of ingredients and materials
- Utilization of know-how on seasoning and flavoring

Business	Production and sales of products made of tomatoes, mushrooms, etc.
Capital stock	100 million yen
Address	Murai-machi, Matsumoto-shi, Nagano Prefecture
Operating results and financial position (*)	Net sales: 4,272 million yen Total assets: 3,480 million yen (*) FY ended in December 2012
Date of share acquisition	October 1, 2013

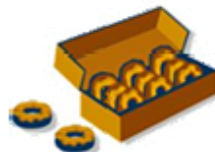


## NIPPN Donuts Kyushu (former Umino Ltd.)

Reinforcement of an existing business

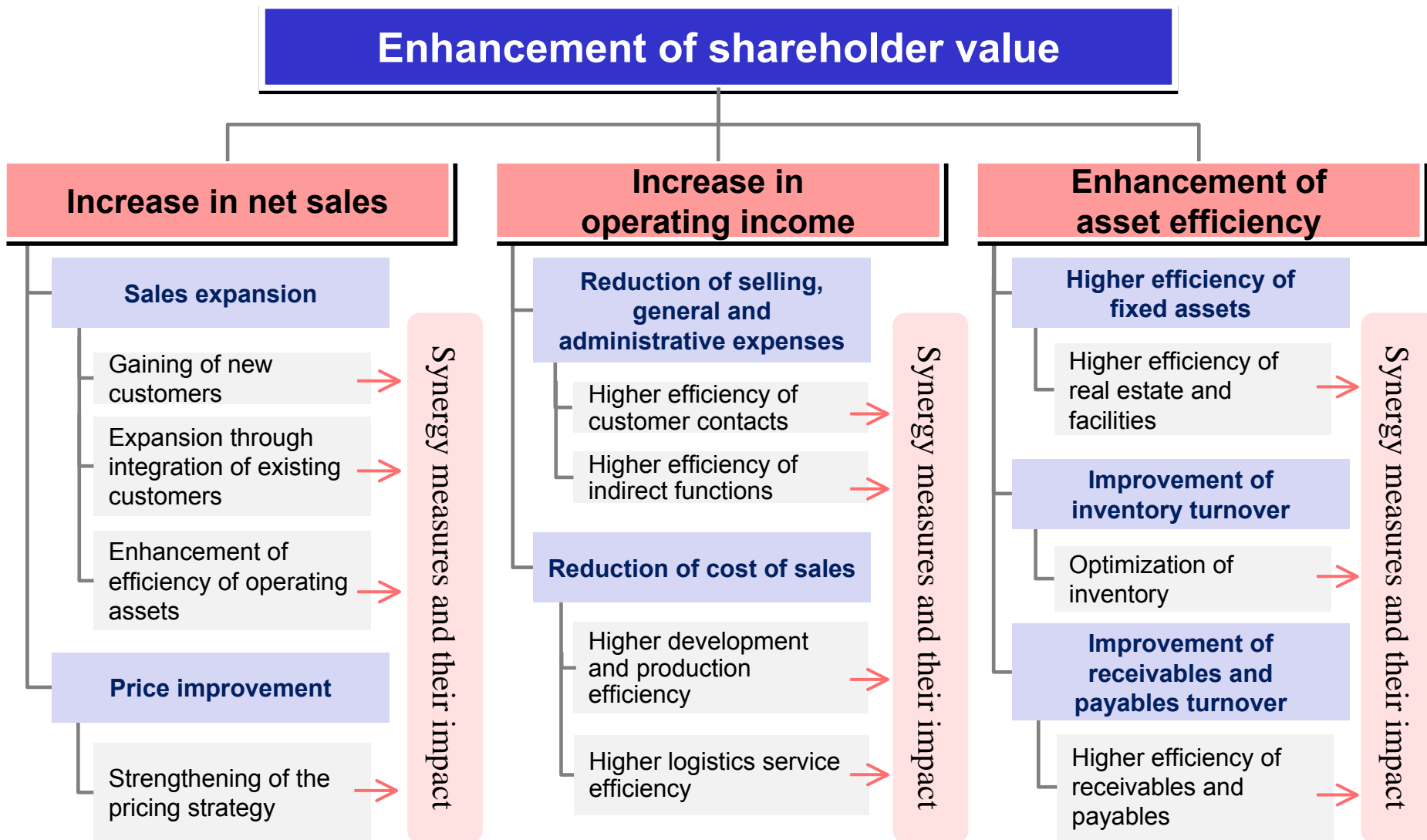
**NIPPN Doughnuts Holdings Co., Ltd. acquired all Umino shares**

- Management of franchisees in Kyushu
- Expansion of the food services business



Business	Operation of donuts outlets in Kyushu
Capital stock	5 million yen
Operating results and financial position (*)	Net sales: 1,129 million yen Total assets: 578 million yen (*)FY ended in January 2013
Date of share acquisition	October 31, 2013

# Review the Business Structure and Business Portfolio (3) Benefits of M&A



(Source: Deloitte Touche Tohmatsu)

# Overseas Business

## Asia – Thailand and China –

Tianjin Chuan Shun Foods., Ltd.

- Manufacture and sale of premix products

Tianjin

Nippon Flour Mills (Shanghai) Co., Ltd.

- Manufacture and sale of premix products
- Acquired FSSC22000 certification



Shanghai

**NIPPN (Thailand) Co., Ltd.**

Bangkok

- Manufacture and sale of premix products
- Acquired HACCP, HALAL, and other certifications
- Expansion of sales channels in Thailand and adjacent countries



**Nippon Flour Mills (Thailand) Ltd.**

## U.S.

**Pasta Montana, L.L.C.**

- Manufacture and sale of pasta products
- Export to Japan



Montana

California

**NIPPN California Inc.**

Sales of foods and food ingredients in the North American market



# Summary of the Growth Strategy

## Vision

- Group with net sales of ¥500 billion and operating income of ¥25 billion
- Multifaceted global food enterprise with presence

Enhancement of corporate value over the medium to long term

High profit

High efficiency

Low-cost

## Growth Strategy

Product differentiation

Expansion, growth, and evolution of the existing businesses

Cash flow maximization

# Financial Strategies and Return to Shareholders

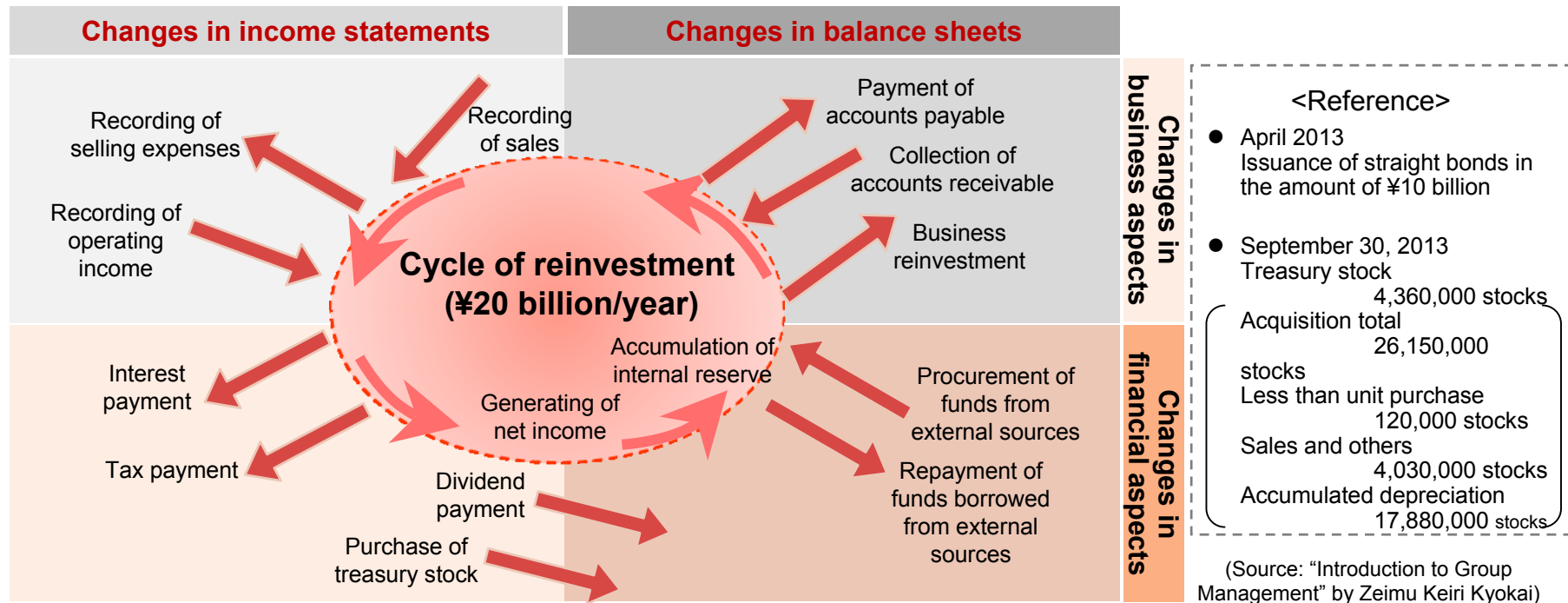
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# Steps to Strengthen the Group's Financial Position

## Basic policies

- Optimally allocate stable CF from operations through sustainable growth by strategic investment
- Realize the optimum capital structure by enhancing asset efficiency to maintain/improve the rating
- Establish the financial condition capable of continually returning profit to shareholders (including acquisition of treasury stock)



Target key performance indicators

Operating income ratio  
5%

ROE  
8%

ROA  
4%

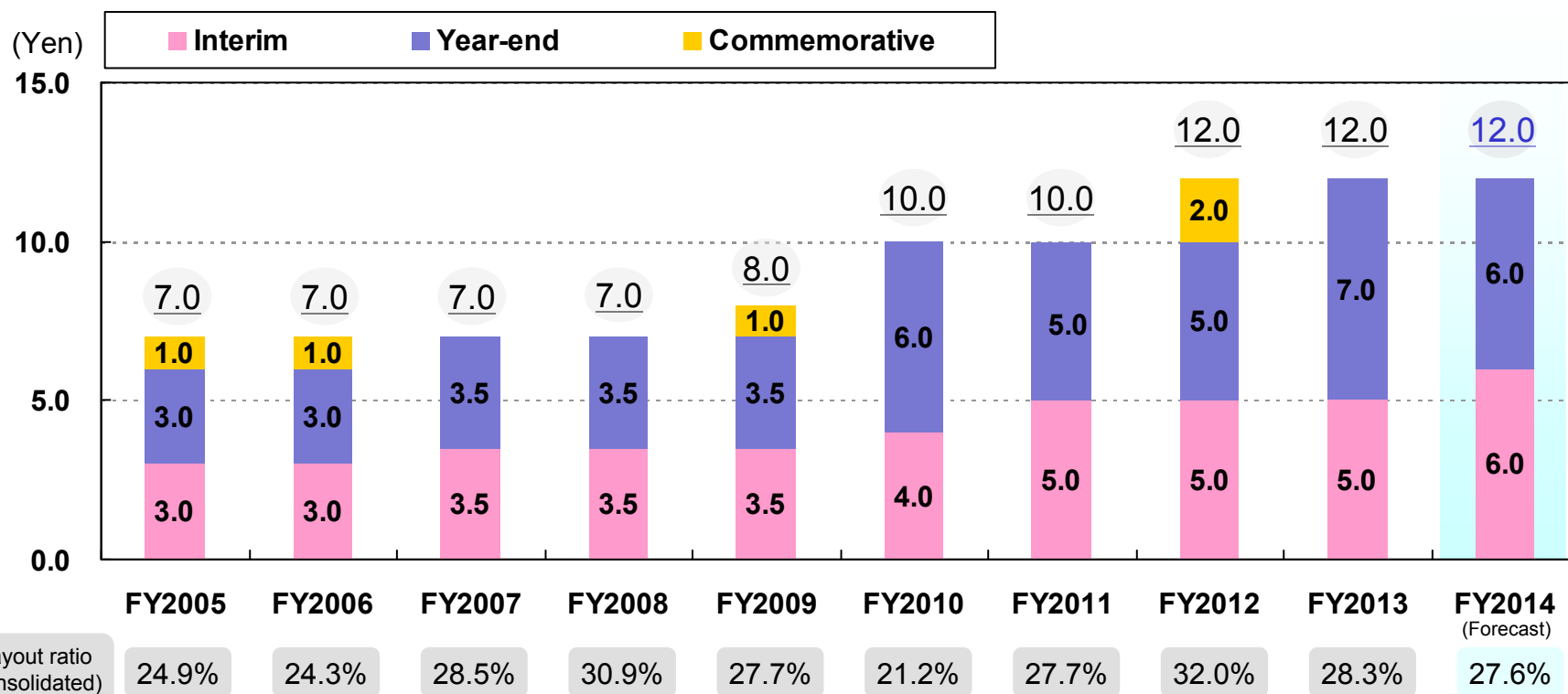
Optimal leverage  
Around 50%

Consolidated payout ratio  
Around 30%

# Returning Profits to Shareholders

- NIPPN maintains a prudent approach toward its internal reserves taking into consideration the need to strengthen its corporate structure, prepare for future business development, and respond to changes in its operating environment.
- Every effort is made to ensure the stable and continuous payment of dividends.
- The payment of dividends is based on a thoroughgoing assessment of NIPPN consolidated performance and financial position.

## Trends in dividends per share





Overview of First Half of Fiscal Year ending March 31, 2014  
(FY2014) Business Results and FY2014 Future Forecasts

November 13, 2013

# 1H FY2014 Consolidated Business Results Highlights

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- ① **Promotion of low-cost operations**
- ② **The flour milling business and the food business both recorded higher sales**
- ③ **Profits increased because:**
  - **Sales volumes increased in the flour milling business and the food business;**
  - **Price of a by-product remained robust in the flour milling business;**
  - **Reinforcement of group management, including the overseas business, progressed smoothly.**

# Consolidated Statements of Income

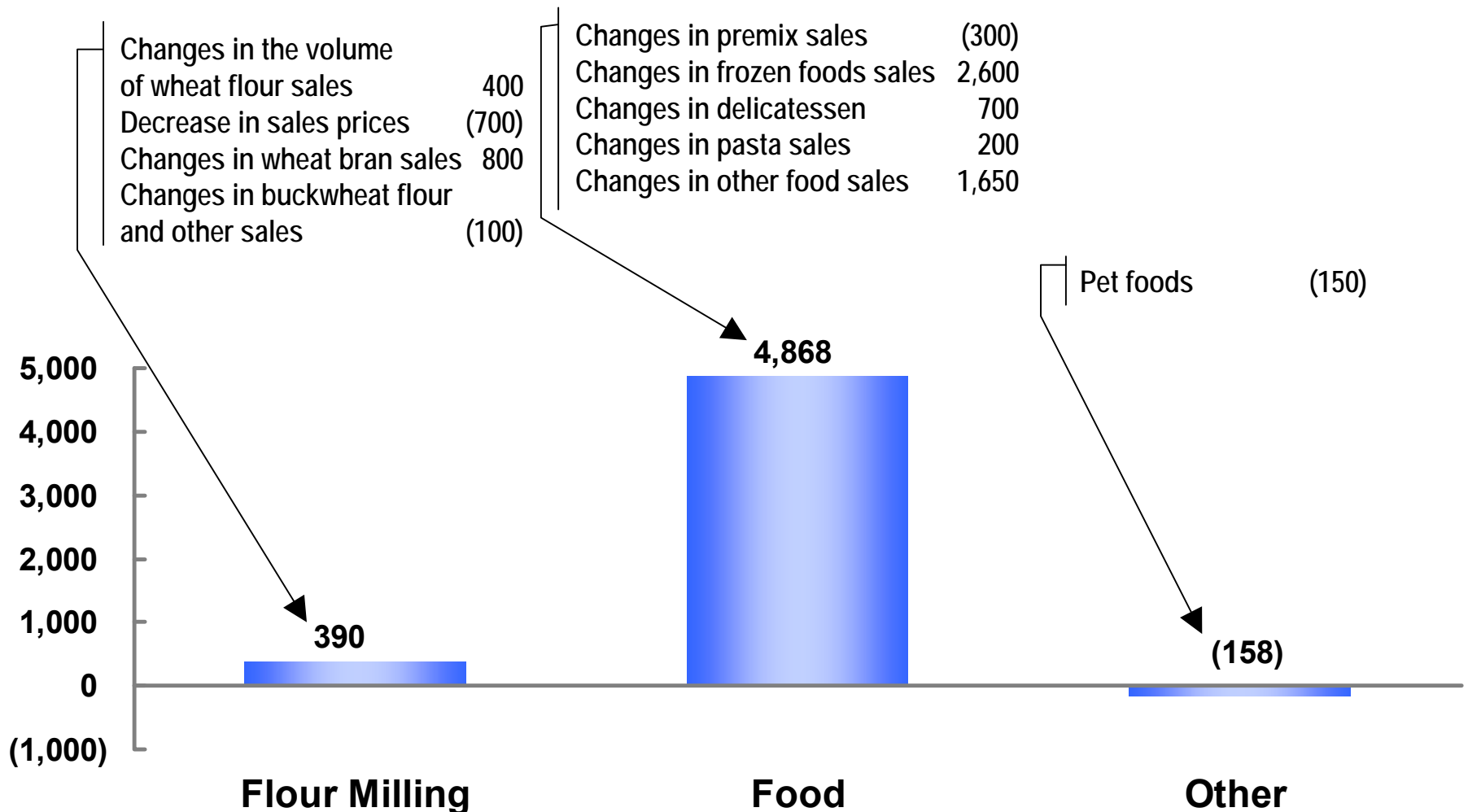
(Millions of yen)

		1H FY2013		1H FY2014		YoY	
		(2012.4~9)	Vs. net sales	(2013.4~9)	Vs. net sales	Change	Change
Net sales	Flour Milling	48,629	36.0%	49,020	34.9%	390	0.8%
	Food	72,985	54.0%	77,853	55.5%	4,868	6.7%
	Other	13,596	10.0%	13,438	9.6%	(158)	(1.2)%
	Total	135,211	100.0%	140,312	100.0%	5,100	3.8%
Operating income	Flour Milling	1,117	2.3%	2,177	4.4%	1,059	94.8%
	Food	2,858	3.9%	2,996	3.8%	137	4.8%
	Other	56	0.4%	66	0.5%	10	18.6%
	Total	4,032	3.0%	5,241	3.7%	1,208	30.0%
Ordinary income		4,555	3.4%	5,992	4.3%	1,437	31.5%
Net income		2,586	1.9%	3,848	2.7%	1,262	48.8%
ROE		2.5%		3.4%		0.9p	
EPS		¥15.64		¥23.27		¥7.63	

# Analysis of Factors for Changes in Net Sales

## ◆ Factors for changes in net sales (overall increase of ¥5,100 million)

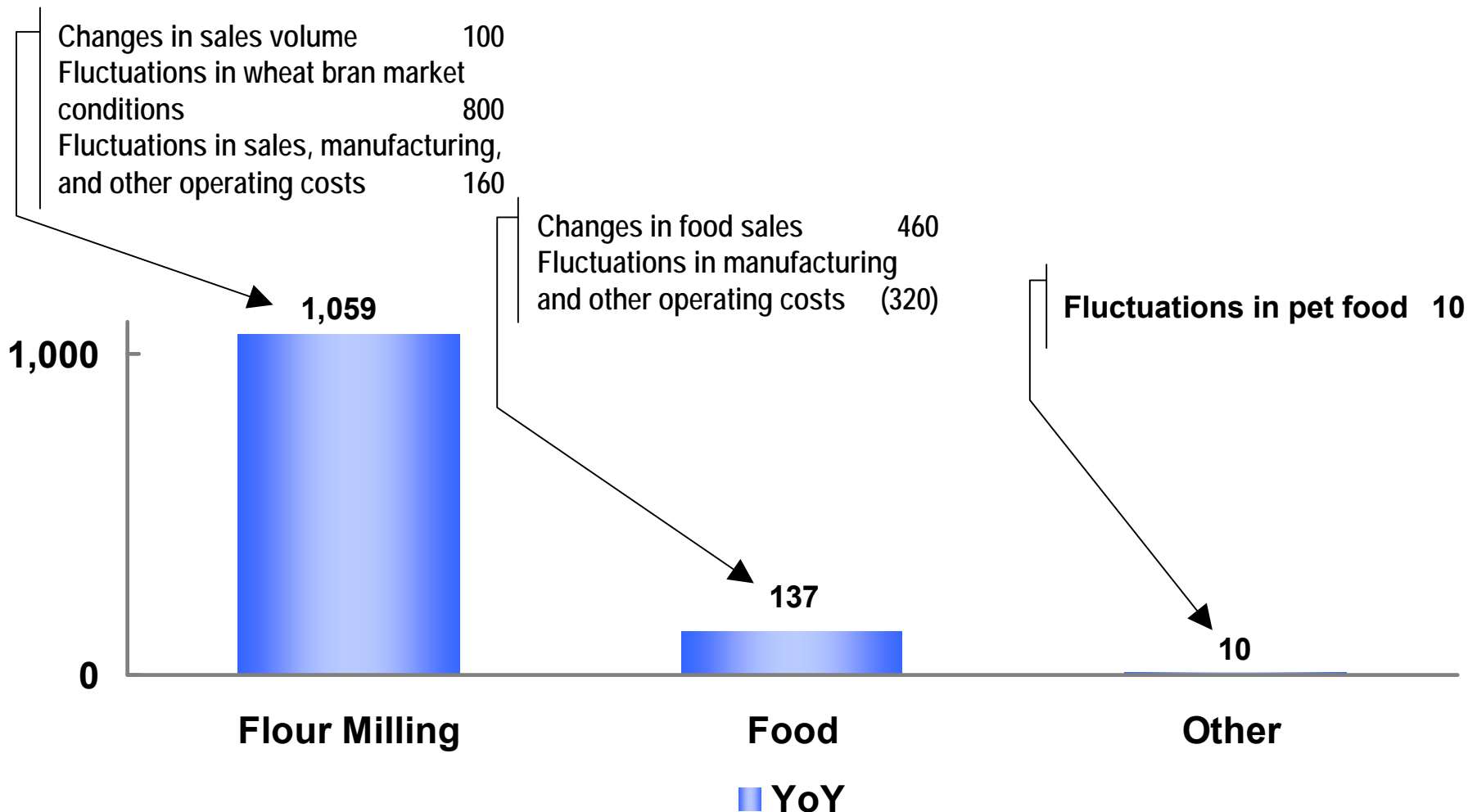
(Millions of yen)



# Analysis of Factors for Changes in Operating Income

## ◆ Factors for changes in operating income (overall increase of ¥1,208 million)

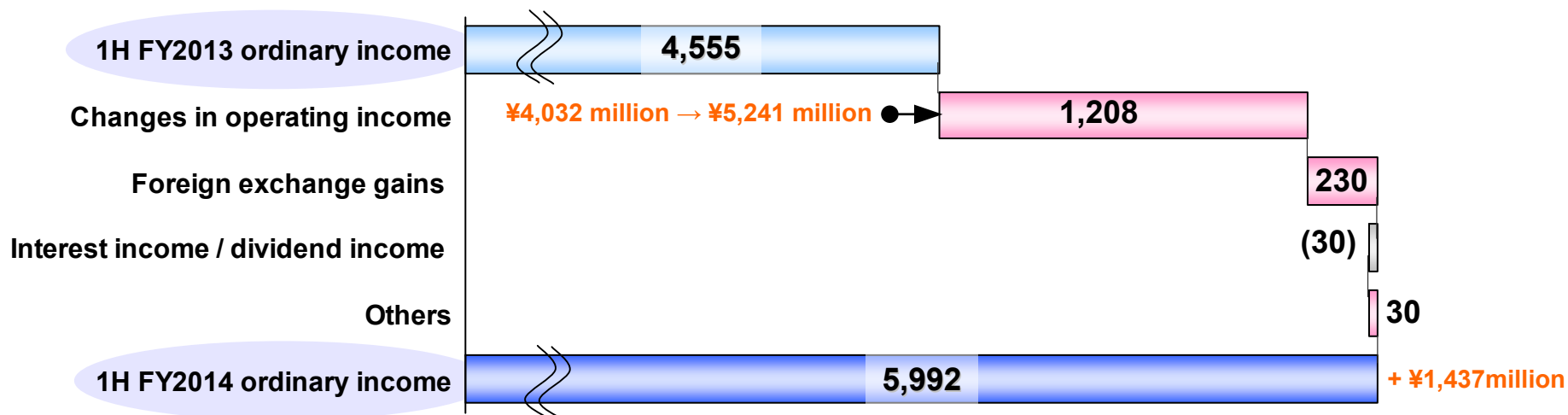
(Millions of yen)



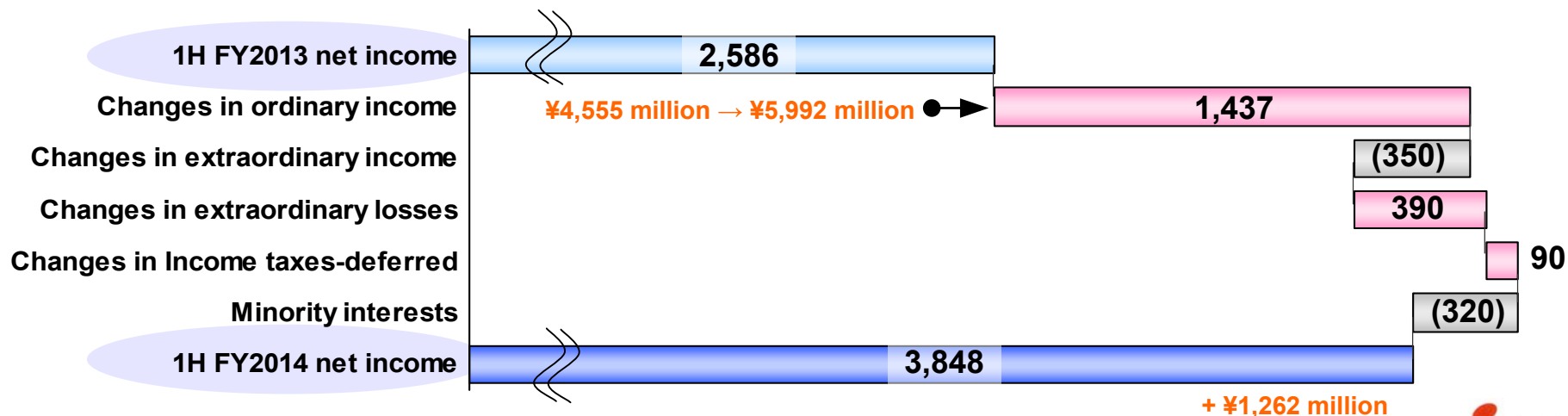
# Analysis of Factors for Changes in Ordinary Income/ Net Income

## ◆Factors for changes in ordinary income

(Millions of yen)



## ◆Factors for changes in net income





# Consolidated Balance Sheets (Assets)

(Millions of yen)

	FY2013		1H FY2014		Change		Factors for changes
	(As of Mar. 31, 2013)	Component ratio	(As of Sep. 30, 2013)	Component ratio			
Current assets	85,671	39.9%	97,350	42.2%	11,679	2.2p	
Tangible assets	78,390	36.5%	78,833	34.1%	442	(2.4)p	
Intangible assets	1,453	0.7%	1,371	0.6%	(81)	(0.1)p	
Investments and other assets	49,012	22.9%	53,385	23.1%	4,373	0.3p	Valuation of investment securities
Fixed assets	128,857	60.1%	133,591	57.8%	4,733	(2.2)p	
Total assets	214,528	100.0%	230,941	100.0%	16,413	-	

# Consolidated Balance Sheets (Liabilities and Net Assets)

(Millions of yen)

		FY2013		1H FY2014		Change		Factors for changes
		(As of Mar. 31, 2013)	Component ratio	(As of Sep. 30, 2013)	Component ratio			
Current liabilities		73,741	34.4%	68,626	29.7%	(5,114)	(4.7)p	
Long-term liabilities		27,523	12.8%	41,969	18.2%	14,446	5.4p	Issuance of bonds
Total liabilities		101,265	47.2%	110,596	47.9%	9,331	0.7p	
Shareholders' equity	Common stock	12,240	5.7%	12,240	5.3%	-	(0.4)p	
	Additional capital surplus	10,666	4.9%	10,666	4.6%	0	(0.3)p	
	Retained earnings	77,875	36.3%	80,552	34.9%	2,677	(1.4)p	
	Treasury stock, at cost	(1,577)	(0.7)%	(1,577)	(0.7)%	(0)	-	
Accumulated other comprehensive income		12,207	5.7%	15,203	6.6%	2,995	0.9p	Valuation difference on available-for-sale securities
Minority interests		1,851	0.9%	3,260	1.4%	1,409	0.5p	
Total net assets		113,263	52.8%	120,345	52.1%	7,081	(0.7)p	
Total liabilities and net assets		214,528	100.0%	230,941	100.0%	16,413	-	

# Consolidated Statements of Cash Flows

(Millions of yen)

	1H FY2013	1H FY2014	Change
Cash flows from operating activities	10,389	8,544	(1,844)
Cash flows from investing activities	(6,422)	(2,440)	3,981
Cash flows from financial activities	(3,967)	8,572	12,539
Effect of exchange rate changes on cash and cash equivalents	18	201	182
Increase (decrease) in cash and cash equivalents	18	14,877	14,859
Cash and cash equivalents at beginning of the year	9,848	10,000	151
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(60)	(60)
Cash and cash equivalents at end of the year	9,867	24,816	14,949

- Major factors contributing to changes in cash flows from operating activities = Decrease in notes and accounts payable-trade
- Major factors contributing to changes in cash flows from investing activities = Decrease of capital investment
- Major factors contributing to changes in cash flows from financial activities = Increase due to issuance of bonds

# FY2014 Forecasts

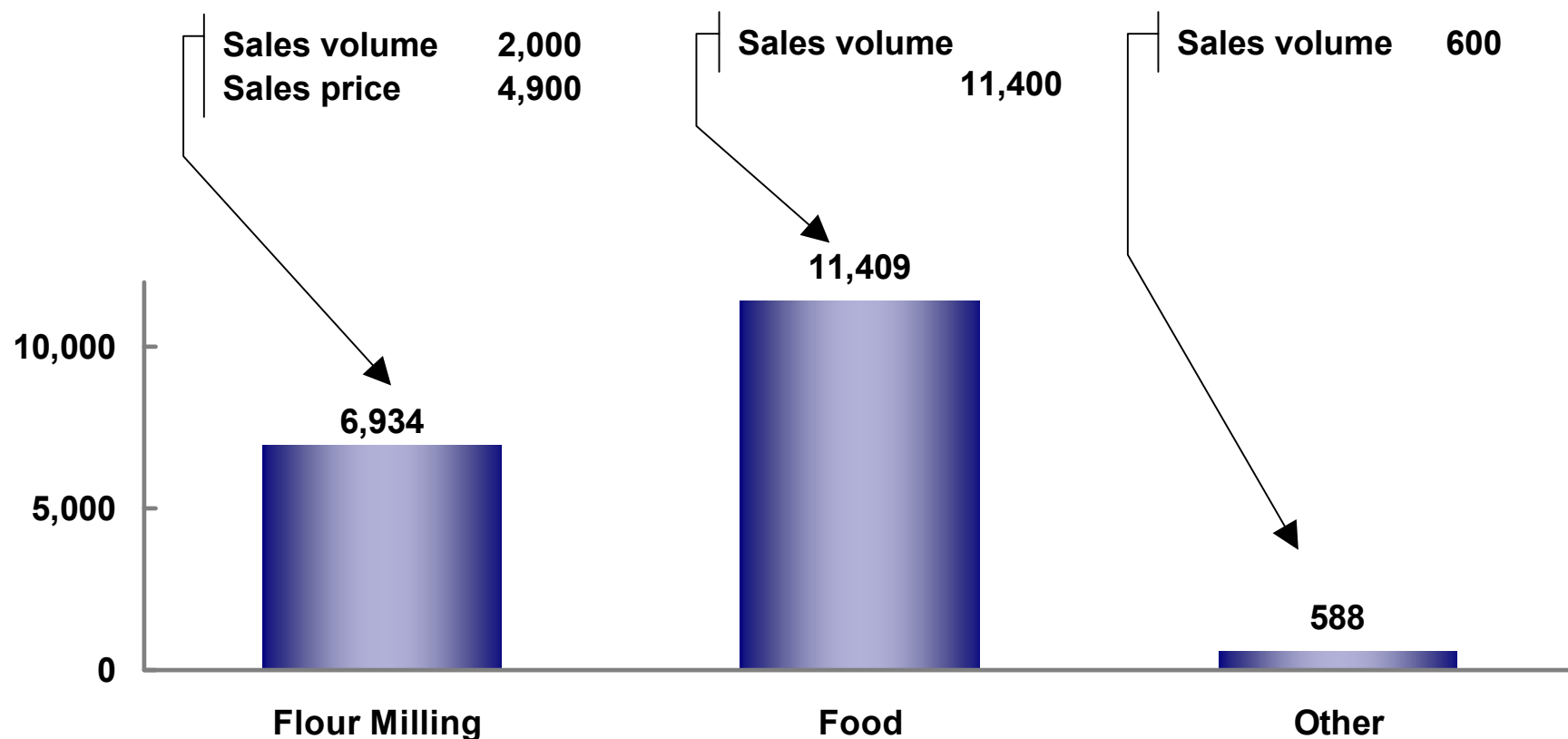
(Millions of yen)

		FY2013		FY2014 (Forecasts)		YoY	
		Result	Vs. net sales	Forecasts	Vs. net sales	Change	Change
Net sales	Flour Milling	96,066	35.4%	103,000	35.5%	6,934	7.2%
	Food	147,591	54.5%	159,000	54.8%	11,409	7.7%
	Other	27,412	10.1%	28,000	9.7%	588	2.1%
	Total	271,069	100.0%	290,000	100.0%	18,931	7.0%
Operating income	Flour Milling	2,662	2.8%	3,900	3.8%	1,238	46.5%
	Food	6,758	4.6%	6,800	4.3%	42	0.6%
	Others	293	1.1%	300	1.1%	7	2.4%
	Total	9,713	3.6%	11,000	3.8%	1,287	13.3%
Ordinary income		10,906	4.0%	11,500	4.0%	594	5.4%
Net income		7,008	2.6%	7,200	2.5%	192	2.7%
ROE		6.6%		6.1%		(0.5)p	
EPS		¥42.37		¥43.53		¥1.16	

# Analysis of Factors for Changes in Net Sales Forecasts

◆ Factors for changes in net sales forecasts  
(overall increase of ¥18,931 million)

(Millions of yen)

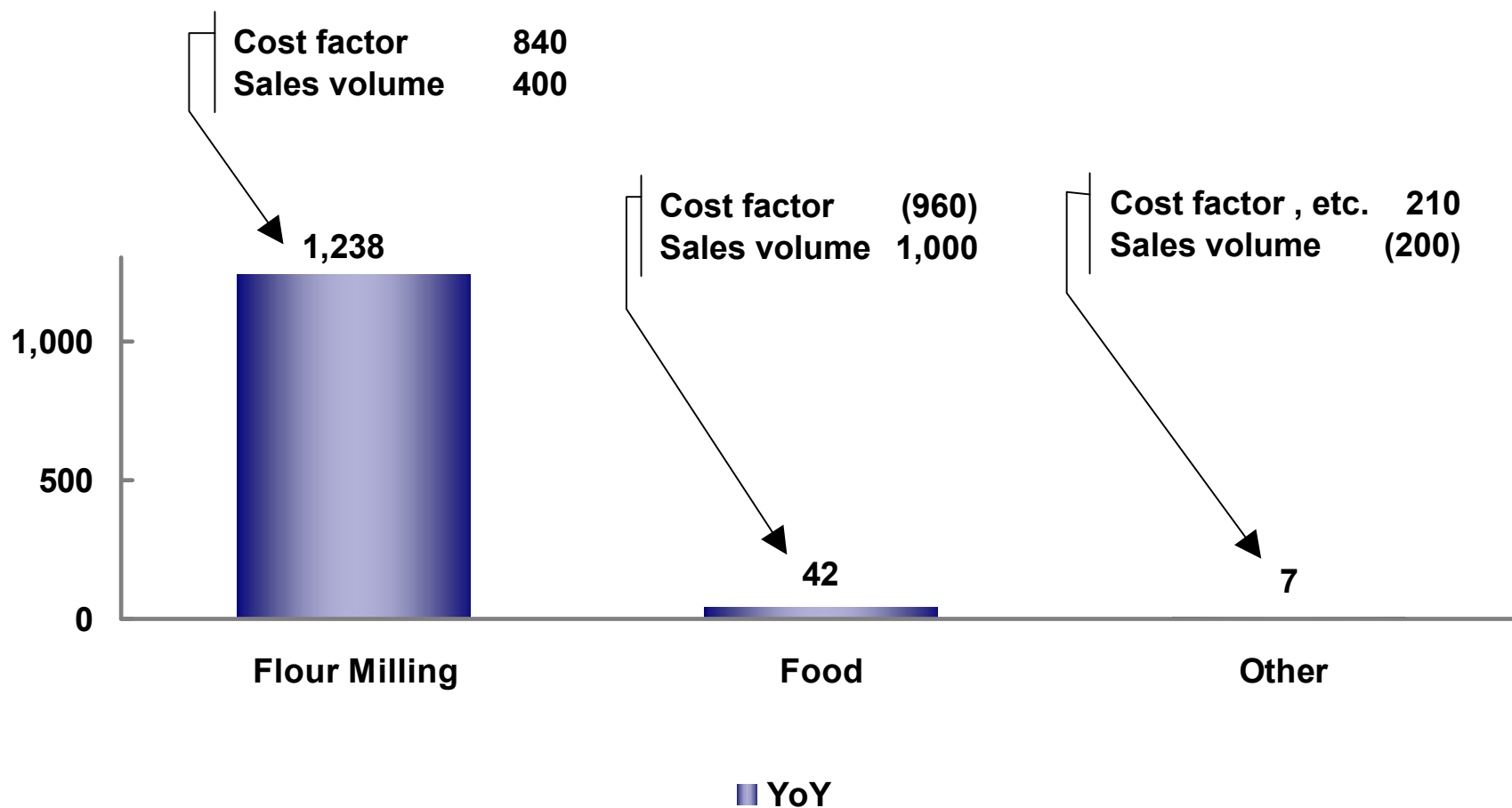


■ YoY

# Analysis of Factors for Changes in Operating Income Forecasts

◆ Factors for changes in net sales forecasts  
 (overall decrease of ¥1,287 million)

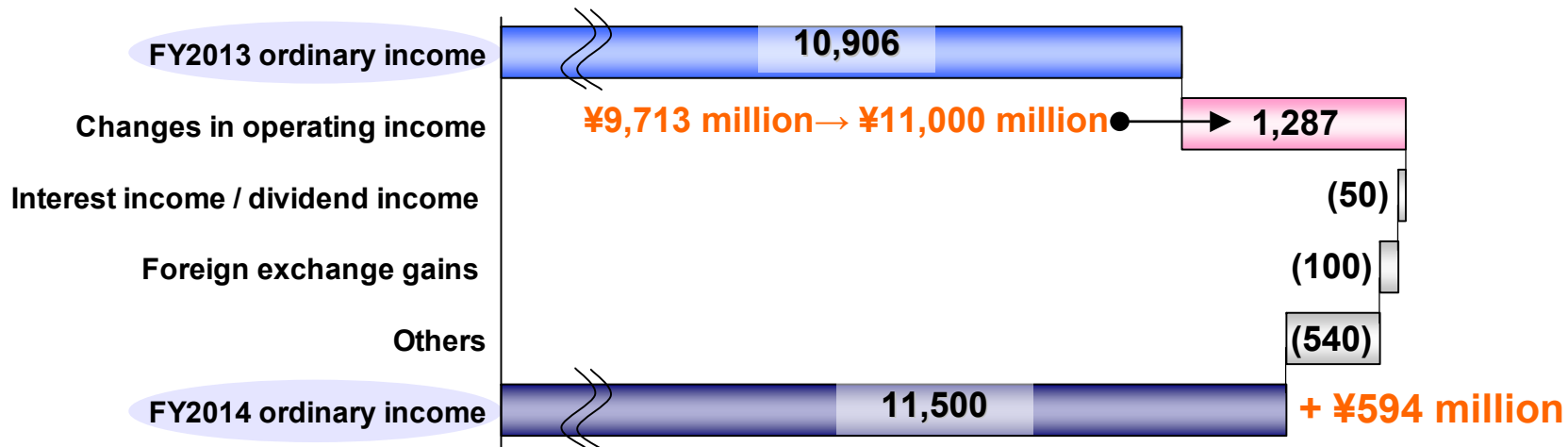
(Millions of yen)



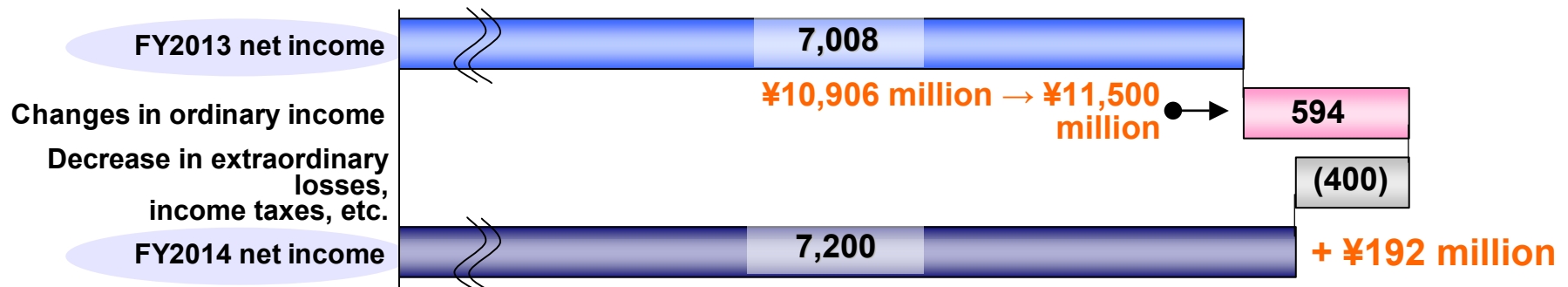
# Analysis of Factors for Changes in Ordinary Income/ Net income Forecasts

(Millions of yen)

## ◆Factors for changes in ordinary income forecasts



## ◆Factors for changes in net income forecasts



# Inquiries

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This document includes details of the Company's current plans and performance forecasts. These future plans and forecast figures are based on information currently available as well as the Company's plans and projections. Actual results and performance may differ materially from these plans and forecast figures due to a variety of conditions and factors. This document does not represent a definitive commitment or guarantee by the Company to achieve stated plans and forecast figures.

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Accounting and Finance Div.  
Nippon Flour Mills Co., Ltd.