

Consolidated Financial Results for the First Quarter of FY2006

Nippon Flour Mills Co., Ltd.

(URL <http://www.nipn.co.jp>)

Code Number: 2001

Listing: Tokyo Stock Exchange, Osaka Securities Exchange and Sapporo Securities Exchange

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1. Matters Concerning Preparation of the Outline of the Consolidated Quarterly Financial Results

- (1) Application of simplified accounting procedures: Yes
Simplified procedures are applied for part of the calculation of tax expenses.
- (2) Difference in the accounting method from the method applied for the most recent fiscal year:
From the quarter under review onward, the Accounting Standards for Impairment of Fixed Assets and the Guidance on Accounting Standards for Impairment of Fixed Assets are applied.
- (3) Change in the scope of consolidation and application of the equity method:
Newly consolidated subsidiaries: 1 (Excluded from consolidation: None)
Newly included under equity method: None (Excluded under equity method: None)

2. Consolidated Results for the First Quarter of FY 2006 (April 1, 2005 - June 30, 2005)

**Amounts under one million yen have been rounded down.*

(1) Business Results (Millions of yen, except for per share figures)

	Net Sales		Operating Income		Ordinary Income	
First Quarter of FY2006	55,700	(1.2%)	1,504	(29.1%)	1,887	(9.5%)
First Quarter of FY2005	56,380	9.1%	2,122	28.3%	2,085	36.4%
[Reference] FY2005	224,360	4.0%	8,158	9.6%	7,605	15.5%

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
First Quarter of FY2006	1,057	(12.2%)	6.28	5.84
First Quarter of FY2005	1,204	48.0%	7.16	—
[Reference] FY2005	4,737	2.9%	27.77	27.59

Notes:

- Numbers in percentage points alongside net sales, operating income, ordinary income, and net income indicate percentage increase/decrease from the same period of the previous year.
- The figure for diluted net income per share for the first quarter of the year ended March 31, 2005, is not indicated because no potentially dilutive securities existed.

[Qualitative information on consolidated operating results]

During the first quarter of the fiscal year ending March 31, 2006, although the Japanese economy was on a modest recovery track thanks to upbeat capital investment and improvement of personal consumption, the outlook remained uncertain due to sharply rising oil prices and a leveling off of exports to China. In these circumstances, in accordance with the 05/07 medium-term business plan, Nippon Flour Mills Group strove to expand sales and profits in the spirit of “speed & attack.”

Consolidated net sales for the first quarter amounted to ¥55,700 million, a decrease of 1.2% compared with the same period of the previous year, operating income decreased 29.1% to ¥1,504 million, ordinary income decreased 9.5% to ¥1,887 million, and net income decreased 12.2% to ¥1,057 million.

In flour milling, while domestic demand for wheat flour continues to be sluggish, competition further intensified due to the increase in imports of products prepared from wheat flour and secondary processed products. The Group developed new products and engaged in vigorous sales and marketing, including the holding of technical seminars and promotion of proposal-driven marketing, to meet diversifying preferences concerning food. As a result, sales of wheat flour were virtually the same level as the same period of the previous year. Sales of bran, a by-product, exceeded the level of the same period of the previous year owing to strong domestic demand for animal feed. Consequently, sales of the flour milling operation increased 1.2% from the same period of the previous year to ¥21,794 million.

In the food operation, in addition to the introduction of distinctive new products attuned to consumers' aspirations concerning wellbeing and safety, the Group implemented thorough cost reduction and sales management to improve profitability. Marking the 50th anniversary of the “Oh'my” Brand, the Group stepped up its efforts to promote the home-use food business. Thanks to these efforts, sales of pasta-related products exceeded the level of the same period of the previous year despite the tough sales environment. However, sales of deli products remained the same level as the same period of the previous year and sales of premixes and frozen food products were lower than for the same period of the previous year. As a result, sales of the food operation decreased 2.9% from the same period of the previous year to ¥27,436 million.

Regarding other businesses, while sales of the pet food, health products, cosmetics and engineering businesses were generally firm, sales of the restaurant-related business were lower than for the same period of the previous year. As a result, sales of other businesses decreased 1.8% from the same period of the previous year to 6,469 million yen.

In the first quarter under review, an extraordinary loss of ¥1,500 million was recorded as a result of impairment of idle fixed assets owned by the Company and its consolidated subsidiaries. This loss is incorporated in the forecast of the business results announced at the beginning of the fiscal year.

(2) Financial Position

(Millions of yen, except for per share figures)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (Yen)
First Quarter of FY2006	177,647	84,008	47.3	499.19
First Quarter of FY2005	175,148	80,753	46.1	479.88
[Reference] FY2005	182,078	84,482	46.4	501.60

[Cash Flows]

(Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Term-End
First Quarter of FY2006	3,117	(2,887)	(497)	11,728
First Quarter of FY2005	1,532	(1,474)	(5,231)	10,126
[Reference] FY2005	6,099	(5,241)	(4,430)	11,883

[Qualitative information on changes in the consolidated financial position]

At the end of the first quarter, total assets were ¥4,431 million lower than at the end of the previous year. The principal reasons for this decrease were the reduction of inventories and collection of trade notes and accounts receivable.

Net cash provided by operating activities amounted to ¥3,117 million. Primary factors were income before income taxes amounting to ¥1,986 million, income taxes paid amounting to ¥1.7 billion, collection of trade notes and accounts receivable and reduction of inventories as well as the decrease in interest paid.

Net cash used in investing activities amounted to ¥2,887 million. The main item was purchase of fixed assets.

Net cash used in financing activities amounted to ¥497 million.

3. Forecast of the Consolidated Financial Results for FY 2006 (April 1, 2005 - March 31, 2006)

(Millions of yen, except for per share figures)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
First Half of FY2006	114,000	4,200	4,100	2,500	14.86
Full year	228,000	8,800	8,500	5,000	29.71

[Qualitative information on forecasts]

The forecasts for the six-month period and the full year for the year ending March 31, 2006, have not been revised from the initial forecasts announced on May 17, 2005.

Consolidated Financial Statements for the First Quarter Ended June 30, 2005
Consolidated Balance Sheets

(Millions of yen)

	First Quarter of FY2006 As of June 30, 2005	FY2005 As of March 31, 2005	Increase (Decrease)	First Quarter of FY2005 As of June 30, 2004		First Quarter of FY2006 As of June 30, 2005	FY2005 As of March 31, 2005	Increase (Decrease)	First Quarter of FY2005 As of June 30, 2004
Assets					Liabilities				
Current assets:					Current liabilities:				
Cash and time deposits	11,728	11,883	(155)	10,126	Trade notes and accounts payable	10,749	11,365	(615)	11,145
Trade notes and accounts receivable	26,135	26,970	(834)	25,869	Short-term loans	19,309	20,872	(1,562)	22,100
Inventories	14,569	15,398	(828)	14,718	Current portion of bonds	5,000	-	5,000	-
Deferred income taxes	441	888	(447)	702	Income taxes	497	1,953	(1,455)	961
Other current assets	3,152	4,454	(1,302)	2,893	Others	7,779	7,637	141	14,038
Allowance for doubtful accounts	(181)	(167)	(13)	(152)	Total current liabilities	43,335	41,828	1,506	48,246
Total current assets	55,846	59,428	(3,582)	54,156	Long-term liabilities:				
Fixed assets:					Bonds	8,500	13,500	(5,000)	5,500
Tangible fixed assets:					Long-term debt	22,447	20,772	1,675	20,057
Buildings and structures	22,447	22,608	(160)	22,688	Reserve for employee retirement benefits	1,045	2,942	(1,897)	3,060
Machinery, equipment and vehicles	16,785	16,863	(77)	17,027	Reserve for directors' retirement benefits	616	686	(70)	589
Land	24,840	26,415	(1,574)	26,955	Deferred tax liabilities	14,175	14,301	(125)	13,568
Construction in progress	3,234	1,906	1,327	648	Other liabilities	1,967	1,796	170	1,712
Others	943	916	26	921	Total long-term liabilities	48,752	53,999	(5,246)	44,488
Total tangible fixed assets	68,251	68,710	(459)	68,241	Total liabilities	92,088	95,828	(3,739)	92,735
Intangible fixed assets	551	546	4	585	Minority interests	1,550	1,768	(217)	1,659
Investments and other assets:					Shareholders' equity				
Investment in securities	48,082	48,922	(839)	47,577	Common stock	12,240	12,240	-	12,240
Long-term loan receivable	669	604	65	622	Additional capital surplus	11,055	11,055	0	11,053
Deferred income taxes	1,069	1,055	14	1,033	Retained earnings	45,994	45,674	319	42,416
Others	3,263	2,912	351	3,330	Unrealized gains on investment in securities	16,295	17,133	(838)	16,726
Allowance for doubtful accounts	(86)	(101)	15	(400)	Foreign Currency translation adjustment	39	(8)	48	(71)
Total investments and other assets	52,997	53,392	(394)	52,163	Treasury stock, at cost	(1,616)	(1,613)	(2)	(1,612)
Total fixed assets	121,800	122,649	(848)	120,991	Total Shareholders' equity	84,008	84,482	(473)	80,753
Total assets	177,647	182,078	(4,431)	175,148	Total liabilities, minority interests and shareholders' equity	117,647	182,078	(4,431)	175,148

Consolidated Statements of Income

(Millions of yen)

	First Quarter of FY2006 From April 1, 2005 To June 30, 2005		First Quarter of FY2005 From April 1, 2004 To June 30, 2004		Increase (Decrease)		[Reference] FY2005	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net sales	55,700	100.0	56,380	100.0	(679)	(1.2)	224,360	100.0
Cost of sales	42,316	76.0	42,286	75.0	29	0.1	169,263	75.4
Gross profit	13,384	24.0	14,093	25.0	(709)	(5.0)	55,096	24.6
Selling, general and administrative expenses	11,880	21.3	11,971	21.2	(91)	(0.8)	46,938	20.9
Operating income	1,504	2.7	2,122	3.8	(617)	(29.1)	8,158	3.6
Other income:								
Interest and dividend incomes	382		328		53		462	
Equity in earnings of companies accounted for by the equity method	26		24		1		184	
Others	473		180		292		602	
Total other income	881	1.6	534	0.9	347	65.0	1,250	0.6
Other expenses:								
Interest expenses	182		232		(50)		815	
Others	315		338		(22)		988	
Total other expenses	498	0.9	571	1.0	(72)	(12.7)	1,803	0.8
Ordinary income	1,887	3.4	2,085	3.7	(197)	(9.5)	7,605	3.4
Extraordinary income	1,599	2.9	-	-	1,599	-	2,067	0.9
Extraordinary losses	1,500	2.7	-	-	1,500	-	1,533	0.7
Income before income taxes	1,986	3.6	2,085	3.7	(98)	(4.7)	8,139	3.6
Income taxes	287		691		(403)		3,042	
Deferred income taxes	875		182		692		336	
Minority interest	(233)		6		(240)		23	
Net income	1,057	1.9	1,204	2.1	(147)	(12.2)	4,737	2.1

Consolidated Statements of Cash Flows

(Millions of yen)

	First Quarter of FY2006 From April 1, 2005 To June 30, 2005	First Quarter of FY2005 From April 1, 2004 To June 30, 2004	[Reference] FY2005
Cash flows from operating activities			
Income before income taxes	1,986	2,085	8,139
Depreciation and amortization	1,205	1,219	5,184
Amortization of consolidation adjustments accounts	(2)	1	(9)
Decrease in reserve for employee retirement benefits	(288)	(138)	(256)
Increase (Decrease) in reserve for directors' retirement benefits	(70)	(41)	55
Increase (Decrease) in allowance for doubtful accounts	(1)	3	23
Loss on doubtful accounts	-	-	199
Interest and dividend income	(382)	(328)	(462)
Interest expenses	182	232	815
Gain on sale of securities	(304)	(11)	(802)
Loss on devaluation of securities	-	-	78
Equity in earnings of companies accounted for by equity method	(26)	(24)	(184)
Foreign exchange (gain) loss	(73)	(29)	69
Gain on sale of fixed assets	-	-	(1,240)
Loss on sale of fixed assets	-	-	805
Loss on disposal of fixed assets	28	32	248
Bonuses paid to directors and statutory auditors	(73)	(67)	(78)
Decrease in notes and accounts receivable	834	1,212	71
Decrease in inventories	828	691	10
Decrease in notes and accounts payable	(618)	(852)	(667)
Increase (Decrease) in consumption taxes payable	196	(55)	(229)
(Increase) Decrease in other receivables	1,279	4	(1,614)
Increase (Decrease) in other payables	67	(141)	(6)
Others	(99)	-	-
Sub-total	4,668	3,790	10,150
Interest and dividends received	391	314	484
Interest paid	(237)	(264)	(833)
Payments for income taxes	(1,705)	(2,308)	(3,701)
Net Cash provided by operating activities	3,117	1,532	6,099
Cash flows from investing activities			
Proceeds from sale and redemption of securities	-	-	32
Purchase of fixed assets	(2,172)	(1,464)	(6,829)
Proceeds from sale of fixed assets	-	-	1,254
Purchase of investments in securities	(1,544)	(470)	(3,021)
Proceeds from sale and redemption of investment in securities	848	217	3,099
Proceeds from acquisition of shares of subsidiaries in line with change in the scope of consolidation	-	325	325
Lending of loans receivable	(79)	(17)	(57)
Collection of loans receivable	34	13	50
Others, net	24	(78)	(95)
Net cash used in investing activities	(2,887)	(1,474)	(5,241)
Cash flows from financing activities			
Net increase (decrease) of short-term loans	(317)	292	(592)
Net increase (decrease) of commercial paper	-	6,000	-
Proceeds from long-term debt	1,831	84	2,960
Repayments of long-term debt	(1,327)	(98)	(2,775)
Proceeds from issuance of corporate bonds	-	-	8,000
Payment for redemption of corporate bonds	-	(5,000)	(5,000)
Decrease in proceeds from liquidation of receivables	-	(6,000)	(6,000)
Acquisition of treasury stock	(2)	(0)	(10)
Proceeds from sale of treasury stock	0	0	3
Cash dividends paid	(680)	(508)	(1,015)
Net cash used in financing activities	(497)	(5,231)	(4,430)
Effect of exchange rate changes on cash and cash equivalents	38	(8)	(19)
Increase (Decrease) in cash and cash equivalents	(228)	(5,182)	(3,592)
Cash and cash equivalents at beginning of the term	11,883	15,308	15,308
Increase in cash and cash equivalents due to inclusion of an additional subsidiary	73	-	167
Cash and cash equivalents at end of the term	11,728	10,126	11,883

Segment Information

1) Business Segment Information

First Quarter of FY2006 (From April 1, 2005 to June 30, 2005)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	21,794	27,436	6,469	55,700	-	55,700
2) Internal sales or transfers between segments	1,190	588	326	2,105	(2,105)	-
Total	22,984	28,025	6,796	57,806	(2,105)	55,700
Operating expenses	21,991	27,590	6,738	56,321	(2,124)	54,196
Operating income	993	434	57	1,485	19	1,504

Notes: 1. Business segmentation method
Business segmentation is based on considerations of similarities between product types and markets.

2. Classification of main products by business segment

Business Segment	Main Products
Flour Milling	Wheat flour, bran, buckwheat
Food	Wheat flour for home use, premixes, pasta, frozen food, deli foods
Others	Pet food, health foods, food-related machinery and equipment

3. No unallocated operating expenses are included in the unallocated and eliminations category.

First Quarter of FY2005 (From April 1, 2004 to June 30, 2004)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	21,526	28,265	6,588	56,380	-	56,380
2) Internal sales or transfers between segments	1,310	843	744	2,897	(2,897)	-
Total	22,837	29,108	7,332	59,278	(2,897)	56,380
Operating expenses	21,529	28,269	7,330	57,130	(2,872)	54,258
Operating income	1,307	839	1	2,148	(25)	2,122

[Reference] FY2005 (From April 1, 2004 to March 31, 2005)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	86,406	111,262	26,691	224,360	-	224,360
2) Internal sales or transfers between segments	5,103	3,232	2,175	10,511	(10,511)	-
Total	91,510	114,494	28,867	234,872	(10,511)	224,360
Operating expenses	86,599	111,368	28,704	226,672	(10,470)	216,201
Operating income	4,910	3,126	163	8,200	(41)	8,158

2) Geographically Segmented Information

Because net sales and assets for Japan exceed 90% of aggregate net sales and assets for all segments, geographically segmented information is omitted.

3) Overseas Sales

Because overseas sales account for less than 10% of consolidated net sales, overseas net sales information is omitted.