

# Consolidated Financial Results for the Year Ended March 31, 2006

Nippon Flour Mills Co., Ltd.

Listing: Tokyo Stock Exchange, Osaka Securities Exchange, Sapporo Securities Exchange  
Code Number: 2001 (URL <http://www.nippon.co.jp>)

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Date of Board Meeting for Consolidated Settlement: May 16, 2006

Application of US Financial Accounting Standards: None

## 1. Consolidated Results for the Year Ended March 31, 2006

(April 1, 2005 – March 31, 2006)

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

### (1) Business Results

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income	
FY2006	227,421	1.4%	7,285	(10.7%)	7,620	0.2%
FY2005	224,360	4.0%	8,158	9.6%	7,605	15.5%

	Net Income		Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	ROE (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
FY2006	4,837	2.1%	28.43	26.44	5.3	3.9	3.4
FY2005	4,737	2.9%	27.77	27.59	5.7	4.3	3.4

Notes:

1) Gain from investment in subsidiaries and affiliates accounted for by the equity method:

FY2006: ¥ 6 million

FY2005: ¥ 184 million

2) Average number of shares outstanding (consolidated):

FY2006: 168,291,111

FY2005: 168,270,905

3) Changes in accounting method: Applicable

Effective from the fiscal 2006, the accounting standards for impairment of fixed assets and their application guidance have been adopted by the Company.

4) Numbers alongside net sales, operating income, ordinary income, and net income indicate percentage increase/decrease from the same period of the previous year.

**(2) Consolidated Financial Position**

(Millions of yen)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (Yen)
FY2006	203,958	99,401	48.7	590.39
FY2005	182,078	84,482	46.4	501.60

Note: Number of shares outstanding at term end (consolidated):

FY2006: 168,276,148

FY2005: 168,295,936

**(3) Consolidated 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 End of the Term
FY2006	8,593	(8,740)	(2,283)	9,601
FY2005	6,099	(5,241)	(4,430)	11,883

**(4) Number of Consolidated Subsidiaries, and Subsidiaries and Affiliates accounted for by the Equity Method**

Number of consolidated subsidiaries: 36

Number of unconsolidated subsidiaries accounted for by the equity method: 7

Number of affiliates accounted for by the equity method: 7

**(5) Changes in Consolidation and Scope of Application for Equity Method**

Newly consolidated subsidiaries: 1

(Subsidiaries excluded from consolidation: 1)

Companies to which the equity method is newly applied : 3

(Companies excluded from application of the equity method: 0)

**2. Forecast for Business Results for the Year Ending March 31, 2007****(Apr. 1, 2006—Mar. 31, 2007)**

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
Half Year	116,000	3,800	2,300
Full Year	233,000	8,000	5,000

Reference: Expected net income per share ¥29.71

\*The above forecast has been prepared based on data as of the announcement date. Actual results may differ from the forecasted figures due to various factors such as fluctuations in exchange. See the accompanying reference pages 9 regarding the forecast above.

## 1. Nippon Flour Mills Group

Nippon Flour Mills Group (the Company and its affiliated companies) consists of the Company (Nippon Flour Mills Co., Ltd.), 53 subsidiaries, and 31 affiliates. Details of the Company's core business segments are as follows:

Details of the principal businesses and the positioning of the Company, its subsidiaries and its affiliates are described below.

### (1) Flour Milling

The Company produces wheat flour and bran and Matsuya Flour Mills Co., Ltd. produces buckwheat. These products are sold via distributors, which include Nippon Shoji Co., Ltd., Nippon Shoji Corporation, Suzuki Co., Ltd. and Marushichi Co., Ltd.

### (2) Food

The Company produces wheat flour for home use, premixes, etc. OHMY Co., Ltd. produces pasta products using wheat flour produced by the Company and sells them to the Company. Nippon Frozen Foods Co., Ltd. produces frozen ingredients and foods using wheat flour and premixes produced by the Company. NF Frozen Co., Ltd. produces frozen ready-made products and frozen ingredients and sells them to the Company.

These products are sold via distributors and Nippon Rich Co., Ltd. sells frozen ingredients and products procured from the Company.

Fast Foods Co., Ltd. produces and sells ready-made products using ingredients produced by the Company.

Also in overseas, the Company has a stake in United Flour Mill Public Co., Ltd., the largest flour milling company in Thailand, and is involved in its management. Nippon Flour Mills (Thailand) Ltd. sells coating mixes. Nippon Flour Mills (Shanghai) Co., Ltd. produces premixes and sells them mainly to Japanese companies in China. Quality Naturally! Foods, Inc. based in Los Angeles, California, sells donut mixes to donut stores mostly in Los Angeles. Pasta Montana, L.L.C. produces pasta products and sells them in North America and to the Company.

### (3) Other Businesses

NPF Japan Co., Ltd. produces and sells pet foods.

NIPPON Engineering Co., Ltd. designs, manufactures and installs equipment for the food industry and powder material handling equipment.

NIPPON Logis Co., Ltd. operates a trucking business in the Kanto area.

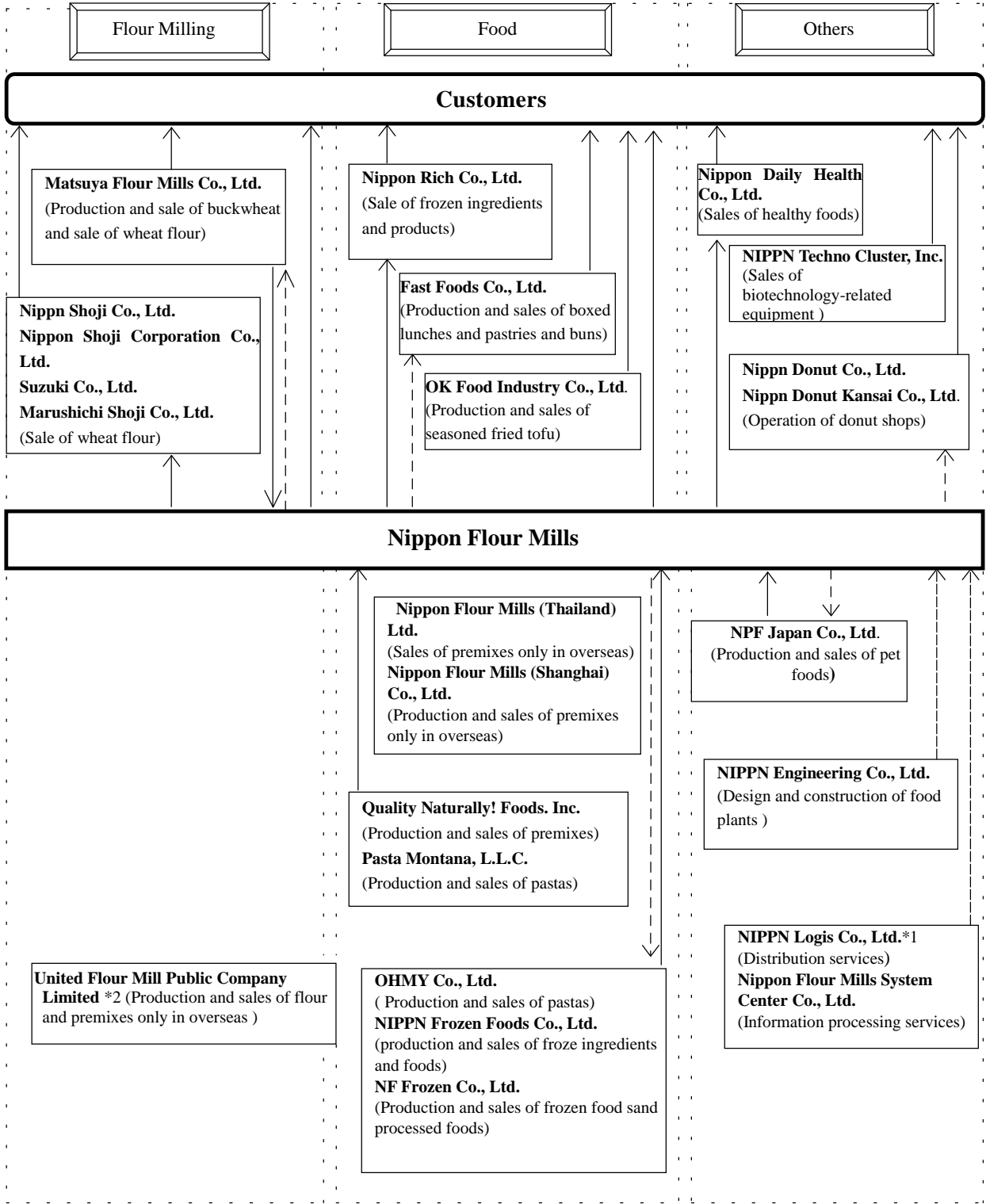
Nippon Flour Mills System Center Co., Ltd. is engaged in computer-based information processing and development of information processing systems.

Nippon Daily Health Co., Ltd. sells health foods procured from the Company.

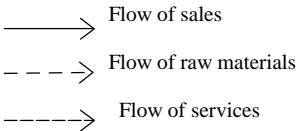
NIPPON Techno Cluster Co., Ltd. sells biotechnology-related equipment.

NIPPON Donut Co., Ltd. and Nippon Donut Kansai Co., Ltd. operate donut stores that use premixes produced by the Company.

The Company's businesses are depicted in the schematic diagram below.



No mark: Consolidated subsidiary  
 \*1: Non-consolidated subsidiary to which the equity method is applied.  
 \*2: Affiliated company to which the equity method is applied.



## **2. Management Policy**

### **(1) Basic Management Policy**

“Responding to the changes of the times and boldly introducing technological innovation to establish new businesses” — the motto of Nippon Flour Mills Group expresses the venture spirit at work when the Company was founded. With this motto, today the Group makes a social contribution through excellent products and services that are the basis of our business.

In addition to aggressively expanding into new business areas, the Group aims to increase competitive advantage through unflagging management reform, maintain the trust of shareholders and other stakeholders, and achieve further growth and development as a highly regarded multifaceted food company.

### **(2) Basic Policy on Profit Distribution**

The Company’s basic policy on profit distribution is to ensure maintenance of adequate internal reserves in consideration of the need to strengthen the corporate structure, preparations for future business development, and the operating environment. While at the same time, returning profits to shareholders is positioned as an important management issue. The Company intends to continue payment of stable dividends, taking consolidated financial performance and financial position into account. In the use of free cash flow, the Company will accord priority to investments made to increase enterprise value, for example, by expanding existing core businesses and establishing new businesses. The Company will also flexibly repurchase its own stock, utilizing free cash flow with a view to long-term investment efficiency, as a means of returning profit to shareholder.

The Company will submit a proposal to the 182nd ordinary general meeting of shareholders to be held on June 28, 2006, on payment of a commemorative dividend of ¥1 per share commemorating the 110th anniversary of the Company in addition to a year-end cash dividend of ¥3 per share. Accordingly, the cash dividend for the full year will be ¥7 per share. The Company does not intend to change the frequency of dividend payments following the enforcement of the Corporation Law.

Also, the Company has a shareholder special benefit plan provided for each shareholder on the list of shareholders (including the list of substantial shareholders) as of March 31 every year, who owns at least 1,000 shares of the Company (the minimum trading unit).

### **(3) Policy on Reduction in Trading Units**

The Company considers reduction in trading units as an effective measure for facilitating individual investors’ participation in the stock market and increasing liquidity of the Company’s shares. The Company will deal with the reduction in trading units in view of the trend of the Company’s stock price, composition of shareholders and the needs in the stock market.

### **(4) Target Performance Indicators**

The Group formulated the 05/07 medium-term business plan in April 2005 and is endeavoring to attain its goals.

The newly established 05/07 medium-term business plan sets milestones for decisively strengthening Nippon as a multifaceted food conglomerate with a strong presence whose core business is flour milling. The targeted consolidated net sales are ¥350 billion in 5 years and ¥500 billion in 10 years. Adhering to the corporate philosophy articulated in “Nippon’s Mission,” the Group accords respect to shareholders, customers, partners, employees and all other stakeholders. Also, recognizing the central importance of corporate social responsibility (CSR), the Group is implementing the new medium-term business plan in the spirit of “speed & attack.”

The priority of the new medium-term plan is to increase profits by improving the top line (net sales). At the same time, the Group will promote further cost reduction and strengthen customer-oriented management.

Through these measures, the Group aims to definitely achieve consolidated net sales of ¥280.0 billion and operating income of ¥11.2 billion (operating margin of 4%) for the year ending March 31, 2008, and to enhance enterprise value.

## **(5) Medium-Term to Long-Term Management Strategies**

While the food industry in Japan continues to suffer from weak consumption and multilateral or bilateral trade negotiations with the World Trade Organization (WTO) and free trade agreements (FTA) are proceeding, competition among companies is expected to be intense in the global marketplace.

To cope with these challenging circumstances, the Group is pushing ahead with the 05/07 medium-term business plan. The plan has six key elements:

### **1) Business expansion in priority fields, cutting-edge fields and overseas**

The Group intends to expand the business in priority fields (ready-made foods and ingredients, frozen foods and lifestyle-related businesses), cutting-edge fields (biotechnology and environment-related businesses) and international business (in the Pacific-Rim countries).

- Inject resources selectively into new growth fields for the next generation.
- Strengthen corporate functions to powerfully support the growth strategy.
- Strengthen overseas operations to expand business opportunities corresponding to the investment within the framework of consolidated management.

### **2) Strengthening of the core businesses**

The Group will work to increase the market share of the core businesses (flour milling, premix and pasta businesses) and, at the same time, strengthen its commitment to peripheral products and businesses.

- Thoroughly strengthen the Group's core businesses. Aim to grow together with customers while improving the top line (net sales) by establishing a market-oriented sales system.
- Inject resources in order to bring the Group's strengths into full play.

### **3) Establishment of a highly profitable business structure**

In order to strengthen the fundamentals of the business on an ongoing basis, the Group will make efforts to continually improve the profit structure of each business.

- Promote low-cost operation from a new perspective.
- Promote rationalization of physical and commercial distribution.
- Optimize and improve production and distribution centers in Japan and overseas.
- Realize slim and small strategic headquarters while strengthening corporate functions.

### **4) Strengthening of the corporate brand**

Awareness of the Company's activities will be enhanced by "sharing heart-moving experiences with as many customers as possible."

- Foster the corporate brand "Nippon" and the product brand "Oh'my".
- Through fostering of the brands, develop excellent human resources at the forefront of manufacturing and sales who underpin the Group's growth strategy.

### **5) Strengthening of the financial position**

Enhancement of enterprise value will be pursued through reduction of interest-bearing debt and improvement of asset efficiency.

- Improve asset efficiency from the viewpoint of emphasizing cash flows by means of reduction of inventories, liquidation of assets and disposal of non-performing assets.
- Increase efficiency of the Group's resources based on a cash management system.

### **6) Harmony with society as a good corporate citizen**

The Group will strengthen its commitment to fulfillment of corporate social responsibility (CSR) in response to increasing expectations of society.

- Emphasize compliance in management. Promote the internal control system and the risk management system.
- Enhance the quality assurance system and reduce environmental impacts.
- Promote timely disclosure and strengthen measures to fulfill accountability.

## **(6) Issues to Be Addressed**

Despite certain risk factors, such as a possible slowing of the U.S. economy and the trends of foreign currency exchange rates, the Japanese economy is expected to maintain solid growth, as well as overcoming deflation, against a background of further privatization and deregulation promoted by the government and strong corporate earnings.

While the Japanese market continues to shrink, the food industry may be greatly affected by the outcome of the negotiations concerning opening of the market within the framework of the World Trade Organization (WTO) and free trade agreements (FTA) with other countries. It is likely that international competition among companies will intensify.

In order to cope with this challenging business environment, the Group is making a concerted effort in the spirit of “speed & attack” to expand operations and, at the same time, vigorously promote cost reduction, strengthening of quality assurance systems and reduction of environmental impacts.

The Company, which was established as the Japan’s first flour milling company in 1896, will celebrate its 110th anniversary in September this year.

In this commemorative year, everyone working for the Group resolve to implement the 05/07 medium-term business plan with utmost effort so that Nippon Flour Milling will continue to grow and flourish as a diversified food manufacturer trusted and admired by its stakeholders.

#### (7) Matters relating to the parent company

None

### 3. Operating Results and Financial Position

#### (1) Operating Results

##### —Operating Results for the Year Ended March 31, 2006—

Overview of the operating results			(Millions of yen)	
	FY2006	FY2005	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	227,421	224,360	3,060	1.4
Ordinary income	7,620	7,605	14	0.2
Net income	4,837	4,737	100	2.1
Net income per share (Yen)	28.43	27.77	0.66	2.4

During the year under review, the Japanese economy remained on a recovery track as private-sector capital investment increased due to improvement of corporate earnings and personal consumption became brisker following the upturn in the employment and personal income situations.

However, the food industry continued to operate in a tough business environment due to intensifying sales competition reflecting the persisting consumer focus on low prices while prices of raw materials and fuel increased against the background of a sharp increase in oil prices.

In these circumstances, the Group made a concerted effort to implement the 05/07 medium-term business plan covering the 3-year period from April 2005 to March 2008, in order to increase sales and establish a highly profitable business structure.

To strengthen the partnership with OK Food Industry Co., Ltd., we raised our equity stake in the company. Also, to expand international business, Pasta Montana L.L.C., a subsidiary in the U.S., acquired the trade right and production facilities of Costa Macaroni Manufacturing Co., a pasta manufacturer based on the West Coast of the U.S.

Regarding the expansion of Chiba Mill, a project which commenced in April 2004, construction of a grain silo, one of the largest at Chiba Port, was completed in October 2005 and construction of a large flour milling line (D Mill) was completed in April 2006. As a result, Chiba Mill is the most advanced, state-of-the-art flour milling plant in Japan and the Group’s infrastructure for the supply of products to the East Japan area has been secured.

Also, in order to respond to consumers’ increasing awareness of food safety and reliability issues, we engaged vigorously in corporate social responsibility (CSR) activities, including enhancement of quality assurance systems and reduction of environmental impacts.

In consolidated business performance for the year under review, efforts to expand sales in all business segments and to reduce manufacturing costs and sales cost resulted in net sales of ¥227,421 million, an increase of 1.4% year on year, ordinary income of ¥7,620 million, an increase of 0.2%, and net income of ¥4,837 million, an increase of 2.1%.

The performance of business segments was as follows.

### **Flour Milling**

In the Flour Milling segment, while domestic demand for flour showed little or no growth in recent years, rising imports of flour-based premixes and price competition emphasizing low prices led to a more challenging business environment. In February 2006, the Japanese government's selling price of raw wheat was reduced for the first time in two years, and in March 2006, wheat flour sales prices were reduced. Also, the Ministry of Agriculture, Forestry and Fisheries of Japan is deliberating on the introduction of systems, such as a variable price system for sales of imported wheat, which may greatly change the environment of the flour milling industry.

In these circumstances, in order to strengthen relationships with customers, the Group introduced new wheat flour for bread and confectionery with distinctive characteristics in tune with the market needs. As well as strengthening quality control to ensure food safety and reliability, the Group engaged in vigorous marketing activities including new product development, holding of technical seminars and promotion of proposal-driven marketing.

Regarding sales of wheat flour, although there was little growth in shipments of flour for bread within Japan, shipments of flour for noodles were buoyant and shipments of flour for confectionery increased slightly. As a result, the total volume of shipments was slightly higher than in the previous year.

Sales of bran, a by-product, exceeded the level of the previous year, reflecting the robust market trend.

Revenues from the warehousing and harbor transport businesses were below the prior-year level.

As a result, sales for the Flour Milling segment were ¥87,775 million, an increase of 1.6% year on year.

### **Food**

The Group strengthened development and proposals of distinctive new products catering to consumers whose aspirations are increasingly focused on wellbeing and safety and executed vigorous marketing, including participation in FOODEX (international food and beverage exhibition) and various other exhibitions, the holding of new product introduction seminars and training courses on Italian cuisine. At the same time, the Group worked to improve profitability through a concerted effort to reduce costs and improve sales management.

Sales of pasta products increased both for commercial and home use. In the range of pasta products for home use, sales of "Oh, My Gold Pasta" introduced in February 2005 to mark the 50th anniversary of the "Oh'my" Brand were brisk, reflecting the popularity of the product among customers. Also, we entered a new product category by introducing famous soups from around the world in retort pouches to strengthen the product line-up.

Although premix sales growth was somewhat weak, sales of premixes for the restaurant industry recovered. Sales of premixes in the U.S. were brisk.

Regarding frozen ingredients and foods, although sales of products for home use were robust, centering on the "Oh, My Premium" series of frozen pasta, sales of items for commercial use were sluggish.

Sales of ready-made products slightly exceeded the previous year's level.

As a result of these developments, sales for the Food segment were ¥114,021 million, an increase of 2.5% year on year.

### **Other Businesses**

Sales of pet food products increased greatly, partly due to the rising number of pet lovers.

The health food operation sought to increase sales by introducing new products, including "Ultra Fiber Life Biscuit" which is rich in dietary fiber.

Although sales of the engineering business were robust, sales of the biotechnology business and sales of natural cosmetics were both sluggish and were lower than for the previous year.

As a result, sales for the Other Businesses segment were ¥25,624 million, a decrease of 4.0% year on year.

—Outlook for the Year Ending March 31, 2007—

(Millions of yen)

	FY2007 (Forecasts)	FY2006 (Results)	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	233,000	227,421	5,578	2.5
Ordinary income	8,000	7,620	379	5.0
Net income	5,000	4,837	162	3.4
Net income per share (Yen)	29.71	28.43	1.28	4.5

Despite certain risk factors, such as a possible slowing of the U.S. economy and the trends of foreign currency exchange rates, the Japanese economy is expected to maintain solid growth, as well as overcoming deflation, against a background of further privatization and deregulation promoted by the government and strong corporate earnings.

While the Japanese market continues to shrink, the food industry may be greatly affected by the outcome of the negotiations concerning opening of the market within the framework of the World Trade Organization (WTO) and free trade agreements (FTA) with other countries. It is likely that international competition among companies will intensify. The Group will make a concerted effort to increase profits by improving the top line (net sales) in accordance with the six basic policies set forth in the 05/07 medium-term business plan and to strengthen operations through further cost reduction.

### **Flour Milling**

A declining population, an aging society combined with low birthrates and a preoccupation with safety on the part of consumers are among the issues confronting the flour milling industry. The Group will work to increase sales through dynamic marketing, proposing products designed to satisfy latent market needs and working to enhance customer satisfaction.

Also, in accordance with the 05/07 medium-term business plan, we will move forward with cost reductions in every aspect of operations, including production, distribution and sales, in order to secure profits.

We are mindful that our growth and prosperity should proceed hand in hand with the preservation of a rich natural environment. Thus, we will not only strive to reduce the environmental impacts of our business, but also devote ourselves to environmental friendliness throughout R&D and product development.

### **Food**

We will aggressively engage in the development and introduction of new products that satisfy consumer needs. We will redouble our efforts in the field of food products for home use by proposing differentiated products. In the field for ready-made products, we will further strengthen the structures and systems underpinning our capabilities in regard to new product development and the proposal of products attuned to customer needs. In the frozen food field, we intend to increase sales by introducing high-value-added products developed for the consumer market.

### **Other Businesses**

The market for the products of the life-related business, which includes health food products, is growing steadily in step with the aging of Japanese society. We intend to develop unique new products and to launch a mail-order business to fuel sales growth. Keeping pets has a positive effect on people, and the market for pet products is expanding. The Group will work to increase sales in this sector by engaging in research and development of pet foods that meet consumer needs.

Management forecasts consolidated net sales of ¥233,000 million, operating income of ¥8,000 million and net income of ¥5,000 million for the year ending March 2007.

Cautionary statement: Forecasts for future operating results have been prepared based on certain assumptions and beliefs that can be inferred from the current situation. The Company undertakes to provide no guarantee or assurance that the forecasts will be realized.

## (2) Financial Position

### —Consolidated Statements of Cash Flows for the Year Ended March 31, 2006 (Summary)—

(Millions of yen)

Item	FY2006	FY2005	Increase (Decrease)
Cash flows from operating activities	8,593	6,099	2,494
Cash flows from investing activities	(8,740)	(5,241)	(3,498)
Cash flows from financing activities	(2,283)	(4,430)	2,146
Effects of exchange rate changes on cash and cash equivalents	74	(19)	94
Net decrease in cash and cash equivalents	(2,355)	(3,592)	1,237
Cash and cash equivalents at beginning of the term	11,883	15,308	(3,425)
Increase(Decrease) in cash and cash equivalents due to inclusion of an additional subsidiary	73	167	(93)
Cash and cash equivalents at end of the term	9,601	11,883	(2,281)

**Net cash provided by operating activities** amounted to ¥8,593 million, increased approximately ¥2,500 million compared with the same period of the previous year. This increase was mainly attributable to the decrease in inventories and the Group's efforts to collect receivables, the increase in interest and dividends received and the decrease in payments for income taxes, although income before income taxes decreased by approximately ¥600 million and depreciation and amortization were virtually unchanged from the previous year.

**Net cash used in investing activities** amounted to ¥8,740 million, most of which are capital expenditure amounted to about ¥8,300 million.

Free cash flow, calculated by subtracting cash used in investing activities from cash used in operating activities, was ¥147 million.

**Net cash used in financing activities** was ¥2,283 million. Principal factors were repayment of long-term debt and payment of cash dividends amounting to approximately ¥1,200 million.

As a result, cash and cash equivalents at end of the term under review were ¥9,601 million, decreased by approximately ¥2,300 million from the previous fiscal year-end.

### Outlook for the Year Ending March 31, 2007

Regarding cash flows from operating activities, income before income taxes is expected to increase compared with the year ended March 31, 2006, thanks to improved profitability resulting from an increase in sales and proceeds. An increase in cash flows from operating activities is expected due to ongoing efforts to reduce inventories and trade notes and accounts receivable.

As for cash flows from investing activities, capital expenditure is expected to amount to approximately ¥8,800 million, the principal item being installation of additional milling lines at Chiba Mill, but conversion of assets by means of sale of non-performing assets and securities will be continued. In view of cash flows from financing activities, cash and cash equivalents at the end of the year ending March 31, 2007, are expected to be virtually the same amount as at the end of the year ended March 31, 2006.

### Cash Flow Indicator Trends

	FY2003	FY2004	FY2005	FY2006
Equity ratio (%)	45.5	46.7	46.4	48.7
Equity ratio at market value (%)	34.6	47.0	49.2	46.7
Debt redemption period (years)	5.2	5.8	9.0	6.3
Interest coverage ratio (times)	10.0	8.4	7.3	11.4

Equity ratio: Shareholders' equity / Total assets

Equity ratio at market value: Market capitalization / Total assets

Debt redemption period: Interest-bearing debt / Cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities / Interest expense

\* The consolidated financial figures constitute the basis for calculating these indicators.

\* Market capitalization is calculated by multiplying the closing stock price at end of the term by the number of shares outstanding at end of the term (after the deduction of treasury stocks).

\* The basis for calculating cash flow from operating activities is net cash provided by operating activities in the consolidated statements of cash flows. Interest-bearing debt includes all debts recorded on the consolidated balance sheet on which interest is paid. The basis for interest expense is the amount of interest paid recorded in the consolidated statements of cash flows.

### **(3) Business risks**

Risks that may affect the Group's operating results, stock price and financial position include the following. Cautionary statements contained herein are based on the Group's current expectations.

#### **1) Changes in the economic situation and the industry trend**

The Group is striving to establish systems and procedures so as to minimize the impact of changes in the economic situation and/or the industry trend on the Group. However, in the event that such changes exceed expectations or in the event that any entity to which the Group provides loans or with which the Group engages in transactions falls into bankruptcy or the like, the Group may be adversely affected.

#### **2) Progress of WTO and FTA negotiations and the reform of the wheat policy**

In the Group's core businesses (flour milling, premix and pasta businesses), depending on the progress of negotiations concerning the World Trade Organization (WTO) and free trade agreements (FTA) and the reform of the Japanese government's policy on wheat, the system concerning wheat, flour and flour-based products may change markedly and such change will have a material impact on the Group's businesses.

#### **3) Potential risks related to overseas operations**

The Group operates businesses in the U.S. and Asia. Changes in local laws and regulations, any terrorist act or dispute, outbreak of severe acute respiratory syndrome (SARS), avian flu, or other disease in these international markets may pose a problem with respect to the Group's business activities.

#### **4) Change in the system concerning health foods**

The Group handles health foods in its lifestyle-related business. Any change in the system concerning health foods may have a material impact on the Company's health food business.

#### **5) Product safety**

Needs and legislation concerning food safety have become increasingly stringent in recent years. The Group is strengthening its product quality assurance system. However, recall of products may be required due to an unexpected eventuality (such as inclusion of foreign matter or a reason attributable to raw materials).

#### **6) Stable procurement of raw materials**

The Group is striving to ensure stable procurement of raw materials at low cost. However, a sharp rise in procurement costs due to change in the market trends etc. or decline in quality of raw materials due to a natural disaster etc. may adversely affect the Group's operating results.

#### **7) Fluctuation of foreign currency exchange rates**

The Group procures a portion of its raw materials and products from overseas and thus the procurement costs are affected by the fluctuation of foreign currency exchange rates. Profits and financial positions of overseas subsidiaries are affected by the currency conversion into yen.

#### **8) Fluctuation of bran prices**

Bran is the outer husk of wheat grain and is principally used as feed. Bran prices in Japan fluctuate, due to imports of bran and competition from other raw materials for feed, and may become a source of instability with respect to the Group's operating results.

#### **9) Computer system trouble and data leakage**

The Group strives to achieve stable operation of its computer systems. However, if a system trouble occurs due to an unpredictable event, the Group's business is likely to be impeded. Also, although the Group has implemented sufficient information security measures to prevent any unauthorized access, but if leakage of data, including personal information, occurs due to an unpredictable event, costs will be incurred as a result of the necessity of dealing with such leakage.

#### **10) Impact of a disaster**

The Group is doing its utmost to ensure safe operations and prevent accidents, and at the same time, is strengthening systems and procedures to minimize damage in the event of a natural disaster. However, if an event exceeding expectations such as a large-scale disaster occurs, the Group may suffer major damage or manufacturing and/or shipment of products may be impeded.

## Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	FY2006	FY2005	Increase (Decrease)		FY2006	FY2005	Increase (Decrease)
<b>Assets</b>				<b>Liabilities</b>			
Current assets:				Current liabilities:			
Cash and time deposits	9,601	11,883	(2,281)	Trade notes and accounts payable	11,625	11,365	259
Trade notes and accounts receivable	27,325	26,970	355	Short-term loans	25,489	20,872	4,617
Inventories	15,263	15,398	(134)	Current portion of redeemable bonds within a year	5,000	-	5,000
Deferred income taxes	762	888	(126)	Income taxes	911	1,953	(1,041)
Other current assets	3,673	4,454	(781)	Accrued expenses	6,138	5,928	210
Allowance for doubtful accounts	(141)	(167)	25	Others	2,916	1,709	1,207
<b>Total current assets</b>	<b>56,485</b>	<b>59,428</b>	<b>(2,943)</b>	<b>Total current liabilities</b>	<b>52,081</b>	<b>41,828</b>	<b>10,253</b>
Fixed assets:				Long-term liabilities:			
Tangible fixed assets:				Bonds	8,498	13,500	(5,002)
Buildings and structures	22,853	22,608	244	Long-term debt	15,093	20,772	(5,678)
Machinery, equipment and vehicles	16,675	16,863	(187)	Reserve for employee retirement benefits	1,877	2,942	(1,065)
Land	24,690	26,415	(1,724)	Reserve for directors' retirement benefits	709	686	22
Construction in progress	6,536	1,906	4,629	Deferred tax liabilities	22,502	14,301	8,200
Others	1,018	916	101	Other liabilities	2,084	1,796	287
<b>Total tangible fixed assets</b>	<b>71,774</b>	<b>68,710</b>	<b>3,063</b>	<b>Total long-term liabilities</b>	<b>50,764</b>	<b>53,999</b>	<b>(3,235)</b>
Intangible fixed assets	822	546	276	<b>Total liabilities</b>	<b>102,846</b>	<b>95,828</b>	<b>7,018</b>
Investments and other assets:				<b>Minority interests</b>	<b>1,710</b>	<b>1,768</b>	<b>(57)</b>
Investment in securities	68,755	48,922	19,833	Shareholders' equity:			
Long-term loan receivable	710	604	106	Common stock	12,240	12,240	-
Deferred income taxes	1,113	1,055	58	Additional capital surplus	11,057	11,055	2
Prepaid pension cost	1,151	-	1,151	Retained earnings	49,269	45,674	3,594
Others	3,247	2,912	334	Unrealized gains on revaluation of securities	28,367	17,133	11,233
Allowance for doubtful accounts	(103)	(101)	(1)	Foreign currency translation adjustment	86	(8)	95
<b>Total investments and other assets</b>	<b>74,875</b>	<b>53,392</b>	<b>21,483</b>	Treasury stock, at cost	(1,619)	(1,613)	(6)
<b>Total fixed assets</b>	<b>147,472</b>	<b>122,649</b>	<b>24,822</b>	<b>Total Shareholders' equity</b>	<b>99,401</b>	<b>84,482</b>	<b>14,919</b>
<b>Total assets</b>	<b>203,958</b>	<b>182,078</b>	<b>21,879</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>203,958</b>	<b>182,078</b>	<b>21,879</b>

## (2) Consolidated Statements of Income

(Millions of yen)

	FY2006 From Apr. 1, 2005 To Mar. 31, 2006		FY2005 From Apr. 1, 2004 To Mar. 31, 2005		Increase (Decrease)	
	Amount	Ratio	Amount	Ratio	Amount	Change
		%		%		%
Net sales	227,421	100.0	224,360	100.0	3,060	1.4
Cost of sales	172,721	75.9	169,263	75.4	3,458	2.0
<b>Gross profit</b>	<b>54,699</b>	<b>24.1</b>	<b>55,096</b>	<b>24.6</b>	<b>(397)</b>	<b>(0.7)</b>
Selling, general and administrative expenses	47,414	20.9	46,938	20.9	475	1.0
<b>Operating income</b>	<b>7,285</b>	<b>3.2</b>	<b>8,158</b>	<b>3.6</b>	<b>(873)</b>	<b>(10.7)</b>
Other income:						
Interest income	51		49		1	
Dividend income	561		413		148	
Gain on sale of securities	514		43		471	
Equity in earnings of companies accounted for by the equity method	6		184		(178)	
Others	760		559		201	
<b>Total other income</b>	<b>1,894</b>	<b>0.8</b>	<b>1,250</b>	<b>0.6</b>	<b>643</b>	<b>51.5</b>
Other expenses:						
Interest expenses	749		815		(66)	
Others	810		988		(177)	
<b>Total other expenses</b>	<b>1,559</b>	<b>0.6</b>	<b>1,803</b>	<b>0.8</b>	<b>(243)</b>	<b>(13.5)</b>
<b>Ordinary income</b>	<b>7,620</b>	<b>3.4</b>	<b>7,605</b>	<b>3.4</b>	<b>14</b>	<b>0.2</b>
Extraordinary gains:						
Gain on sale of investment securities	521		759		(237)	
Gain on sale of fixed assets	271		1,240		(968)	
Gain on contribution of securities to retirement benefit trust	1,599		-		1,599	
Others	155		67		87	
<b>Total extraordinary income</b>	<b>2,548</b>	<b>1.1</b>	<b>2,067</b>	<b>0.9</b>	<b>481</b>	<b>23.3</b>
Extraordinary losses:						
Impairment loss	1,507		-		1,507	
Losses on revaluation of investment securities	81		78		2	
Loss on disposal of fixed assets	472		957		(485)	
Loss on doubtful accounts	8		199		(191)	
Others	533		297		236	
<b>Total extraordinary losses</b>	<b>2,603</b>	<b>1.2</b>	<b>1,533</b>	<b>0.7</b>	<b>1,070</b>	<b>69.8</b>
Income before income taxes	7,565	3.3	8,139	3.6	(574)	
Income taxes	2,151		3,042		(890)	
Deferred income taxes	640		336		304	
Minority interest	(65)	0.0	23	0.0	(88)	
<b>Net income</b>	<b>4,837</b>	<b>2.1</b>	<b>4,737</b>	<b>2.1</b>	<b>100</b>	<b>2.1</b>

**(3) Consolidated Statements of Retained Earnings**

(Millions of yen)

	FY2006		FY2005	
	From Apr. 1, 2005 To Mar. 31, 2006		From Apr. 1, 2004 To Mar. 31, 2005	
	Amount		Amount	
Capital surplus at beginning of the term:		11,055		11,053
Increase in capital surplus:				
Gain on disposal of treasury stocks	2	2	1	1
Capital surplus at end of the term:		11,057		11,055
Retained earnings at beginning of the term:		45,674		41,784
Increase in retained earnings:				
Net income	4,837		4,737	
Increase resulting from the increase in the number of consolidated subsidiaries	1		-	
Increase from the increase in the number of companies accounted for by the equity method	-	4,839	230	4,968
Decrease in retained earnings:				
Cash dividends	1,178		1,009	
Bonuses to directors and statutory auditors	66	1,244	67	1,077
Retained earnings at end of the term		49,269		45,674

**(4) Consolidated Statements of Cash Flows**

(Millions of yen)

	FY2006	FY2005
	From Apr. 1, 2005 To Mar. 31, 2006	From Apr. 1, 2004 To Mar. 31, 2005
<b>Cash flows from operating activities</b>		
Income before income taxes	7,565	8,139
Depreciation and amortization	5,200	5,184
Amortization of consolidation adjustment accounts	(10)	(9)
Decrease in reserve for employee retirement benefits	(233)	(256)
Increase in reserve for directors' retirement benefits	22	55
Gain on contribution of securities to retirement benefit trust	(1,599)	-
Increase (Decrease) in allowance for doubtful accounts	(23)	23
Loss on doubtful accounts	8	199
Impairment loss	1,507	-
Interest and dividend income	(612)	(462)
Interest expenses	749	815
Gain on sale of securities	(1,082)	(802)
Loss on revaluation of securities	81	78
Equity in earnings of companies accounted for by equity method	(6)	(184)
Exchange gain (loss)	(342)	69
Gain on sale of fixed assets	(271)	(1,240)
Loss on sale of fixed assets	144	805
Loss on disposal of fixed assets	388	248
Bonuses paid to directors and statutory auditors	(73)	(78)
(Increase) Decrease in notes and accounts receivable	(425)	71
Decrease in inventories	207	10
Increase (Decrease) in notes and accounts payable	266	(667)
Increase (Decrease) in consumption taxes payable	28	(229)
(Increase) Decrease in other receivables	211	(1,614)
Increase (Decrease) in other payables	171	(6)
Sub-total	11,874	10,150
Interest and dividends received	628	484
Interest paid	(756)	(833)
Payments for income taxes	(3,152)	(3,701)
<b>Net cash provided by operating activities</b>	<b>8,593</b>	<b>6,099</b>

(Millions of yen)

	FY2006 From Apr. 1, 2005 To Mar. 31, 2006	FY2005 From Apr. 1, 2004 To Mar. 31, 2005
<b>Cash flows from investing activities</b>		
Proceeds from sale and redemption of securities	26	32
Expenditure for purchase of fixed assets	(8,321)	(6,829)
Proceeds from sale of fixed assets	1,201	1,254
Expenditure for purchase of investment securities	(3,602)	(3,021)
Proceeds from sale and redemption of investment securities	3,241	3,099
Expenditure for sale of subsidiaries' shares affecting the scope of consolidation	(263)	-
Proceeds from acquisition of subsidiaries' shares affecting the scope of consolidation	-	325
Expenditure for purchase of goodwill	(489)	-
Expenditure for providing loan	(237)	(57)
Proceeds from collection of loans receivable	66	50
Others, net	(361)	(95)
<b>Net cash used in investing activities</b>	<b>(8,740)</b>	<b>(5,241)</b>
<b>Cash flows from financing activities</b>		
Net decrease of short-term loans	(540)	(592)
Proceeds from long-term debt	3,054	2,960
Repayments of long-term debt	(3,603)	(2,775)
Proceeds from issuance of bonds	-	8,000
Expenditure for redemption of bonds	-	(5,000)
Decrease in capital from liquidation of receivables	-	(6,000)
Expenditure for acquisition of treasury stock	(8)	(10)
Proceeds from sale of treasury stock	2	3
Dividends paid	(1,188)	(1,015)
<b>Net cash used in financing activities</b>	<b>(2,283)</b>	<b>(4,430)</b>
Effect of exchange rate changes on cash and cash equivalents	74	(19)
Decrease in cash and cash equivalents	(2,355)	(3,592)
Cash and cash equivalents at beginning of the term	11,883	15,308
Increase in cash and cash equivalents due to change in the scope of consolidation	73	167
Cash and cash equivalents at end of the term	9,601	11,883

## Segment Information

### (1) Business Segment Information

FY2006 (from April 1, 2005 to March 31, 2006)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated or Eliminations	Consolidated
I Net sales and operating income						
Net sales						
1) Net sales to external customers	87,775	114,021	25,624	227,421	-	227,421
2) Internal sales or transfers between segments	4,983	1,754	1,645	8,383	(8,383)	-
Total	92,759	115,775	27,269	235,804	(8,383)	227,421
Operating expenses	88,290	113,112	27,109	228,512	(8,377)	220,135
Operating income	4,468	2,663	160	7,291	(6)	7,285
II Assets, depreciation and amortization, and capital expenditure						
Assets	80,297	52,123	14,053	146,475	57,482	203,958
Depreciation and amortization	2,654	1,666	795	5,115	85	5,200
Capital expenditure	8,065	1,408	1,153	10,627	(513)	10,114

FY2005 (April 1, 2004 to March 31, 2005)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated or Eliminations	Consolidated
I 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	86,600	111,367	28,704	226,672	(10,470)	216,201
Operating income	4,910	3,126	163	8,200	(41)	8,158
II Assets, depreciation and amortization, and capital expenditure						
Assets	74,285	50,653	14,260	139,199	42,878	182,078
Depreciation and amortization	2,729	1,640	712	5,082	102	5,184
Capital expenditure	3,688	2,217	642	6,548	(136)	6,412

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, ready-made products
Others	Pet foods, health foods, food-related machinery and equipment

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

4. Of assets, principal items in the unallocated and eliminations category are the Company's surplus funds (cash and securities) and assets concerning management operations.

5. Depreciation and amortization and capital expenditure include long-term prepaid expenses and amortization thereof.

**(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.