

# Consolidated Financial Results for the First Half of FY2006

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 of Interim Accounts: November 9, 2005

Application of US Financial Accounting Standards: None

## 1. Consolidated Results for the First Half of FY2006 (Apr. 1, 2005 – Sept. 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 Half of FY2006	112,765	(0.3%)	3,405	(13.1%)	3,696	(1.9%)
First Half of FY2005	113,068	4.7%	3,917	18.4%	3,766	24.8%
FY2005	224,360	—	8,158	—	7,605	—

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
First Half of FY2006	2,140	(10.7%)	12.72	11.83
First Half of FY2005	2,396	37.5%	14.24	—
FY2005	4,737	—	27.77	27.59

Notes:

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

First half of FY2006: ¥ 23 million

First half of FY2005: ¥ 104 million

FY2005: ¥ 184 million

2) Average number of shares outstanding (consolidated):

First Half of FY2006: 168,292,324

First Half of FY2005: 168,271,575

FY2005: 168,270,905

3) Changes in accounting method: Yes

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

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

5) Fully diluted net income per share for the first half of fiscal 2005 is not indicated as there were no securities with dilutive effect.

**(2) Financial Position**

(Millions of yen, except for per share figures)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (Yen)
First Half of FY2006	191,361	91,489	47.8	543.63
First Half of FY2005	175,315	80,176	45.7	476.47
FY2005	182,078	84,482	46.4	501.60

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

First Half FY2006:	168,292,599
First Half FY2005:	168,270,376
FY2005:	168,295,936

**(3) 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 Half of FY2006	5,147	(4,053)	(851)	12,228
First Half of FY2005	3,689	(2,202)	(4,719)	12,078
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: 37

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

Number of affiliates accounted for by the equity method: 5

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

Newly consolidated subsidiaries: 1 (Excluded: 0)

Newly included under equity method: 1 (Excluded under equity method: 0)

**2. Forecast for the Full Year Business Results (Apr. 1, 2005 - Mar. 31, 2006)**

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
FY2006	228,000	7,800	8,000	4,800

Reference: Expected net income per share ¥28.52

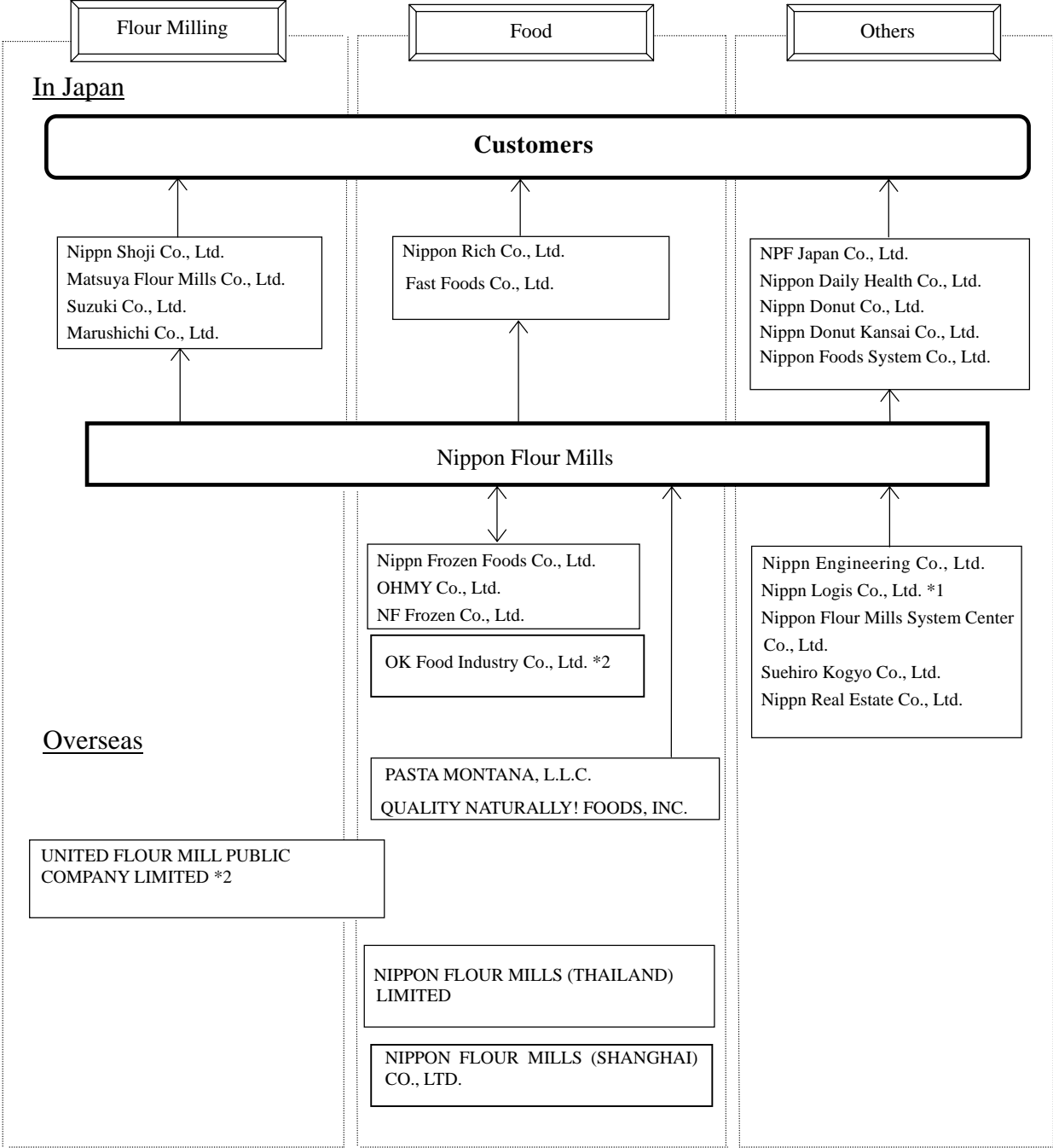
\*The above forecast has been prepared based on data as of the announcement date. Actual results may differ from the forecasted figures due to various factors such as fluctuations in exchange. See the accompanying reference page 12 regarding the forecast above.

# Nippon Flour Mills Group

Nippon Flour Mills Group (the Company and its affiliated companies) consists of the Company (Nippon Flour Mills Co., Ltd.), 52 subsidiaries, and 29 affiliates. Details of the Company’s core business segments follow:

- Flour Milling      Production and sale of wheat flour, bran, and buckwheat
- Food                Production and sale of premixes, pasta, frozen foods, and deli foods
- Others              Production and sale of pet food; engineering and foodservice operations

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



(Notes) → Flow of products and services

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

## Affiliated Companies

Name	Location	Share capital (Millions of yen)	Principal businesses	Ownership of voting rights (%)	Relationship
<b>(Consolidated subsidiaries)</b>					
Matsuya Flour Mills Co., Ltd.	Utsunomiya, Tochigi prefecture	40	Production and sale of buckwheat, sale of wheat flour	93.7	The Company sells the subsidiary's products. One shared corporate officer.
Nippon Shoji Co., Ltd.	Kobe, Hyogo prefecture	45	Sale of wheat flour, sugar, animal feed, etc.	93.2	The subsidiary sells the Company's products. Provision of offices.
Nippon Frozen Foods Co., Ltd.	Shibuya-ku, Tokyo	50	Production and sale of frozen ingredients	100	The Company purchases the subsidiary's products. One shared corporate officer.
OHMY Co., Ltd.	Shibuya-ku, Tokyo	80	Production and sale of pasta	100	The Company purchases the subsidiary's products. Two shared corporate officers.
Nippon Rich Co., Ltd.	Shibuya-ku, Tokyo	30	Sale of frozen ingredients	100	The subsidiary sells the Company's products.
Fast Foods Co., Ltd.	Hachioji, Tokyo	430	Production and sale of deli foods	75	The Company sells the subsidiary's products. One shared corporate officer.
NF Frozen Co., Ltd.	Isezaki, Gunma prefecture	30	Production and sale of frozen deli foods and frozen ingredients	100	The Company purchases the subsidiary's products. Provision of production facilities. Financial assistance. One shared corporate officers.
Nippon Donut Co., Ltd.	Shibuya-ku, Tokyo	20	Foodservice operations	100	The Company supplies raw materials. Provision of shops.
NPF Japan Co., Ltd.	Shibuya-ku, Tokyo	40	Production and sale of pet food	100	The Company sells the subsidiary's products.
Nippon Engineering Co., Ltd.	Shibuya-ku, Tokyo	20	Plant construction and the design, production, and sale of machinery equipment	100	The Company purchases the subsidiary's machinery equipment.
Others 27 companies	-	-	-	-	-
<b>(Non-consolidated subsidiaries to which the equity method is applied)</b>					
7 companies	-	-	-	-	-
<b>(Consolidated affiliates to which the equity method is applied)</b>					
UNITED FLOUR MILL PUBLIC Co., Ltd.	Bangkok, Thailand	400 millions of baht	Production and sale of wheat flour	20	One shared corporate officer.
OK Food Industry Co., Ltd.	Amagi, Fukuoka	1,859	Production and sale of flavored fried tofu	33.6	The Company has concluded a business partnership agreement with the consolidated affiliate.
Others (3 companies)	-	-	-	-	-

## 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 venturesome spirit at work when the Company was founded. Grounding its activities in this motto, today Nippon Flour Mills makes contributing to the welfare of society through excellent products and services the foundation of its business.

In addition to aggressively expanding into new business areas, the Company aims to increase competitive advantage through unflinching 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 intends to pay a cash dividend of ¥7 per share for fiscal 2006, including a common dividend of ¥6 and a commemorative dividend of ¥1 marking the 110th anniversary of the Company.

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

The Company considers reduction in trading units to be an effective measure for facilitating individual investors’ participation in the stock market and increasing liquidity of the Company’s shares. The Company will consider 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 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 five years time and ¥500 billion in 10 years time. Adhering to the corporate philosophy articulated in “Nippon’s Mission,” the Group will accord respect to shareholders, customers, partners, employees and all other stakeholders, and recognizing the central importance of corporate social responsibility (CSR), the Group will implement 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 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, multilateral and bilateral trade negotiations within the World Trade Organization (WTO) and free trade agreements (FTAs) are proceeding, and competition among companies is expected to intensify 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 (deli foods, foodstuffs for deli foods, frozen foods and lifestyle-related businesses), cutting-edge fields (biotechnology and environment-related businesses) and international business (in the pan-Pacific region).

- Inject resources to address 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 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 distribution and commercial distribution.
- Optimize and improve production and logistics 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", capitalizing on the "Oh'my" Brand 50<sup>th</sup> anniversary campaign (fiscal 2006) and the Company's 110<sup>th</sup> anniversary events (fiscal 2007).
- 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 assets 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. Enhance 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**

Although deregulation and privatization are expected to bring about a self-sustaining recovery of the Japanese economy in coming years, the outlook of the economy remains a source of concern due to uncertain factors such as oil prices, which have been high, and the prospects for the US economy and that of China. In the food industry, while shrinking of the Japanese market due to aging of the population

coupled with a low birth rate is a concern, opening of the market for agricultural produce is under way within the framework of the World Trade Organization (WTO) and free trade agreements (FTAs), and 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 increase profits by improving the top line and to strengthen business through further cost reduction based on the six elements of the 05/07 medium-term business plan, that is, business expansion in the priority fields, cutting-edge fields and overseas, strengthening of the core businesses, establishment of a highly profitable business structure, strengthening of the corporate brand, strengthening of the financial position, and harmony with society as a good corporate citizen.

The Group is cultivating the fundamentals that will enable it to respond effectively to the rapidly changing business environment, and thus, is reinforcing its position as a multifaceted food conglomerate enjoying the confidence and support of its shareholders, consumers, business partners, and other stakeholders. Also, the Group is emphasizing environmental friendliness in its R&D and product development as a part of its drive to strengthen the commitment to CSR.

## **(7) Basic Stance on Corporate Governance and Implementation of Measures to Strengthen Corporate Governance**

### **(Basic Stance on Corporate Governance)**

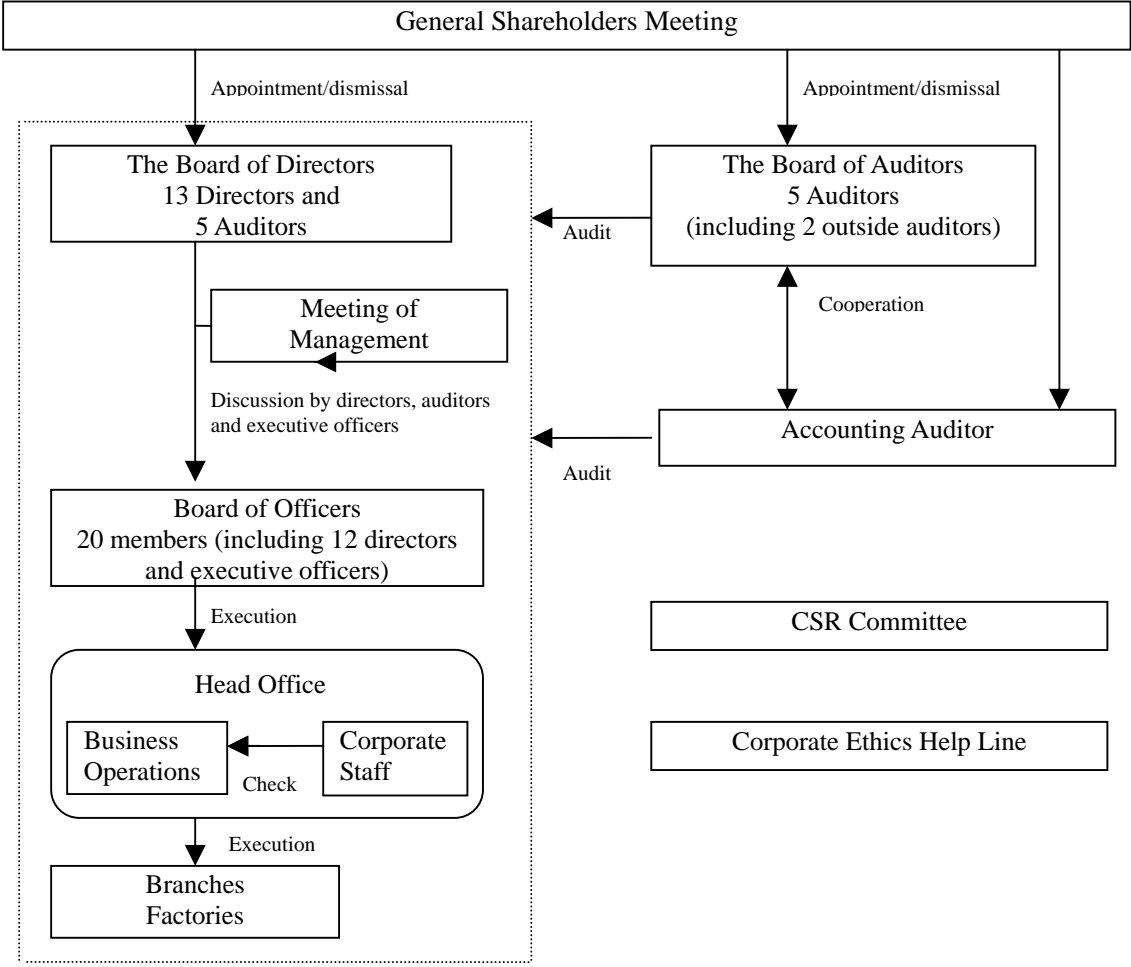
Mindful of our responsibilities as a food products manufacturer, we accord the top priority to food safety. Recognizing that ensuring corporate governance capable of earning the confidence of all stakeholders constitutes a vital task for management, we are continuously endeavoring to strengthen the fundamentals of the business.

### **(Implementation of Measures to Strengthen Corporate Governance)**

#### **1) Organizational structure**

Since the Company operates diverse businesses, we have introduced the executive officer system to enable swift decision-making by each business. The Board of Directors, which consists of 13 internal directors, of whom 12 are executive officers, and five auditors including two external auditors, focuses on decision-making concerning execution and supervision of execution. The Board of Officers consisting of directors, auditors and executive officers has been established to report and discuss important matters concerning business execution.

**2) Organizational structure and internal controls**



**3) Internal control systems and risk control systems**

Segregation of duties and authority are defined in regulations in order to clarify responsibilities, and procedures are prescribed for important matters.

With the aim of enhancing operational efficiency and ensuring management transparency and soundness, as well as speeding up and optimizing execution and clarifying responsibilities, functions of the head office have been divided into the business operations responsible for execution and corporate staff responsible for ensuring legal compliance.

The business operations, based on the information they gather and manage, issue specific instructions to branches and factories concerning routine execution. Matters concerning major capital investment and rights at business sites are decided by the president supported by the corporate staff and are supervised by the Board of Directors.

The Company has established the Standards of Conduct and the Action Guidelines indicating the corporate ethics required in order to fulfill corporate social responsibility and is promoting activities to ensure compliance with the Standards of Conduct and the Action Guidelines. Also, the Company has established the Corporate Ethics Help Line, an internal reporting system, to strengthen systems concerning legal compliance.

**4) Risk management system**

The Company has established the Basic Rules for Risk Management and a risk management system headed by the president, in order to ensure a well-targeted and swift response in the event of any emergency with a significant impact on the Company’s business.

At the product development phase, a stricter check system has been implemented to enable us to respond systematically to consumers’ questions and complaints, if any, concerning products from their perspective. Also, we have put in place a system for information disclosure and swift and thorough recovery in accordance with predetermined procedures in the event that any situation arises that may affect consumers’

health, such as a product defect or inappropriate labeling.

Timely disclosure of corporate information is becoming increasingly important and we are convinced efforts to provide timely disclosure lead to the honing of the Company's risk management. As one element of risk management, the Company is establishing an emergency response system and positions establishment of a reliable and stable internal system as a vital management issue.

#### **5) Internal audit and audit by corporate auditors**

Audit of the Company is mainly performed by corporate auditors.

The Company has five corporate auditors, of whom three are statutory auditors, and has assigned one employee exclusively to support the work of the corporate auditors.

In order to supervise directors' execution of their responsibilities, auditors attend meetings of the Board of Directors and other important meetings and implement necessary measures such as investigation of operations and expression of their opinion concerning directors etc. so as to ensure soundness of the Company's management.

Auditors audit legal compliance, risk management and internal control based on the audit plan determined by the Board of Auditors. Auditors are briefed by the accounting auditor on the audit plan and audit results and exchange information to facilitate cooperation.

#### **6) Relationship with the outside directors and auditors**

The Company has appointed two outside auditors who are attorneys and have contracts with the Company for legal advisory services. The Company has appointed no outside directors.

#### **(8) Matters concerning the Parent Company**

Not applicable.

## Operating Results and Financial Position

### (1) Operating Results

#### Operating Results for the First Six Months of the Current Fiscal Year

Overview of the operating results (Millions of yen, except for per share figures)

	First Half of FY2006	First Half of FY2005	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	112,765	113,068	(302)	(0.3)
Operating income	3,405	3,917	(512)	(13.1)
Ordinary income	3,696	3,766	(70)	(1.9)
Net income	2,140	2,396	(255)	(10.7)
Net income per share (Yen)	12.72	14.24	(1.52)	(10.7)

During the first six months of the fiscal year ending March 31, 2006, the Japanese economy was on a modest recovery track due to expanding private-sector capital investment backed by improvement in corporate earnings and robust personal consumption resulting from an 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.

In these circumstances, Nippon Flour Mills 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, so as to expand sales and increase profits.

To reinforce the partnership with affiliated companies in line with the 05/07 medium-term business plan, we acquired additional shares of OK Food Industry Co., Ltd., our business partner. 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.

As a result, consolidated net sales for the first six months were ¥112,765 million, a decrease of 0.3% compared with the same period of the previous year, ordinary income was ¥3,696 million, down 1.9%, and net income was ¥2,140 million, a decline of 10.7%.

The performance of individual business segments was as follows.

#### Flour Milling

While domestic demand for flour shows little or no growth, rising imports of premixes and flour-based products is fueling price competition. Also, WTO and FTA negotiations and the reform of the wheat policy promoted by the Ministry of Agriculture, Forestry and Fisheries of Japan may have a large impact on the flour milling sector. In these circumstances, the Group strengthened quality control to ensure food safety. Furthermore, to meet diversifying preferences regarding food, the Group developed new products, and engaged in vigorous marketing activities, including holding technical and management seminars and promoting proposal-driven marketing. As a result, shipment of flour was higher than in the same period of the previous year.

As a result of these developments, sales for the Flour Milling segment were ¥43,482 million, an increase of 1.3% year on year.

#### Food

While introducing distinctive new products catering to consumers whose aspirations are increasingly focused on wellbeing and safety, the Group executed vigorous marketing, including participation in various exhibitions and the holding of new product introduction seminars and training courses on Italian cuisine.

Sales of pasta products were brisk. Specifically, we strengthened the pasta line-up for home use by introducing new items to complement Oh, My Gold Pasta dried pasta and new pasta sauce products in the Oh, My Gu ga Jyujitsu Series, both of which were introduced in February 2005 to mark the 50th anniversary of the “Oh’my” Brand and have become very popular.

Although there was little growth in overall sales of premix products, sales of premix products for home use, especially those for *okonomiyaki* (Japanese-style savory pancakes) and fried chicken, increased.

Sales of frozen ingredients and frozen foods were lower than for the same period of the previous year. Although sales of frozen items for home use, such as Oh, My Premium Cod Roe and Squid Spaghetti, were strong, sales of items for the restaurant industry were sluggish.

Sales of deli products remained almost the same as the same period of the previous year.

As a result, sales for the Food segment were ¥56,335 million, a decrease of 1.3% year on year.

### **Others**

Although sales of natural cosmetics were sluggish, sales of pet food products and health foods were brisk. Sales of the engineering business were higher than in the same period of the previous year, but sales of the restaurant-related business and biotechnology business were lower.

As a result, sales for the other businesses were ¥12,947 million, a decrease of 1.1% year on year.

## Outlook for the Full Year

(Millions of yen, except for per share figures)

	FY2006 ( Forecasts )	FY2005 (Results)	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	228,000	224,360	3,640	1.6
Operating income	7,800	8,158	(358)	(4.4)
Ordinary income	8,000	7,605	395	5.2
Net income	4,800	4,737	63	1.3
Net income per share (Yen)	28.52	27.77	0.75	2.7

Although the Japanese economy is expected to achieve self-sustaining recovery thanks to the progress of structural reform such as privatization of the post office, the outlook for the Japanese economy remains unclear, because of various concerns, notably the sharp rise in oil prices and the outlook for the key economies of the U.S. and China.

In the food industry, while prices of raw materials and fuels have been rising, the domestic market has been shrinking and competition among companies is expected to further intensify.

In response to this challenging environment, the Group is making a concerted effort to further strengthen cost competitiveness and expand the business in a spirit of “speed & attack” based on the fundamental strategies set forth in the medium-term business plan.

### **Flour Milling**

We will continue to engage in aggressive marketing activities to expand market share. At the same time, we will work to increase sales by constructing new business models, proposing products that satisfy latent market needs, and increasing customer satisfaction. We will also move forward with cost reductions in every facet of operations: production, distribution, and sales.

Regarding the construction of the state-of-the-art large flour milling line and silo for raw materials at Chiba Mill, a ceremony marking the completion of the silo was held in October 2005 and construction of the flour milling line is underway as scheduled for the completion of the project in March 2006.

### **Food**

We will aggressively engage in the development and introduction of new products that satisfy consumer needs. Coinciding with the 50th anniversary of the “Oh’m’y” Brand, the Group will step up efforts in the field of food products for home use. In the deli products sector, in addition to sales of rice-based boxed lunches for convenience stores, we intend to promote sales of prepared noodles and ready-to-eat dishes. In the frozen food sector, we will develop high value-added products and open up new markets.

### **Others**

The market for health foods is expected to grow as people increasingly embrace healthy lifestyles and in view of the impact of the aging society. Accordingly, we are concentrating on development of grain-based products, a category in which the Company has great expertise. 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 ¥228.0 billion, operating income of ¥7.8 billion, ordinary income of ¥8.0 billion, and net income of ¥4.8 billion for fiscal 2006.

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

### Overview for the First Six Months of the Current Fiscal Year

(Millions of yen)

Item	First Half of FY2006	First Half of FY2005	Increase (Decrease)
Cash flows from operating activities	5,147	3,689	1,458
Cash flows from investing activities	(4,053)	(2,202)	(1,851)
Cash flows from financing activities	(851)	(4,719)	3,868
Effects of exchange rate changes on cash and cash equivalents	28	2	26
Net increase (decrease) in cash and cash equivalents	271	(3,229)	3,500
Cash and cash equivalents at the beginning of the term	11,883	15,308	(3,425)
Increase in cash and cash equivalents due to inclusion of an additional company	73	-	73
Cash and cash equivalents at the end of the term	12,228	12,078	150

**Net cash provided by operating activities** amounted to ¥5,147 million, having increased by ¥1.5 billion compared with the same period of the previous year. This increase was mainly attributable to the decrease in payments for income taxes and interest paid, decrease in inventories and decrease in notes and accounts receivable, although income before income taxes and depreciation and amortization were virtually unchanged from the same period of the previous year.

**Net cash used in investing activities** amounted to ¥4,053 million. The principal factor was purchase of fixed assets amounting to ¥4 billion, primarily for the expansion of Chiba Mill.

Free cash flow, calculated by subtracting cash used in investing activities from cash provided by operating activities, was ¥1,094 million.

**Net cash used in financing activities** was ¥850 million.

As a result, cash and cash equivalents at the end of the term under review was ¥12,228 million.

### Cash Flow Indicator Trends

	FY2004	First Half of FY2005	FY2005	First Half of FY2006
Equity ratio (%)	46.7	45.7	46.4	47.8
Equity ratio at market value (%)	47.0	44.4	49.2	41.5
Debt repayment period (years)	5.8	-	9.0	-
Interest coverage ratio (times)	8.4	7.8	7.3	14.1

Equity ratio: Shareholders' equity / Total assets

Equity ratio at market value: Market capitalization / Total assets

Debt repayment 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 term-end by the number of shares outstanding at term-end (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 (FTAs) 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 development**

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**

The Group is strengthening its product quality assurance system. However, recall of products may be required due to an unexpected eventuality (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 trend 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, 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.

## Interim Consolidated Financial Statements

### (1) Interim Consolidated Balance Sheets

(Millions of yen)

	1st Half FY2006	FY2005	Increase (Decrease)	1st Half FY2005		1st Half FY2006	FY2005	Increase (Decrease)	1st Half FY2005
<b>Assets</b>					<b>Liabilities</b>				
Current assets:					Current liabilities:				
Cash and time deposits	12,228	11,883	334	12,078	Trade notes and accounts payable	11,074	11,365	(291)	11,428
Trade notes and accounts receivable	26,729	26,970	(240)	26,528	Short-term loans	21,378	20,872	505	21,896
Inventories	14,440	15,398	(958)	14,687	Corporate bonds redeemable within one year	5,000	-	5,000	-
Deferred income taxes	833	888	(55)	791	Income taxes payable	1,356	1,953	(596)	1,812
Other current assets	3,536	4,454	(917)	3,187	Others	7,907	7,637	270	14,384
Allowance for doubtful accounts	(151)	(167)	15	(167)	<b>Total current liabilities</b>	<b>46,716</b>	<b>41,828</b>	<b>4,887</b>	<b>49,522</b>
<b>Total current assets</b>	<b>57,617</b>	<b>59,428</b>	<b>(1,811)</b>	<b>57,106</b>	Long-term liabilities:				
Fixed assets:					Bonds	8,498	13,500	(5,002)	5,500
Tangible fixed assets:					Long-term debt	20,113	20,772	(658)	20,775
Buildings and structures	22,913	22,608	305	23,088	Reserve for employee retirement benefits	1,797	2,942	(1,144)	3,053
Machinery, equipment and vehicles	16,842	16,863	(20)	17,609	Reserve for directors' retirement benefits	645	686	(41)	611
Land	24,904	26,415	(1,511)	27,219	Deferred tax liabilities	18,716	14,301	4,415	12,178
Construction in progress	3,414	1,906	1,508	144	Other liabilities	1,739	1,796	(57)	1,756
Others	1,042	916	125	953	<b>Total long-term liabilities</b>	<b>51,510</b>	<b>53,999</b>	<b>(2,489)</b>	<b>43,876</b>
Total tangible fixed assets	69,118	68,710	407	69,015	<b>Total liabilities</b>	<b>98,226</b>	<b>95,828</b>	<b>2,398</b>	<b>93,398</b>
Intangible fixed assets	598	546	51	565	<b>Minority interests</b>	<b>1,645</b>	<b>1,768</b>	<b>(122)</b>	<b>1,740</b>
Investments and other assets:					Shareholders' equity:				
Investment in securities	58,377	48,922	9,454	44,123	Common stock	12,240	12,240	-	12,240
Long-term loan receivable	723	604	119	615	Additional capital surplus	11,056	11,055	1	11,054
Deferred income taxes	1,064	1,055	9	1,064	Retained earnings	47,077	45,674	1,402	43,838
Others	3,957	2,912	1,044	3,206	Unrealized gains on investment in securities	22,717	17,133	5,583	14,622
Allowance for doubtful accounts	(94)	(101)	7	(381)	Foreign currency translation adjustment	13	(8)	22	35
Total investments and other assets	64,027	53,392	10,635	48,628	Treasury stock, at cost	(1,616)	(1,613)	(2)	(1,614)
<b>Total fixed assets</b>	<b>133,744</b>	<b>122,649</b>	<b>11,094</b>	<b>118,208</b>	<b>Total Shareholders' equity</b>	<b>91,489</b>	<b>84,482</b>	<b>7,007</b>	<b>80,176</b>
<b>Total assets</b>	<b>191,361</b>	<b>182,078</b>	<b>9,282</b>	<b>175,315</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>191,361</b>	<b>182,078</b>	<b>9,282</b>	<b>175,315</b>

## (2) Interim Consolidated Statements of Income

(Millions of yen)

	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005		1st Half FY2005 From Apr. 1, 2004 To Sept. 30, 2004		Increase (Decrease)		FY2005 From Apr. 1, 2004 To Mar. 31, 2005	
	Amount	Ratio	Amount	Ratio	Amount	Change	Amount	Ratio
Net sales	112,765	100.0	113,068	100.0	(302)	(0.3)	224,360	100.0
Cost of sales	85,771	76.1	85,416	75.5	354	0.4	169,263	75.4
Gross profit	26,993	23.9	27,651	24.5	(657)	(2.4)	55,096	24.6
Selling, general and administrative expenses	23,588	20.9	23,734	21.0	(145)	(0.6)	46,938	20.9
<b>Operating income</b>	<b>3,405</b>	<b>3.0</b>	<b>3,917</b>	<b>3.5</b>	<b>(512)</b>	<b>(13.1)</b>	<b>8,158</b>	<b>3.6</b>
Other income:								
Interest and dividend income	412		348		64		462	
Gain on sale of securities	339		24		314		43	
Equity in earnings of companies accounted for by the equity method	23		104		(81)		184	
Others	358		309		49		559	
Total other income	1,134	1.0	786	0.7	347	44.1	1,250	0.6
Other expenses:								
Interest expenses	359		455		(95)		815	
Others	483		481		1		988	
Total other expenses	842	0.8	937	0.9	(94)	(10.1)	1,803	0.8
<b>Ordinary income</b>	<b>3,696</b>	<b>3.3</b>	<b>3,766</b>	<b>3.3</b>	<b>(70)</b>	<b>(1.9)</b>	<b>7,605</b>	<b>3.4</b>
Extraordinary income:								
Gain on sale of investments in securities	-		296		(296)		759	
Gain on sale of fixed assets	215		90		125		1,240	
Gain on contribution to retirement benefit trust	1,599		-		1,599		-	
Others	74		-		74		67	
Total extraordinary income	1,890	1.7	386	0.3	1,503		2,067	0.9
Extraordinary losses:								
Impairment loss	1,507		-		1,507		-	
Evaluation loss of investments in securities	46		-		46		78	
Loss on disposal of fixed assets	40		72		(32)		957	
Bad-debt loss	-		-		-		199	
Special retirement benefits	-		93		(93)		-	
Others	228		21		206		297	
Total extraordinary losses	1,823	1.6	187	0.1	1,635		1,533	0.7
<b>Income before income taxes</b>	<b>3,763</b>	<b>3.3</b>	<b>3,966</b>	<b>3.5</b>	<b>(202)</b>	<b>(5.1)</b>	<b>8,139</b>	<b>3.6</b>
Income taxes	1,131		1,551		(419)		3,042	
Deferred income taxes	626		36		590		336	
Minority interest	(135)		(17)		(117)		23	
<b>Net income</b>	<b>2,140</b>	<b>1.9</b>	<b>2,396</b>	<b>2.1</b>	<b>(255)</b>	<b>(10.7)</b>	<b>4,737</b>	<b>2.1</b>

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

(Millions of yen)

	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005		1st Half FY2005 From Apr. 1, 2004 To Sept. 30, 2004		FY2005 From Apr. 1, 2004 To Mar. 31, 2005	
	Amount		Amount		Amount	
Capital surplus at beginning of the term:		11,055		11,053		11,053
Increase in capital surplus:						
Gain on disposal of treasury stocks	1	1	0	0	1	1
Capital surplus at end of the term:		11,056		11,054		11,055
Retained earnings at beginning of the term:		45,674		41,784		41,784
Increase in retained earnings:						
Net income	2,140		2,396		4,737	
Increase resulting from the increase in the number of consolidated subsidiaries	1		-		-	
Increase resulting from the increase in the number of companies accounted for by the equity method	-	2,142	230	2,627	230	4,968
Decrease in retained earnings:						
Cash dividends	673		504		1,009	
Bonuses to directors and statutory auditors	66	739	67	572	67	1,077
Retained earnings at end of the term		47,077		43,838		45,674

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

(Millions of yen)

	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005	1st Half FY2005 From Apr. 1, 2004 To Sept. 30, 2004	FY2005 From Apr. 1, 2004 To Mar. 31, 2005
<b>Cash flows from operating activities</b>			
Income before income taxes	3,763	3,966	8,139
Depreciation and amortization	2,559	2,484	5,184
Amortization of consolidation adjustment accounts	(5)	(4)	(9)
Decrease in reserve for employee retirement benefits	(134)	(145)	(256)
Increase (Decrease) in reserve for directors' retirement benefits	(41)	(19)	55
Gain on contribution to retirement benefit trust	(1,599)	-	-
Increase (Decrease) in allowance for doubtful accounts	(22)	(1)	23
Loss on doubtful accounts	-	-	199
Impairment loss	1,507	-	-
Interest and dividend income	(412)	(348)	(462)
Interest expenses	359	455	815
Gain on sale of securities	(339)	(321)	(802)
Loss on devaluation of securities	46	-	78
Equity in earnings of companies accounted for by equity method	(23)	(104)	(184)
Exchange (gain) loss	(154)	(29)	69
Gain on sale of fixed assets	(215)	(90)	(1,240)
Loss on sale of fixed assets	10	-	805
Loss on disposal of fixed assets	56	127	248
Bonuses paid to directors and statutory auditors	(73)	(67)	(78)
Decrease in notes and accounts receivable	259	552	71
Decrease in inventories	974	722	10
Decrease in notes and accounts payable	(297)	(568)	(667)
Increase (Decrease) in consumption taxes payable	53	(157)	(229)
(Increase) Decrease in other receivables	893	(98)	(1,614)
Decrease in other payables	(348)	(280)	(6)
Sub-total	6,818	6,069	10,150
Interest and dividends received	423	348	484
Interest paid	(365)	(474)	(833)
Payments for income taxes	(1,728)	(2,254)	(3,701)
<b>Net cash provided by operating activities</b>	<b>5,147</b>	<b>3,689</b>	<b>6,099</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale and redemption of securities	13	24	32
Purchase of fixed assets	(4,028)	(2,877)	(6,829)
Proceeds from sale of fixed assets	337	96	1,254
Purchase of investments in securities	(2,596)	(860)	(3,021)
Proceeds from sale and redemption of investments in securities	2,394	1,081	3,099
Proceeds from acquisition of shares of subsidiaries in line with change in the scope of consolidation	-	325	325
Lending of loans receivable	(129)	(35)	(57)
Collection of loans receivable	32	20	50
Others, net	(76)	22	(95)
<b>Net cash used in investing activities</b>	<b>(4,053)</b>	<b>(2,202)</b>	<b>(5,241)</b>

(Millions of yen)

	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005	1st Half FY2005 From Apr. 1, 2004 To Sept. 30, 2004	FY2005 From Apr. 1, 2004 To Mar. 31, 2005
<b>Cash flows from financing activities</b>			
Net increase (decrease) of short-term loans	(63)	366	(592)
Net increase (decrease) of commercial paper	-	6,000	-
Proceeds from long-term debt	1,831	707	2,960
Repayments of long-term debt	(1,935)	(282)	(2,775)
Proceeds from issuance of bonds	-	-	8,000
Expenditure for redemption of bonds	-	(5,000)	(5,000)
Decrease in capital from liquidating receivable	-	(6,000)	(6,000)
Acquisition of treasury stock	(9)	(2)	(10)
Proceeds from sale of treasury stock	6	1	3
Cash dividends paid by the Company	(680)	(509)	(1,015)
<b>Net cash used in financing activities</b>	(851)	(4,719)	(4,430)
Effect of exchange rate changes on cash and cash equivalents	28	2	(19)
Increase in cash and cash equivalents	271	(3,229)	(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	12,228	12,078	11,883

## Segment Information

### (1) Business Segment Information

Interim term under review (from April 1, 2005 to September 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	43,482	56,335	12,947	112,765	-	112,765
2) Internal sales or transfers between segments	2,381	1,035	652	4,069	(4,069)	-
Total	45,864	57,370	13,599	116,834	(4,069)	112,765
Operating expenses	43,734	56,105	13,604	113,443	(4,083)	109,360
Operating income	2,130	1,265	(5)	3,390	14	3,405

Previous interim term (April 1, 2004 to September 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	42,922	57,056	13,089	113,068	-	113,068
2) Internal sales or transfers between segments	2,570	1,826	1,248	5,644	(5,644)	-
Total	45,492	58,882	14,338	118,713	(5,644)	113,068
Operating expenses	42,941	57,335	14,487	114,765	(5,614)	109,150
Operating income	2,550	1,546	(149)	3,947	(30)	3,917

Previous fiscal year (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	86,600	111,367	28,704	226,672	(10,470)	216,201
Operating income	4,910	3,126	163	8,200	(41)	8,158

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, foodservice

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

**(2) Geographically Segmented Information**

Because net sales for Japan exceed 90% of aggregate net sales 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.