

January 31, 2006

Consolidated Financial Results for the Third Quarter of FY2006

Nippon Flour Mills Co., Ltd.
(URL <http://www.nippon.co.jp>)
Code Number: 2001

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

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

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

2. Consolidated Results for the Third Quarter of FY 2006 (April 1, 2005-December 31, 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	
Third Quarter of FY2006	171,961	0.9%	5,569	(9.3%)	5,926	2.5%
Third Quarter of FY2005	170,378	4.1%	6,140	9.0%	5,781	11.6%
[Reference] FY2005	224,360		8,158		7,605	

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Third Quarter of FY2006	3,525	1.1%	20.95	19.48
Third Quarter of FY2005	3,487	22.0%	20.73	-
[Reference] FY2005	4,737		27.77	27.59

Notes:

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

[Qualitative information on consolidated operating results]

During the third quarter of the fiscal year ending March 31, 2006, the Japanese economy was on a modest recovery track. Private-sector capital investment expanded backed by an improvement in corporate earnings and personal consumption was robust resulting from an upturn in the employment and personal income situations. However, there were uncertain factors, such as concerns that the economies of the U.S. and China may slow and persisting high oil prices. In the food industry, while the Japanese market continued to shrink due to aging of the population coupled with a low birth rate, competition for sales intensified, reflecting the persisting consumer focus on low prices. Thus, the food industry continued to operate in a tough business environment. 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, in order to expand sales and increase profits.

Consolidated net sales for the first three quarters were ¥171,961 million, an increase of 0.9% compared with the same period of the previous year, operating income was ¥5,569 million, down 9.3%, ordinary income was ¥5,926 million, up 2.5%, and net income was ¥3,525 million, an increase of 1.1%.

The performance of individual business segments was as follows.

In the Flour Milling segment, while domestic demand for flour showed little or no growth, rising imports of flour-based premixes and secondary processed products fueled price competition. As well as strengthening quality control to ensure food safety, the Group developed new products to meet customer needs and diversifying preferences regarding food and engaged in vigorous marketing activities, including holding technical seminars and promoting proposal-driven marketing. As a result, shipments of flour were higher than in the same period of the previous year. Sales of bran, a by-product, exceeded the level of the same period of the previous year owing to strong domestic demand for animal feed. Consequently, sales for the Flour Milling segment increased 1.7% from the same period of the previous year to ¥66,363 million.

Regarding expansion of Chiba Mill, construction of grain silos was completed in October 2005 and construction of a state-of-the-art large flour milling line (D Mill) is underway, on schedule for completion of the project in spring 2006.

In the Food segment, in addition to the introduction of distinctive new products attuned to consumers' aspirations concerning 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. Marking the 50th anniversary of the "Oh'my" Brand, the Group stepped up its efforts to further promote the home-use food business. Moreover, expansion of the international business by U.S. subsidiaries Quality Naturally! Foods, Inc. and Pasta Montana L.L.C. contributed to higher sales of premixes, pasta, frozen foods and deli products compared with the same period of the previous year. As a result, sales for the Food Segment increased 1.2% from the same period of the previous year to ¥86,071 million.

In the Other Businesses segment, while the pet food products business, the health foods business and the engineering business achieved solid performance, sales of the restaurant-related business and the natural cosmetics business were lower than in the same period of the previous year. As a result, sales for the Other Businesses segment were ¥19,525 million, a decrease of 2.7% compared with the same period of the previous year.

(2) Financial Position

(Millions of yen, except for per share figures)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (Yen)
Third Quarter of FY2006	199,747	96,144	48.1	571.30
Third Quarter of FY2005	178,454	82,351	46.1	489.41
[Reference] FY2005	182,078	84,482	46.4	501.60

(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
Third Quarter of FY2006	5,083	(7,017)	(1,988)	8,109
Third Quarter of FY2005	2,766	(5,081)	(5,389)	7,588
[Reference] FY2005	6,099	(5,241)	(4,430)	11,883

[Qualitative information on changes in the consolidated financial position]

At the end of the first three quarters, total assets and shareholders' equity were ¥17,668 million and ¥11,662 million higher than at the end of the previous year, respectively.

Net cash provided by operating activities amounted to ¥5,083 million. The principal factors included income before income taxes amounting to ¥5,983 million, income taxes paid amounting to ¥3.1 billion, reduction of inventories and increases in trade notes and accounts receivable and trade notes and accounts payable.

Net cash used in investing activities amounted to ¥7,017 million. The main item was purchase of fixed assets.

Net cash used in financing activities amounted to ¥1,988 million. The principal factors were cash dividends paid amounting to ¥1.2 billion and repayment of long-term debt.

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

(Millions of yen, except for per share figures)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Full year	228,000	7,800	8,000	4,800	28.52

[Qualitative information on forecasts]

The forecasts of the consolidated financial results for the full year are unchanged from the full-year forecasts announced on November 9, 2005.

*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.

Consolidated Financial Statements for the Third Quarter Ended December 31, 2005
Consolidated Balance Sheets

(Millions of yen)

	Third Quarter of FY2006 As of Dec. 31, 2005	FY2005 As of March 31, 2005	Increase (Decrease)	Third Quarter of FY2005 As of Dec. 31, 2004		Third Quarter of FY2006 As of Dec. 31, 2005	FY2005 As of March 31, 2005	Increase (Decrease)	Third Quarter of FY2005 As of Dec. 31, 2004
Assets					Liabilities				
Current assets:					Current liabilities:				
Cash and time deposits	8,109	11,883	(3,773)	7,588	Trade notes and accounts payable	12,421	11,365	1,056	12,121
Trade notes and accounts receivable	31,422	26,970	4,452	31,011	Short-term loans	25,405	20,872	4,533	20,956
Inventories	14,422	15,398	(976)	14,525	Corporate bonds redeemable within one year	5,000	-	5,000	-
Deferred income taxes	836	888	(52)	411	Income taxes payable	768	1,953	(1,184)	1,027
Other current assets	3,293	4,454	(1,161)	3,194	Others	8,850	7,637	1,213	15,428
Allowance for doubtful accounts	(161)	(167)	5	(166)	Total current liabilities	52,446	41,828	10,617	49,533
Total current assets	57,923	59,428	(1,504)	56,564	Long-term liabilities:				
Fixed assets:					Bonds	8,498	13,500	(5,002)	5,500
Tangible fixed assets:					Long-term debt	15,449	20,772	(5,322)	20,648
Buildings and structures	22,915	22,608	306	22,818	Reserve for employee retirement benefits	1,856	2,942	(1,086)	3,011
Machinery, equipment and vehicles	16,664	16,863	(198)	17,377	Reserve for directors' retirement benefits	679	686	(7)	648
Land	24,909	26,415	(1,505)	27,214	Deferred tax liabilities	21,185	14,301	6,884	13,239
Construction in progress	4,650	1,906	2,744	1,275	Other liabilities	1,739	1,796	(57)	1,762
Others	1,041	916	124	922	Total long-term liabilities	49,407	53,999	(4,591)	44,810
Total tangible fixed assets	70,181	68,710	1,470	69,608	Total liabilities	101,853	95,828	6,025	94,344
Intangible fixed assets	640	546	93	548	Minority interests	1,749	1,768	(18)	1,759
Investments and other assets:					Shareholders' equity				
Investment in securities	65,188	48,922	16,266	47,213	Common stock	12,240	12,240	-	12,240
Long-term loan receivable	717	604	113	609	Additional capital surplus	11,057	11,055	1	11,055
Deferred income taxes	1,078	1,055	23	1,057	Retained earnings	47,957	45,674	2,282	44,425
Others	4,106	2,912	1,194	3,236	Unrealized gains on investment in securities	26,390	17,133	9,256	16,240
Allowance for doubtful accounts	(90)	(101)	11	(383)	Foreign currency translation adjustment	116	(8)	125	8
Total investments and other assets	71,001	53,392	17,609	51,733	Treasury stock, at cost	(1,617)	(1,613)	(4)	(1,618)
Total fixed assets	141,823	122,649	19,173	121,890	Total Shareholders' equity	96,144	84,482	11,662	82,351
Total assets	199,747	182,078	17,668	178,454	Total liabilities, minority interests and shareholders' equity	199,747	182,078	17,668	178,454

Consolidated Statements of Income

(Millions of yen)

	Third Quarter of FY2006 From Apr. 1, 2005 To Dec. 31, 2005		Third Quarter of FY2005 From Apr. 1, 2004 To Dec. 31, 2004		Increase (Decrease)		[Reference] FY2005	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net sales	171,961	100.0	170,378	100.0	1,582	0.9	224,360	100.0
Cost of sales	130,458	75.9	128,556	75.5	1,902	1.5	169,263	75.4
Gross profit	41,502	24.1	41,821	24.5	(319)	(0.8)	55,096	24.6
Selling, general and administrative expenses	35,932	20.9	35,681	20.9	251	0.7	46,938	20.9
Operating income	5,569	3.2	6,140	3.6	(570)	(9.3)	8,158	3.6
Other income:								
Interest and dividend income	581		427		153		462	
Equity in earnings of companies accounted for by the equity method	67		148		(81)		184	
Others	902		425		476		602	
Total other income	1,550	0.9	1,001	0.6	549	54.8	1,250	0.6
Other expenses:								
Interest expenses	552		640		(88)		815	
Others	641		720		(78)		988	
Total other expenses	1,194	0.7	1,361	0.8	(167)	(12.3)	1,803	0.8
Ordinary income	5,926	3.4	5,781	3.4	145	2.5	7,605	3.4
Extraordinary income	1,911	1.1	386	0.2	1,524		2,067	0.9
Extraordinary losses	1,854	1.0	200	0.1	1,654		1,533	0.7
Income before income taxes	5,983	3.5	5,967	3.5	15	0.3	8,139	3.6
Income taxes	1,949		2,055		(106)		3,042	
Deferred income taxes	597		429		168		336	
Minority interest	(90)		(5)		(84)		23	
Net income	3,525	2.1	3,487	2.1	37	1.1	4,737	2.1

Consolidated Statements of Cash Flows

(Million of yen)

	Third Quarter of FY2006 From Apr. 1, 2005 To Dec. 31, 2005	Third Quarter of FY2005 From Apr. 1, 2004 To Dec. 31, 2004	[Reference] FY2005
Cash flows from operating activities			
Income before income taxes	5,983	5,967	8,139
Depreciation and amortization	4,002	3,810	5,184
Amortization of consolidation adjustment accounts	(7)	(6)	(9)
Decrease in reserve for employee retirement benefits	(163)	(187)	(256)
Increase (Decrease) in reserve for directors' retirement benefits	(7)	17	55
Gain on contribution to retirement benefit trust fund	(1,599)	-	-
Increase (Decrease) in allowance for doubtful accounts	(17)	(0)	23
Loss on doubtful accounts	-	-	199
Impairment loss	1,507	-	-
Interest and dividend income	(581)	(427)	(462)
Interest expenses	552	640	815
Gain on sale of securities	(416)	(335)	(802)
Loss on devaluation of securities	46	-	78
Equity in earnings of companies accounted for by equity method	(67)	(148)	(184)
Exchange (gain) loss	(224)	66	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	101	159	248
Bonuses paid to directors and statutory auditors	(73)	(67)	(78)
(Increase) Decrease in notes and accounts receivable	(4,401)	(3,929)	71
Decrease in inventories	1,011	883	10
Increase (Decrease) in notes and accounts payable	1,025	123	(667)
Increase (Decrease) in consumption taxes payable	357	120	(229)
(Increase) Decrease in other receivables	960	(345)	(1,614)
Increase (Decrease) in other payables	433	333	(6)
Sub-total	8,216	6,583	10,150
Interest and dividends received	593	427	484
Interest paid	(632)	(712)	(833)
Payments for income taxes	(3,093)	(3,532)	(3,701)
Net cash provided by operating activities	5,083	2,766	6,099
Cash flows from investing activities			
Proceeds from sale and redemption of securities	26	24	32
Purchase of fixed assets	(6,641)	(5,604)	(6,829)
Proceeds from sale of fixed assets	506	96	1,254
Purchase, sale and redemption of investment in securities	(689)	(73)	78
Proceeds from acquisition of shares of subsidiaries in line with change in the scope of consolidation	-	325	325
Lending of loans receivable	(132)	(38)	(57)
Collection of loans receivable	43	182	50
Others, net	(131)	5	(95)
Net cash used in investing activities	(7,017)	(5,081)	(5,241)
Cash flows from financing activities			
Net decrease of short-term loans	(696)	(982)	(592)
Net increase of commercial paper	-	7,000	-
Proceeds from long-term debt	2,454	1,760	2,960
Repayments of long-term debt	(2,556)	(1,149)	(2,775)
Proceeds from issuance of corporate bonds	-	-	8,000
Expenditure for redemption of corporate bonds	-	(5,000)	(5,000)
Decrease in capital from liquidating receivable	-	(6,000)	(6,000)
Acquisition of treasury stock	(12)	(7)	(10)
Proceeds from sale of treasury stock	8	3	3
Cash dividends paid	(1,185)	(1,014)	(1,015)
Net cash used in financing activities	(1,988)	(5,389)	(4,430)
Effect of exchange rate changes on cash and cash equivalents	74	(15)	(19)
Decrease in cash and cash equivalents	(3,847)	(7,719)	(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	8,109	7,588	11,883

Segment Information

1) Business Segment Information

Third Quarter of FY2006 (From April 1, 2005 to December 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	66,363	86,071	19,525	171,961	-	171,961
2) Internal sales or transfers between segments	3,711	1,470	1,181	6,363	(6,363)	-
Total	70,075	87,542	20,707	178,324	(6,363)	171,961
Operating expenses	66,738	85,458	20,554	172,751	(6,360)	166,391
Operating income	3,336	2,083	152	5,572	(2)	5,569

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

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

Third Quarter of FY2005 (From April 1, 2004 to December 31, 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	65,229	85,080	20,068	170,378	-	170,378
2) Internal sales or transfers between segments	3,832	2,438	1,871	8,141	(8,141)	-
Total	69,061	87,518	21,940	178,520	(8,141)	170,378
Operating expenses	65,232	85,155	21,936	172,324	(8,086)	164,237
Operating income	3,828	2,363	3	6,195	(55)	6,140

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

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	86,406	111,262	26,691	224,360	-	224,360
2) Internal sales or transfers between segments	5,103	3,232	2,175	10,511	(10,511)	-
Total	91,510	114,494	28,867	234,872	(10,511)	224,360
Operating expenses	86,600	111,367	28,704	226,672	(10,470)	216,201
Operating income	4,910	3,126	163	8,200	(41)	8,158

2) Geographically Segmented Information

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

3) Overseas Sales

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