

# Consolidated Financial Results for the First Half of FY2007

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 10, 2006

Application of US Financial Accounting Standards: None

## 1. Consolidated Results for the First Half of FY2007 (Apr. 1, 2006 – Sept. 30, 2006)

*\*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 FY2007	119,354	5.8 %	3,419	0.4 %	3,525	(4.6%)
First Half of FY2006	112,765	(0.3%)	3,405	(13.1 %)	3,696	(1.9%)
[Reference] FY2006	227,421	—	7,285	—	7,620	—

	Net Income		Net Income per Share	Fully Diluted Net Income per Share
First Half of FY2007	2,020	(5.6%)	12.01	11.17
First Half of FY2006	2,140	(10.7%)	12.72	11.83
[Reference] FY2006	4,837	—	28.43	26.44

Notes:

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

First half of FY2007: (¥22 million)

First half of FY2006: ¥23 million

FY2006: ¥ 6 million

2) Average number of shares outstanding (consolidated):

First Half of FY2007: 168,271,107

First Half of FY2006: 168,292,324

FY2006: 168,291,111

3) Changes in accounting method: None

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.

**(2) Consolidated Financial Position**

(Millions of yen, except for per share figures)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share
First Half of FY2007	206,900	99,224	47.0	578.03
First Half of FY2006	191,361	91,489	47.8	543.63
[Reference] FY2006	203,958	99,401	48.7	590.39

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

First Half FY2007:	168,266,245
First Half FY2006:	168,292,599
FY2006:	168,276,148

**(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 Term-End
First Half of FY2007	1,135	(5,041)	3,461	9,766
First Half of FY2006	5,147	(4,053)	(851)	12,228
[Reference] FY2006	8,593	(8,740)	(2,283)	9,601

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

Number of consolidated subsidiaries: 39

Number of unconsolidated subsidiaries accounted for by the equity method: 8

Number of affiliates accounted for by the equity method: 6

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

Newly consolidated subsidiaries: 4 (Excluded: 1)

Newly included under equity method: 2 (Excluded under equity method: 2)

**2. Forecast for the Full Year Business Results (Apr. 1, 2006 – Mar. 31, 2007)**

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
FY2007	240,000	7,800	4,900

Reference: Expected Net income per share (Full year) ¥29.12

\*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. See the accompanying reference page 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.), 56 subsidiaries, and 30 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 Food 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.

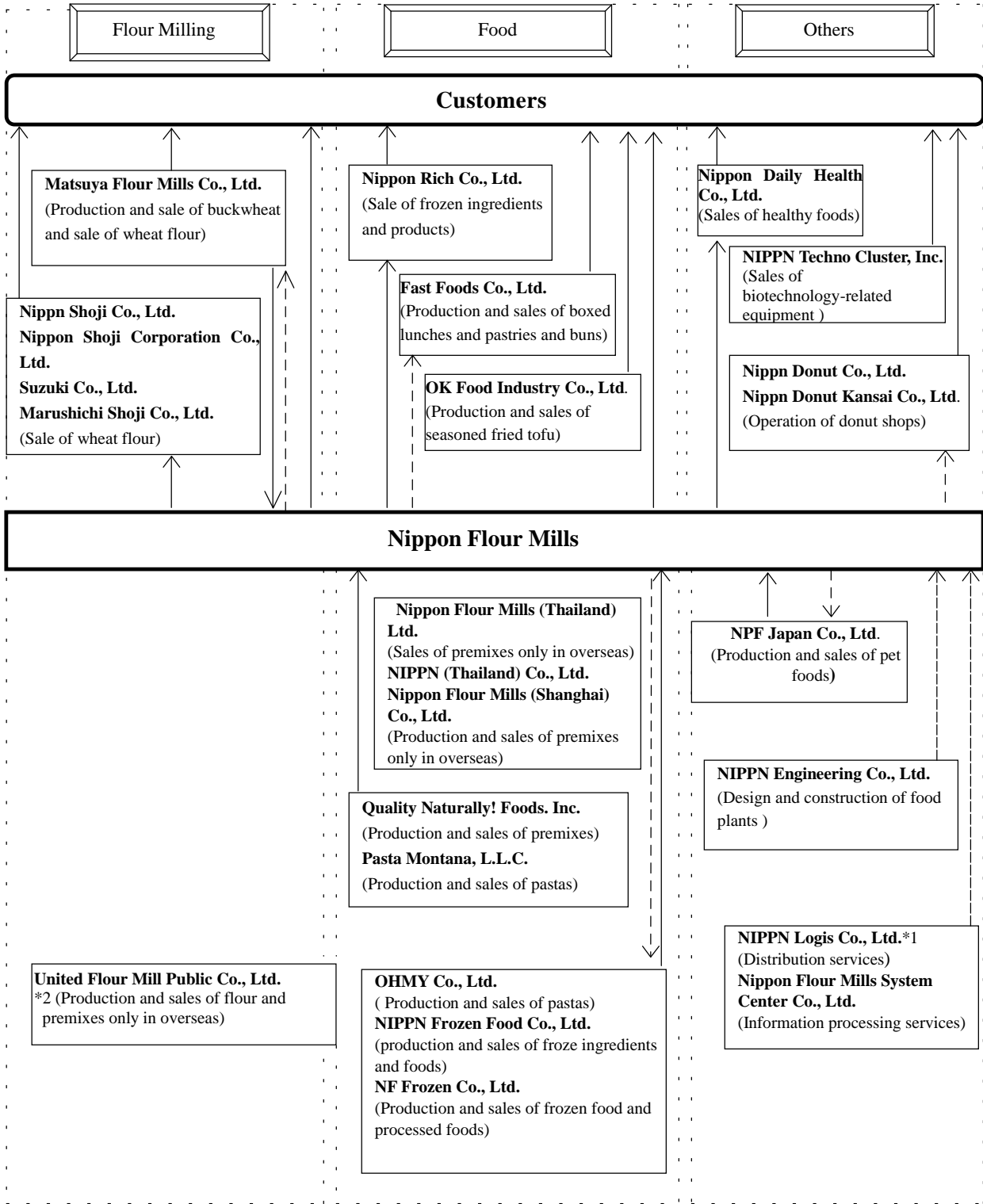
Nippon Flour Mills System Center Co., Ltd. is engaged in computer-based information processing and development of information processing systems.

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

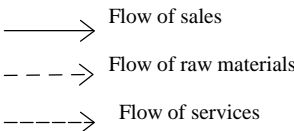
NIPPON Techno Cluster, Inc. sells biotechnology-related equipment.

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 shareholders.

Accordingly, the cash dividend for the full year will be ¥7 per share for FY2007.

### **(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.

## **(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, celebrated 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 Mills will continue to grow and flourish as a diversified food manufacturer trusted and admired by its stakeholders.

### 3. Operating Results and Financial Position

#### (1) Operating Results

##### —Operating Results for the First Six Months ended September 30, 2006—

Overview of the operating results		(Millions of yen, except for per share figures)		
	First Half of FY2007	First Half of FY2006	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	119,354	112,765	6,589	5.8
Operating income	3,419	3,405	14	0.4
Ordinary income	3,525	3,696	(170)	(4.6)
Net income	2,020	2,140	(120)	(5.6)
Net income per share (Yen)	12.01	12.72	(0.71)	(5.6)

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.

As part of this effort, in order to strengthen the ready-made food products business as the third pillar alongside flour milling and food, we acquired a controlling stake in Fast Foods Nagoya Co., Ltd., a boxed meals and delicatessen business in the Chukyo area centering on Nagoya, which has become a consolidated subsidiary.

Also, with the aim of expanding business overseas, we have established NIPPON (Thailand) Co., Ltd. in Thailand and construction of a premix plant is underway in the outskirts of Bangkok. Moreover, NIPPON California Inc., a subsidiary in Los Angeles, has started operation with the aim of expanding sales of ingredients and processed food for commercial use in North America.

Regarding the expansion of Chiba Mill, 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.

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 ¥119,354 million, an increase of 5.8% year on year, Operating income of ¥3,419 million, an increase of 0.4%, Ordinary income of ¥3,525 million, a decrease of 4.6%, and Net income of ¥2,020 million, a decrease of 5.6%.

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 is expected greatly change the environment of the flour milling industry.

In these circumstances, 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 in order to meet customer needs and diversifying preferences regarding food. .

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 increased slightly. As a result, the total volume of shipments was virtually unchanged from the same period of the previous year.

Demand for bran, a by-product, weakened due to the increase in the unit price compared with the same period of the previous year for bran for feed in Japan, which reflected the supply and demand situation and also competition from other raw materials for feed. However, sales of bran exceeded the level of the same period of the previous year

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

As a result, sales for the Flour Milling segment were ¥43,223 million, an decrease of 0.6% 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, the holding of new product introduction seminars and training courses on Italian cuisine.

Sales of pasta products increased both for commercial and home use. We strengthened the product line-up for home use by adding new items to the popular "Oh, My Gold Pasta Sauce" and the "Sekai no Oishii Soup" series of famous soups from around the world in retort pouches.

Sales of frozen ingredients and foods exceeded the level of the same period of the previous year as sales of frozen pasta for home use increased greatly.

Sales of ready-made products increased caused by the increase in the number of consolidated subsidiaries.

As a result of these developments, sales for the Food segment were ¥63,454 million, an increase of 12.6% 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 vigorously introducing new products, such as supplements containing linseed oil, a substance rich in alpha-linolenic acid, which is thought to contribute to the prevention of lifestyle-related diseases. However, sales of health foods declined from the same period of the previous year.

Sales of the biotechnology business and sales of the engineering business were both sluggish and were lower than for the previous year.

As a result, sales for the Other Businesses segment were ¥12,676 million, a decrease of 2.1% year on year.

—Outlook for the Year Ending March 31, 2007—

(Millions of yen)

	FY2007 (Forecasts)	FY2006 (Results)	Increase (Decrease)	
			Amount	Ratio (%)
Net sales	240,000	227,421	12,579	5.5
Ordinary income	7,800	7,620	180	2.4
Net income	4,900	4,837	63	1.3
Net income per share (Yen)	29.12	28.43	0.69	2.4

Although continued growth of the Japanese economy is expected due to further structural reforms spurred by the advent of the new government in October 2006, optimism is tempered due to several uncertain factors, notably concern about the slowing of the U.S. economy and unstable oil prices.

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 these circumstances, the Group will make a concerted effort to revitalize operations and increase efficiency in accordance with the basic policies set forth in the medium-term business plan so as to develop into a global multifaceted food company.

### **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 ¥240,000 million, operating income of ¥7,800 million and net income of ¥4,900 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 First Six Months ended September 30, 2006

(Summary)—

(Millions of yen)

Item	First Half of FY2007	First Half of FY2006	Increase (Decrease)
Cash flows from operating activities	1,135	5,147	(4,012)
Cash flows from investing activities	(5,041)	(4,053)	(988)
Cash flows from financing activities	3,461	(851)	4,312
Effects of exchange rate changes on cash and cash equivalents	(1)	28	(29)
Net increase (decrease) in cash and cash equivalents	(445)	271	(716)
Cash and cash equivalents at the beginning of the term	9,601	11,883	(2,282)
Increase in cash and cash equivalents due to inclusion of an additional company	611	73	538
Cash and cash equivalents at the end of the term	9,766	12,228	(2,462)

Regarding the financial position at the end of the first half of the fiscal year ending March 31, 2007, total assets were ¥206,900 million, an increase ¥2,900 million year on year and Net assets were ¥99,224 million.

**Net cash provided by operating activities** amounted to ¥1,135 million, having decreased compared with the same period of the previous year. Although income before income taxes was virtually the same as that for the same period of the previous year and payments for income taxes decreased, the increase in trade notes and accounts receivable, reflecting the fact that the last day of the first half of the current fiscal year fell on a holiday, was the main factor accounting for the decrease in net cash provided by operating activities.

**Net cash used in investing activities** amounted to ¥5,041 million. The principal factor was purchase of fixed assets amounting to ¥5.8 billion, primarily for the expansion of Chiba Mill.

**Net cash used in financing activities** was ¥3,461 million. Principal factors were redemption of bonds and an increase in long-term debt.

As a result, cash and cash equivalents at the end of the term under review was ¥9,766 million.

#### Cash Flow Indicator Trends

	FY2005	First Half of FY2006	FY2006	First Half of FY2007
Equity ratio (%)	46.4	47.8	48.7	47.0
Equity ratio at market value (%)	49.2	41.5	46.7	40.4
Debt repayment period (years)	9.0	-	6.3	-
Interest coverage ratio (times)	7.3	14.1	11.4	3.0

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 for the First Half of FY 2007

### (1) Consolidated Balance Sheets

(Millions of yen)

	1st Half FY2007	FY2006	Increase (Decrease)	1st Half FY2006		1st Half FY2007	FY2006	Increase (Decrease)	1st Half FY2006
<b>Assets</b>					<b>Liabilities</b>				
Current assets:					Current liabilities:				
Cash and time deposits	9,766	9,601	165	12,228	Trade notes and accounts payable	13,325	11,625	1,700	11,074
Trade notes and accounts receivable	33,403	27,325	6,077	26,729	Short-term loans	23,899	25,489	(1,589)	21,378
Inventories	15,067	15,263	(196)	14,440	Current portion of redeemable bonds within a year	500	5,000	(4,500)	5,000
Deferred tax assets	742	762	(19)	833	Accrued Income taxes	1,383	911	472	1,356
Other current assets	2,937	3,673	(736)	3,536	Other current liabilities	12,196	9,055	3,141	7,907
Allowance for doubtful accounts	(148)	(141)	(6)	(151)					
<b>Total current assets</b>	<b>61,769</b>	<b>56,485</b>	<b>5,283</b>	<b>57,617</b>	<b>Total current liabilities</b>	<b>51,305</b>	<b>52,081</b>	<b>(775)</b>	<b>46,716</b>
Fixed assets:					Long-term liabilities:				
Tangible fixed assets:					Bonds	8,098	8,498	(400)	8,498
Buildings and structures	28,018	22,853	5,165	22,913	Long-term debt	23,240	15,093	8,147	20,113
Machinery, equipment and vehicles	20,568	16,675	3,892	16,842	Reserve for employee retirement benefits	1,963	1,877	85	1,797
Land	24,679	24,690	(11)	24,904	Reserve for directors' retirement benefits	640	709	(68)	645
Construction in progress	490	6,536	(6,045)	3,414	Deferred tax liabilities	20,309	22,502	(2,192)	18,716
Other fixed assets	1,120	1,018	102	1,042	Other long-term liabilities	2,118	2,084	33	1,739
<b>Total tangible fixed assets</b>	<b>74,877</b>	<b>71,774</b>	<b>3,103</b>	<b>69,118</b>	<b>Total long-term liabilities</b>	<b>56,370</b>	<b>50,764</b>	<b>5,606</b>	<b>51,510</b>
Intangible fixed assets	854	822	31	598	<b>Total liabilities</b>	<b>107,676</b>	<b>102,846</b>	<b>4,830</b>	<b>98,226</b>
Investments and other assets:					<b>Minority interests</b>	-	1,710	-	1,645
Investment in securities	62,754	68,755	(6,000)	58,377	<b>Shareholders' equity</b>				
Long-term loan receivable	699	710	(11)	723	Common stock	-	12,240	-	12,240
Deferred tax assets	1,130	1,113	16	1,064	Additional capital surplus	-	11,057	-	11,056
Prepaid pension cost	1,645	1,151	493	-	Retained earnings	-	49,269	-	47,077
Others	3,354	3,247	106	3,957	Unrealized gains on revaluation of securities	-	28,367	-	22,717
Allowance for doubtful accounts	(184)	(103)	(80)	(94)	Foreign currency translation adjustment	-	86	-	13
					Treasury stock, at cost	-	(1,619)	-	(1,616)
					<b>Total shareholders' equity</b>	-	99,401	-	91,489
					<b>Total liabilities, minority interests and shareholders' equity</b>	-	203,958	-	191,361
					<b>Net assets</b>				
					Shareholders' equity				
					Common stock	12,240	-	-	-
					Additional capital surplus	11,057	-	-	-
					Retained earnings	50,559	-	-	-
					Treasury stock, at cost	(1,625)	-	-	-
					<b>Total shareholders' equity</b>	<b>72,232</b>	<b>-</b>	<b>-</b>	<b>-</b>
					Unrealized gains and adjustment				
					Unrealized gains on revaluation of securities	24,872	-	-	-
					Differed losses on hedges	(1)	-	-	-
					Foreign currency translation adjustment	160	-	-	-
					<b>Total unrealized gains and adjustment</b>	<b>25,030</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total investments and other assets</b>	<b>69,399</b>	<b>74,875</b>	<b>(5,476)</b>	<b>64,027</b>	Minority interests	1,961	-	-	-
<b>Total fixed assets</b>	<b>145,131</b>	<b>147,472</b>	<b>(2,340)</b>	<b>133,744</b>	<b>Total net assets</b>	<b>99,224</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>206,900</b>	<b>203,958</b>	<b>2,942</b>	<b>191,361</b>	<b>Total liabilities and net assets</b>	<b>206,900</b>	<b>-</b>	<b>-</b>	<b>-</b>

## (2) Interim Consolidated Statements of Income

(Millions of yen)

	1st Half FY2007 From Apr. 1, 2006 To Sept. 30, 2006		1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005		Increase (Decrease)		FY2006 From Apr. 1, 2005 To Mar. 31, 2006	
	Amount	Ratio	Amount	Ratio	Amount	Change	Amount	Ratio
Net sales	119,354	100.0	112,765	100.0	6,589	5.8	227,421	100.0
Cost of sales	91,763	76.9	85,771	76.1	5,991	7.0	172,721	75.9
Gross profit	27,591	23.1	26,993	23.9	597	2.2	54,699	24.1
Selling, general and administrative expenses	24,172	20.2	23,588	20.9	583	2.5	47,414	20.9
<b>Operating income</b>	<b>3,419</b>	<b>2.9</b>	<b>3,405</b>	<b>3.0</b>	<b>14</b>	<b>0.4</b>	<b>7,285</b>	<b>3.2</b>
Other income:								
Interest and dividend income	468		412		55		612	
Gain on sale of securities	329		339		(10)		514	
Others	184		382		(197)		766	
Total other income	981	0.8	1,134	1.0	(152)	(13.4)	1,894	0.8
Other expenses:								
Interest expenses	387		359		27		749	
Others	488		483		5		810	
Total other expenses	875	0.7	842	0.8	32	3.9	1,559	0.6
<b>Ordinary income</b>	<b>3,525</b>	<b>3.0</b>	<b>3,696</b>	<b>3.3</b>	<b>(170)</b>	<b>(4.6)</b>	<b>7,620</b>	<b>3.4</b>
Extraordinary income:								
Gain on sale of investments in securities	477		-		447		521	
Gain on sale of fixed assets	-		215		(215)		271	
Gain on contribution to retirement benefit trust	-		1,599		(1,599)		1,599	
Others	58		74		(16)		155	
Total extraordinary income	535	0.4	1,890	1.7	(1,354)	(71.6)	2,548	1.1
Extraordinary losses:								
Impairment loss	-		1,507		(1,507)		1,507	
Evaluation loss of investments in securities	96		46		49		81	
Provision for allowance for doubtful accounts	75		-		75		-	
Loss on disposal of fixed assets	51		40		11		472	
Others	43		228		(184)		542	
Total extraordinary losses	267	0.2	1,823	1.6	(1,555)	(85.3)	2,603	1.2
<b>Income before income taxes</b>	<b>3,794</b>	<b>3.2</b>	<b>3,763</b>	<b>3.3</b>	<b>30</b>	<b>0.8</b>	<b>7,565</b>	<b>3.3</b>
Income taxes	1,289		1,131		158		2,151	
Deferred income taxes	422		626		(203)		640	
Minority interest	61		(135)		197		(65)	
<b>Net income</b>	<b>2,020</b>	<b>1.7</b>	<b>2,140</b>	<b>1.9</b>	<b>(120)</b>	<b>(5.6)</b>	<b>4,837</b>	<b>2.1</b>

**(3) Interim Consolidated Statements of Retained Earnings  
and Consolidated Statements of Changes in Shareholders' Equity**

**Interim Consolidated Statements of Retained Earnings**

(Millions of yen)

	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005		1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2006	
	Amount		Amount	
Capital surplus at beginning of the term:		11,055		11,055
Increase in capital surplus:				
Gain on disposal of treasury stocks	1	1	2	2
Capital surplus at end of the term:		11,056		11,057
Retained earnings at beginning of the term:		45,674		45,674
Increase in retained earnings:				
Net income	2,140		4,837	
Increase resulting from the increase in the number of consolidated subsidiaries	1	2,142	1	4,839
Decrease in retained earnings:				
Cash dividends	673		1,178	
Bonuses to directors	66	739	66	1,244
Retained earnings at end of the term		47,077		49,269

**Consolidated Statements of Changes in Shareholders' Equity**

Interim closing for FY2007 (April 1, 2006 to September 30, 2006)

(Millions of yen)

	Shareholders' equity				
	Common shares	Capital surplus	Retained earnings	Treasury stocks	Total
Balance as of March 31, 2006	12,240	11,057	49,269	(1,619)	70,947
Amount of fluctuation during the fiscal year					
Dividend from retained earnings			(673)		(673)
Bonuses for directors			(57)		(57)
Net profit			2,020		2,020
Purchase of treasury stocks				(6)	(6)
Retirement of treasury stock		0		0	0
Amount of fluctuation of items other than shareholders' equity during the consolidated fiscal year (net)					
Amount of fluctuation during the fiscal year		0	1,289	(5)	1,284
Balance as of September 30, 2006	12,240	11,057	50,559	(1,625)	72,232

	Unrealized gains and adjustments				Minority interest	Total net assets
	Unrealized gains on other securities	Deferred gains on hedges	Adjustment account for foreign currency exchange	Total		
Balance as of March 31, 2006	28,367	-	86	28,453	1,710	101,111
Amount of fluctuation during the fiscal year						
Dividend from retained earnings						(673)
Bonuses for directors						(57)
Net profit						2,020
Purchase of treasury stocks						(6)
Retirement of treasury stock						0
Amount of fluctuation of items other than shareholders' equity during the consolidated fiscal year (net)	(3,494)	(1)	73	(3,423)	251	(3,171)
Amount of fluctuation during the fiscal year	(3,494)	(1)	73	(3,423)	251	(1,887)
Balance as of September 30, 2006	(24,872)	(1)	160	25,030	1,961	99,224

Note: Appropriation of retained earnings approved at the general meeting of shareholders for the fiscal year ended March 31, 2006

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

(Millions of yen)

	1st Half FY2007 From Apr. 1, 2006 To Sept. 30, 2006	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005	FY2006 From Apr. 1, 2005 To Mar. 31, 2006
<b>Cash flows from operating activities</b>			
Income before income taxes	3,794	3,763	7,565
Depreciation and amortization	2,793	2,559	5,200
Decrease (Increase) in prepaid pension cost and reserve for employee retirement benefits	(557)	(134)	(233)
Increase (Decrease) in reserve for directors' retirement benefits	68	(41)	22
Gain on contribution to retirement benefit trust	-	(1,599)	(1,599)
Increase (Decrease) in allowance for doubtful accounts	82	(22)	(23)
Impairment loss	-	1,507	1,507
Interest and dividend income	(468)	(412)	(612)
Interest expenses	387	359	749
Gain on sale of securities	(806)	(339)	(1,082)
Loss on devaluation of securities	96	46	81
Gain on sale of fixed assets	-	(215)	(271)
Loss on disposal of fixed assets	94	67	533
Bonuses paid to directors	(58)	(73)	(73)
(Increase) Decrease in notes and accounts receivable	(5,365)	259	(425)
Decrease in inventories	274	974	207
Increase (Decrease) in notes and accounts payable	943	(297)	266
Others, net	730	415	61
Sub-total	2,008	6,818	11,874
Interest and dividends received	477	423	628
Interest paid	(377)	(365)	(756)
Payments for income taxes	(972)	(1,728)	(3,152)
<b>Net cash provided by operating activities</b>	1,135	5,147	8,593
<b>Cash flows from investing activities</b>			
Purchase of fixed assets	(5,750)	(4,028)	(8,321)
Proceeds from sale of fixed assets	48	337	1,201
Purchase of investments in securities	(1,034)	(2,596)	(3,602)
Proceeds from sale and redemption of investments in Securities	1,296	2,394	3,241
Proceeds from acquisition of subsidiaries' shares affecting the scope of consolidation	386	-	-
Lending of loans receivable	(12)	(129)	(237)
Collection of loans receivable	98	32	66
Others, net	(74)	(62)	(1,087)
<b>Net cash used in investing activities</b>	(5,041)	(4,053)	(8,740)

(Millions of yen)

	1st Half FY2007 From Apr. 1, 2006 To Sept. 30, 2006	1st Half FY2006 From Apr. 1, 2005 To Sept. 30, 2005	FY2006 From Apr. 1, 2005 To Mar. 31, 2006
<b>Cash flows from financing activities</b>			
Net increase (decrease) of short-term loans	(91)	(63)	(540)
Net increase (decrease) of commercial paper	3,000	-	-
Proceeds from long-term debt	8,816	1,831	3,054
Repayments of long-term debt	(2,571)	(1,935)	(3,603)
Expenditure for redemption of bonds	(5,000)	-	-
Acquisition of treasury stock	(6)	(9)	(8)
Proceeds from sale of treasury stock	0	6	2
Cash dividends paid by the Company	(686)	(680)	(1,188)
<b>Net cash provided by (used in) financing activities</b>	<b>3,461</b>	<b>(851)</b>	<b>(2,283)</b>
Effect of exchange rate changes on cash and cash equivalents	(1)	28	74
Increase in cash and cash equivalents	(445)	271	(2,355)
Cash and cash equivalents at beginning of the term	9,601	11,883	11,883
Increase in cash and cash equivalents due to inclusion of an additional subsidiary	611	73	73
Cash and cash equivalents at end of the term	<b>9,766</b>	<b>12,228</b>	<b>9,601</b>

## Segment Information

### (1) Business Segment Information

Interim term under review (from April 1, 2006 to September 30, 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	43,223	63,454	12,676	119,354	-	119,354
2) Internal sales or transfers between segments	2,641	408	1,521	4,572	(4,572)	-
Total	45,865	63,863	14,198	123,927	(4,572)	119,354
Operating expenses	43,975	62,324	14,159	120,459	(4,523)	115,935
Operating income	1,889	1,539	39	3,467	(48)	3,419

Previous interim term (April 1, 2005 to September 30, 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	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 fiscal year (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

Notes: 1. Business segmentation method

Business segmentation is based on considerations of similarities between product types and markets.

2. Classification of main products by business segment

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

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

**(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.