

Consolidated Financial Results for the Third Quarter of FY2007

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 in part of the calculation of tax expenses.
- (2) Difference in the accounting method from the method applied for the most recent fiscal year: None
- (3) Change in the scope of consolidation and application of the equity method: Yes
Newly consolidated subsidiaries: 4 (Excluded from consolidation: 1)
Newly included under equity method: 2 (Excluded under equity method: 2)

2. Consolidated Results for the Third Quarter of FY 2007 (April 1, 2006-December 31, 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	
Third Quarter of FY2007	180,941	5.2%	4,886	(12.3%)	5,249	(11.4%)
Third Quarter of FY2006	171,961	0.9%	5,569	(9.3%)	5,926	2.5%
[Reference] FY2006	227,421		7,285		7,620	

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Third Quarter of FY2007	3,283	(6.9%)	19.54	18.16
Third Quarter of FY2006	3,525	1.1%	20.95	19.48
[Reference] FY2006	4,837		28.43	26.44

Notes: Numbers in percentage points alongside net sales, operating income, ordinary income, and net income indicate percentage increase/decrease from the same period of the previous year.

[Qualitative information on consolidated operating results]

During the third quarter of the year ending March 31, 2007, the food industry continued to operate in a challenging business environment as sharp increases in oil prices and a depreciating yen pushed raw material costs higher while the Japanese market continued to shrink due to a declining population and an aging society combined with low birthrates. 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 well as to strengthen quality control to ensure food safety and reliability.

Consolidated net sales for the first three quarters were ¥180,941 million, an increase of 5.2% compared with the same period of the previous year, operating income was ¥4,886 million, down 12.3%, ordinary income was ¥5,249 million, down 11.4%, and net income was ¥3,283 million, a decrease of 6.9%. The performance of individual business segments was as follows.

In the Flour Milling segment, while domestic demand for wheat flour has shown little or no growth in recent years, sales competition among companies has intensified. In this situation, the Group engaged in development of new products and vigorous marketing activities including holding of technical and management seminars and promotion of proposal-driven marketing in order to meet customer needs and diversifying preferences concerning food. As a result, wheat flour sales volume was virtually unchanged from the same period of the previous year. Sales of wheat bran, a by-product, and revenues from the warehousing and harbor transport businesses exceeded the level of the same period of the previous year. Consequently, sales for the Flour Milling segment were ¥66,005 million, a decrease of 0.5% compared with the same period of the previous year.

Regarding the expansion of Chiba Mill, construction of a large flour milling line (D Mill) was completed in April 2006. As a result, the Group's infrastructure for the supply of products to the East Japan area has been secured.

In the Food segment, 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 exhibitions, the holding of new product introduction seminars and training courses on Italian cuisine. Sales of premixes, pasta, frozen food products both for commercial and home use exceeded the level of the same period of the previous year. Sales of deli products increased caused by the increase in the number of consolidated subsidiaries. As a result of these developments, sales for the Food segment were ¥95,516 million, an increase of 11.0% year on year.

In the Other Businesses segment, sales of the pet food products increased. The health food products operation sought to increase sales by vigorously introducing new products, such as supplements containing linseed oil. Sales of the biotechnology business and sales of the engineering business were both lower than for the previous year. As a result, sales for the Other Businesses segment were ¥19,419 million, a decrease of 0.5% year on year.

(2) Consolidated Financial Position *Amounts under one million yen have been rounded down.

(Millions of yen, except for per share figures)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
Third Quarter of FY2007	204,711	99,001	47.4	579.90
Third Quarter of FY2006	199,747	96,144	48.1	571.30
[Reference] FY2006	203,958	99,401	48.7	590.39

(Consolidated Cash Flows) *Amounts under one million yen have been rounded down.

(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 FY2007	2,857	(6,662)	726	7,165
Third Quarter of FY2006	5,083	(7,017)	(1,988)	8,109
[Reference] FY2006	8,593	(8,740)	(2,283)	9,601

[Qualitative information on changes in the consolidated financial position]

Regarding the financial position at the end of the third quarter of the fiscal year ending March 31, 2007, total assets were ¥204,711 million, an increase ¥752 million year on year and net assets were ¥99,001 million.

Net cash provided by operating activities amounted to ¥2,857 million, having decreased compared with the same period of the previous year. Although income before income taxes increased and payments for income taxes decreased, the increase in trade notes and accounts receivable and inventories were the main factor accounting for the decrease in net cash provided by operating activities.

Net cash used in investing activities amounted to ¥6,662 million. The main factor was purchase of fixed assets.

Net cash provided by financing activities amounted to ¥726 million. The principal factors were redemption of bonds, an increase in long-term debt and issued commercial paper.

(Reference)**Forecast of the Consolidated Financial Results for FY 2007 (April 1, 2006-March 31, 2007)**

(Millions of yen)

	Net Sales	Operating Income	Net Income
Full year	240,000	7,000	4,400

(Reference) Expected net income per share (Full year) ¥26.18

Forecast of the Non-Consolidated Financial Results for FY 2007 (April 1, 2006-March 31, 2007)

(Millions of yen)

	Net Sales	Operating Income	Net Income
Full year	162,000	5,200	3,400

(Reference) Expected net income per share (Full year) ¥20.23

[Qualitative information on forecasts]

The forecasts of the consolidated and non-consolidated financial results for the year ending March 31, 2007, taking into consideration the results for the third quarter, management's forecasts announced on November 10, 2006, have been revised for ordinary income and net income as indicated above.

Note: 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, 2006
Consolidated Balance Sheets

(Millions of yen)

	Third Quarter of FY2007 as of Dec. 31, 2006	FY2006 as of Mar. 31, 2006	Increase (Decrease)	Third Quarter of FY2006 as of Dec. 31, 2005		Third Quarter of FY2007 as of Dec. 31, 2006	FY2006 as of Mar. 31, 2006	Increase (Decrease)	Third Quarter of FY2006 as of Dec. 31, 2005
Assets					Liabilities				
Current assets					Current liabilities				
Cash and time deposits	7,205	9,601	(2,396)	8,109	Trade notes and accounts payable	13,746	11,625	2,121	12,421
Trade notes and accounts receivable	34,099	27,325	6,773	31,422	Short-term loans	18,329	25,489	(7,159)	25,405
Inventories	15,658	15,263	394	14,422	Current portion of redeemable bonds within a year	500	5,000	(4,500)	5,000
Deferred tax assets	596	762	(165)	836	Commercial paper	7,000	-	7,000	-
Other current assets	3,174	3,673	(499)	3,293	Accrued income taxes	1,198	911	287	768
Allowance for doubtful accounts	(150)	(141)	(8)	(161)	Other current liabilities	9,030	9,055	(25)	8,850
Total current assets	60,583	56,485	4,097	57,923	Total current liabilities	49,805	52,081	(2,276)	52,446
Fixed assets:					Long-term liabilities:				
Tangible fixed assets:					Bonds	8,098	8,498	(400)	8,498
Buildings and structures	28,049	22,853	5,196	22,915	Long-term debt	23,166	15,093	8,073	15,449
Machinery, equipment and vehicles	20,464	16,675	3,789	16,664	Reserve for employee retirement benefits	1,959	1,877	82	1,856
Land	24,673	24,690	(17)	24,909	Reserve for directors' retirement benefits	677	709	(32)	679
Construction in progress	119	6,536	(6,417)	4,650	Deferred tax liabilities	19,978	22,502	(2,523)	21,185
Other fixed assets	1,140	1,018	122	1,041	Other long-term liabilities	2,023	2,084	(60)	1,739
Total tangible fixed assets	74,447	71,774	2,673	70,181	Total long-term liabilities	55,904	50,764	5,139	49,407
Intangible fixed assets	880	822	57	640	Total liabilities	105,709	102,846	2,863	101,853
Investments and other assets:					Minority interests	-	1,710	-	1,749
Investment in securities	62,462	68,755	(6,293)	65,188	Shareholders' equity				
Long-term loan receivable	689	710	(20)	717	Common stock	-	12,240	-	12,240
Deferred tax assets	1,125	1,113	11	1,078	Additional capital surplus	-	11,057	-	11,057
Prepaid pension cost	1,749	1,151	597	-	Retained earnings	-	49,269	-	47,957
Others	3,226	3,247	(20)	4,106	Unrealized gains on revaluation of securities	-	28,367	-	26,390
Allowance for doubtful accounts	(453)	(103)	(350)	(90)	Foreign currency translation adjustment	-	86	-	116
					Treasury stock, at cost	-	(1,619)	-	(1,617)
					Total shareholders' equity	-	99,401	-	96,144
					Total liabilities, minority interests and shareholders' equity	-	203,958	-	199,747
					Net assets				
					Shareholders' equity				
					Common stock	12,240	-	-	-
					Additional capital surplus	11,057	-	-	-
					Retained earnings	51,232	-	-	-
					Treasury stock, at cost	(2,070)	-	-	-
					Total shareholders' equity	72,461	-	-	-
					Unrealized gains and adjustment				
					Unrealized gains on revaluation of securities	24,186	-	-	-
					Differed gains on hedges	1	-	-	-
					Foreign currency translation adjustment	347	-	-	-
					Total unrealized gains and adjustment	24,535	-	-	-
Total investments and other assets	68,799	74,875	(6,076)	71,001	Minority interests	2,005	-	-	-
Total fixed assets	144,127	147,472	(3,344)	141,823	Total net assets	99,001	-	-	-
Total assets	204,711	203,958	752	199,747	Total liabilities and net assets	204,711	-	-	-

Consolidated Statements of Income

(Millions of yen)

	Third Quarter of FY2007		Third Quarter of FY2006		Increase (Decrease)		[Reference] FY2006	
	From Apr. 1, 2006 To Dec. 31, 2006		From Apr. 1, 2005 To Dec. 31, 2005					
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%		%
I Net sales	180,941	100.0	171,961	100.0	8,980	5.2	227,421	100.0
II Cost of sales	139,270	77.0	130,458	75.9	8,811	6.8	172,721	75.9
Gross profit	41,671	23.0	41,502	24.1	169	0.4	54,699	24.1
III Selling, general and administrative expenses	36,784	20.3	35,932	20.9	852	2.4	47,414	20.9
Operating income	4,886	2.7	5,569	3.2	(683)	(12.3)	7,285	3.2
IV Other income:								
Interest and dividend income	705		581		123		612	
Others	815		969		(153)		1,281	
Total other income	1,520	0.8	1,550	0.9	(30)	(1.9)	1,894	0.8
V Other expenses:								
Interest expenses	587		552		35		749	
Others	569		641		(71)		810	
Total other expenses	1,157	0.6	1,194	0.7	(36)	(3.1)	1,559	0.6
Ordinary income	5,249	2.9	5,926	3.4	(676)	(11.4)	7,620	3.4
VI Extraordinary income	1,583	0.9	1,911	1.1	(328)	(17.2)	2,548	1.1
VII Extraordinary losses	587	0.3	1,854	1.0	(1,267)	(68.3)	2,603	1.2
Income before income taxes	6,245	3.5	5,983	3.5	262	4.4	7,565	3.3
Income taxes	2,219		1,949		270		2,151	
Deferred income taxes	660		597		63		640	
Minority interest	81		(90)		171		(65)	
Net income	3,283	1.8	3,525	2.1	(242)	(6.9)	4,837	2.1

Consolidated Statements of Cash Flows

(Millions of yen)

	Third Quarter of FY2007 From Apr. 1, 2006 To Dec. 31, 2006	Third Quarter of FY2006 From Apr. 1, 2005 To Dec. 31, 2005	[Reference] FY2006
Cash flows from operating activities			
Income before income taxes	6,245	5,983	7,565
Depreciation and amortization	4,342	4,002	5,200
Increase in notes and accounts receivable	(6,021)	(4,401)	(425)
(Increase) Decrease in inventories	(301)	1,011	207
Increase in notes and accounts payable	1,364	1,025	266
Others, net	(927)	595	(940)
Sub-total	4,701	8,216	11,874
Interest and dividends received	712	593	628
Interest paid	(573)	(632)	(756)
Payments for income taxes	(1,983)	(3,093)	(3,152)
Net cash provided by operating activities	2,857	5,083	8,593
Cash flows from investing activities			
Purchase of fixed assets	(7,896)	(6,641)	(8,321)
Proceeds from sale of fixed assets	655	506	1,201
Purchase, sale and redemption of investment in securities	170	(689)	(360)
Others, net	408	(193)	(1,259)
Net cash used in investing activities	(6,662)	(7,017)	(8,740)
Cash flows from financing activities			
Net decrease of short-term loans	(603)	(696)	(540)
Net increase of commercial paper	7,000	-	-
Proceeds from long-term debt	9,016	2,454	3,054
Repayments of long-term debt	(7,961)	(2,556)	(3,603)
Expenditure for redemption of corporate bonds	(5,000)	-	-
Acquisition of treasury stock	(450)	(12)	(8)
Cash dividends paid	(1,275)	(1,185)	(1,188)
Others, net	0	8	2
Net cash provided by (used in) financing activities	726	(1,988)	(2,283)
Effect of exchange rate changes on cash and cash equivalents	32	74	74
Decrease in cash and cash equivalents	(3,047)	(3,847)	(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 additional subsidiaries	611	73	73
Cash and cash equivalents at end of the term	7,165	8,109	9,601

Segment Information

(1) Business Segment Information

Third Quarter of FY2007 (From April 1, 2006 to December 31, 2006)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
I Net sales and operating income						
Net sales						
1) Net sales to external customers	66,005	95,516	19,419	180,941	-	180,941
2) Internal sales or transfers between segments	3,932	660	1,501	6,094	(6,094)	-
Total	69,938	96,176	20,921	187,036	(6,094)	180,941
Operating expenses	67,151	94,046	20,915	182,113	(6,058)	176,055
Operating income	2,786	2,130	6	4,922	(36)	4,886

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, wheat bran, buckwheat
Food	Wheat flour for home use, premixes, pasta, frozen food, deli products
Others	Pet food, health foods, food-related machinery and equipment

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

Third Quarter of FY2006 (From April 1, 2005 to December 31, 2005)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and Eliminations	Consolidated
I 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

[Reference] FY2006 (From April 1, 2005 to March 31, 2006)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated and 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

(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.