

July 26, 2006

Consolidated Financial Results for the First 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 for 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: 1 (Excluded from consolidation: None)
Newly included under equity method: 2 (Excluded under equity method: 1)

2. Consolidated Results for the First Quarter of FY 2007 (April 1, 2006 - June 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 Quarter of FY 2007	59,264	6.4%	1,540	2.4%	1,959	3.8%
First Quarter of FY 2006	55,700	(1.2%)	1,504	(29.1%)	1,887	(9.5%)
[Reference] FY 2006	227,421		7,285		7,620	

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
First Quarter of FY 2007	1,130	6.9%	6.72	6.25
First Quarter of FY 2006	1,057	(12.2%)	6.28	5.84
[Reference] FY 2006	4,837		28.43	26.44

Note: 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 first quarter of the fiscal year ending March 31, 2007, the Japanese economy remained on a recovery track as capital investment increased, fuelled by an improvement in corporate earnings, while personal consumption regained vigor thanks to upturns in both employment and personal incomes. Despite these positive developments, the food industry continued to operate in a challenging business environment. While prices of raw materials and fuels remained high against the background of a sharp increase in oil prices, sales competition intensified as consumers continued to focus on low prices. In these circumstances, Nippon Flour Mills Group made a concerted effort to implement the 05/07 medium-term business plan, launched in April 2005, in its second year in order to increase sales and establish a highly profitable business structure.

Consolidated net sales for the first quarter amounted to ¥59,264 million, an increase of 6.4% compared with the same period of the previous year, operating income increased 2.4% to ¥1,540 million, ordinary income rose 3.8% to ¥1,959 million, and net income increased 6.9% to ¥1,130 million.

In the Flour Milling segment, while domestic demand for wheat flour had shown little or no growth in recent years, rising imports of flour-based premixes and price competition emphasizing low prices led to tougher business conditions. In this situation, in order to strengthen relationships with customers, the Group introduced new wheat flour for bread and confectionery with distinctive characteristics in tune with market needs. As well as strengthening quality control to ensure food safety and reliability, the Group engaged in vigorous marketing activities, including new product development, holding of technical seminars and promotion of proposal-driven marketing. However, due to the severe business environment, sales of wheat flour decreased compared with the same period of the previous year. Although sales of bran, a by-product, increased from the same period of the previous year, revenues from the warehousing and harbor transport businesses decreased from the same period of the previous year. Consequently, sales for the Flour Milling segment decreased 2.0% from the same period of the previous year to ¥21,368 million.

Regarding the expansion of Chiba Mill, construction of a grain silo was completed in October 2005 and construction of a state-of-the-art large flour milling line (D Mill) was completed in April 2006. As a result, Chiba Mill is the most advanced flour milling plant in Japan and the Group has put in place excellent infrastructure for the supply of products to the East Japan area.

In the Food segment, while launching distinctive new products catering to consumers whose aspirations are increasingly focused on well-being and safety, as well as ones based on simple concepts, and also executing vigorous marketing, the Group worked to improve profitability through a concerted effort to reduce costs and improve sales management. Performance of the food operations overseas was also favorable. As a result, sales of premixes, pastas and frozen food products increased from the same period of the previous year both for commercial and home use. An increase in sales of deli products was attributable to the inclusion of one additional subsidiary within the scope of consolidation. Consequently, sales for the Food segment increased 14.6% from the same period of the previous year to ¥31,441 million.

Regarding other businesses, the pet food products business performed well, partly due to the rising number of pet lovers. Although sales of the engineering business increased from the same period of the previous year, sales of the health products business, the natural cosmetics business and the biotechnology business were sluggish and lower than the previous year's level. As a result, sales of other businesses decreased 0.2% from the same period of the previous year to ¥6,454 million.

(2) Financial Position

(Millions of yen, except for per share figures)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (Yen)
First Quarter of FY 2007	203,548	98,698	47.6	575.71
First Quarter of FY 2006	177,647	84,008	47.3	499.19
[Reference] FY 2006	203,958	99,401	48.7	590.39

[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 Quarter of FY 2007	3,727	(2,500)	730	11,557
First Quarter of FY 2006	3,117	(2,887)	(497)	11,728
[Reference] FY 2006	8,593	(8,740)	(2,283)	9,601

[Qualitative Information on Changes in the Consolidated Financial Position]

At the end of the first quarter, total assets were ¥203,548 million, ¥409 million lower than at the end of the previous year. Net assets were ¥98,698 million.

Net cash provided by operating activities amounted to ¥3,727 million, approximately ¥600 million higher than for the same period of the previous year. This increase was mainly attributable to a decrease in income taxes paid, while 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 ¥2,500 million. The main item was purchase of fixed assets.

Net cash provided by financing activities amounted to ¥730 million. The principal item was an increase in proceeds from long-term debt.

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

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
First Half of FY 2007	116,000	3,800	2,300
Full year	233,000	8,000	5,000

Reference: Expected net income per share (full year) ¥29.71

[Qualitative Information on Forecasts]

The forecasts for the six-month period and the full year for the year ending March 31, 2007, have not been revised from the initial forecasts announced on May 16, 2006.

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 such as fluctuations in exchange.

Consolidated Financial Statements for the First Quarter of FY 2007
Consolidated Balance Sheets

(Millions of yen)

	First Quarter of FY 2007 As of June 30, 2006	FY 2006 As of March 31, 2006	Increase (Decrease)	First Quarter of FY 2006 As of June 30, 2005		First Quarter of FY 2007 As of June 30, 2006	FY 2006 As of March 31, 2006	Increase (Decrease)	First Quarter of FY 2006 As of June 30, 2005
Assets					Liabilities				
Current assets:					Current liabilities:				
Cash and time deposits	11,557	9,601	1,955	11,728	Trade notes and accounts payable	12,416	11,625	791	10,749
Trade notes and accounts receivable	27,570	27,325	244	26,135	Short-term loans	25,135	25,489	(353)	19,309
Inventories	14,550	15,263	(713)	14,569	Current portion of redeemable bonds within a year	500	5,000	(4,500)	5,000
Deferred income taxes	688	762	(73)	441	Accrued Income taxes	723	911	(188)	497
Other current assets	2,679	3,673	(993)	3,152	Others	10,482	9,055	1,427	7,779
Allowance for doubtful accounts	(147)	(141)	(6)	(181)					
Total current assets	56,898	56,485	413	55,846	Total current liabilities	49,258	52,081	(2,823)	43,335
Fixed assets:					Long-term liabilities:				
Tangible fixed assets:					Bonds	8,098	8,498	(400)	8,500
Buildings and structures	28,317	22,853	5,464	22,447	Long-term debt	22,340	15,093	7,247	22,447
Machinery, equipment and vehicles	21,040	16,675	4,365	16,785	Reserve for employee retirement benefits	1,903	1,877	26	1,045
Land	24,679	24,690	(11)	24,840	Reserve for directors' retirement benefits	604	709	(104)	616
Construction in progress	227	6,536	(6,309)	3,234	Deferred tax liabilities	20,483	22,502	(2,018)	14,175
Others	1,102	1,018	83	943	Other liabilities	2,160	2,084	75	1,967
Total tangible fixed assets	75,367	71,774	3,592	68,251	Total long-term liabilities	55,591	50,764	4,826	48,752
Intangible fixed assets	864	822	41	551	Total liabilities	104,849	102,846	2,003	92,088
Investments and other assets:					Minority interests	-	1,710	-	1,550
Investment in securities	64,092	68,755	(4,663)	48,082	Shareholders' equity				
Long-term loan receivable	707	710	(3)	669	Common stock	-	12,240	-	12,240
Deferred income taxes	1,112	1,113	(1)	1,069	Additional capital surplus	-	11,057	-	11,055
Prepaid pension cost	1,390	1,151	238	-	Retained earnings	-	49,269	-	45,994
Others	3,223	3,247	(23)	3,263	Unrealized gains on revaluation of securities	-	28,367	-	16,295
Allowance for doubtful accounts	(107)	(103)	(4)	(86)	Foreign currency translation adjustment	-	86	-	39
					Treasury stock, at cost	-	(1,619)	-	(1,616)
					Total shareholders' equity	-	99,401	-	84,008
					Total liabilities, minority interests and shareholders' equity	-	203,958	-	177,647
					Net assets				
					Shareholders' equity				
					Common stock	12,240	-	-	-
					Additional capital surplus	11,057	-	-	-
					Retained earnings	49,669	-	-	-
					Treasury stock, at cost	(1,621)	-	-	-
					Total shareholders' equity	71,346	-	-	-
					Unrealized gains and adjustment				
					Unrealized gains on revaluation of securities	25,429	-	-	-
					Differed losses on hedges	(1)	-	-	-
					Foreign currency translation adjustment	102	-	-	-
					Total unrealized gains and adjustment	25,529	-	-	-
Total investments and other assets	70,418	74,875	(4,457)	52,997	Minority interests	1,822	-	-	-
Total fixed assets	146,649	147,472	(823)	121,800	Total net assets	98,698	-	-	-
Total assets	203,548	203,958	(409)	177,647	Total liabilities and net assets	203,548	-	-	-

Consolidated Statements of Income

(Millions of yen)

	First Quarter of FY 2007 From April 1, 2006 To June 30, 2006		First Quarter of FY 2006 From April 1, 2005 To June 30, 2005		Increase (Decrease)		[Reference] FY 2006	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net sales	59,264	100.0	55,700	100.0	3,563	6.4	227,421	100.0
Cost of sales	45,589	76.9	42,316	76.0	3,273	7.7	172,721	75.9
Gross profit	13,675	23.1	13,384	24.0	290	2.2	54,699	24.1
Selling, general and administrative expenses	12,135	20.5	11,880	21.3	255	2.1	47,414	20.9
Operating income	1,540	2.6	1,504	2.7	35	2.4	7,285	3.2
Other income:								
Interest and dividend income	421		382		39		612	
Others	444		499		(54)		1,281	
Total other income	866	1.5	881	1.6	(15)	(1.7)	1,894	0.8
Other expenses:								
Interest expenses	201		182		19		749	
Others	245		315		(70)		810	
Total other expenses	446	0.8	498	0.9	(51)	(10.3)	1,559	0.6
Ordinary income	1,959	3.3	1,887	3.4	71	3.8	7,620	3.4
Extraordinary income	34	0.0	1,599	2.9	(1,564)	-	2,548	1.1
Extraordinary losses	9	0.0	1,500	2.7	(1,491)	-	2,603	1.2
Income before income taxes	1,985	3.3	1,986	3.6	(1)	(0.1)	7,565	3.3
Income taxes	635		287		348		2,151	
Deferred income taxes	220		875		(655)		640	
Minority interest	(1)		(233)		232		(65)	
Net income	1,130	1.9	1,057	1.9	73	6.9	4,837	2.1

Consolidated Statements of Cash Flows

(Millions of yen)

	First Quarter of FY 2007 From April 1, 2006 To June 30, 2006	First Quarter of FY 2006 From April 1, 2005 To June 30, 2005	[Reference] FY 2006
Cash flows from operating activities			
Income before income taxes	1,985	1,986	7,565
Depreciation and amortization	1,309	1,205	5,200
(Increase) Decrease in notes and accounts receivable	353	834	(425)
Decrease in inventories	749	828	207
Increase (Decrease) in notes and accounts payable	96	(618)	266
Others	(35)	431	(940)
Sub-total	4,458	4,668	11,874
Interest and dividends received	416	391	628
Interest paid	(243)	(237)	(756)
Payments for income taxes	(904)	(1,705)	(3,152)
Net cash provided by operating activities	3,727	3,117	8,593
Cash flows from investing activities			
Proceeds from sale and redemption of securities	-	-	26
Expenditure for purchase of fixed assets	(2,997)	(2,172)	(8,321)
Proceeds from sale of fixed assets	52	-	1,201
Expenditure for purchase of investment securities	(867)	(1,544)	(3,602)
Proceeds from sale and redemption of investment securities	437	848	3,241
Others, net	874	(19)	(1,286)
Net cash used in investing activities	(2,500)	(2,887)	(8,740)
Cash flows from financing activities			
Net increase (decrease) of short-term loans	(612)	(317)	(540)
Proceeds from long-term debt	7,300	1,831	3,054
Repayments of long-term debt	(275)	(1,327)	(3,603)
Expenditure for redemption of bonds	(5,000)	-	-
Dividends paid	(679)	(680)	(1,188)
Others, net	(1)	(2)	(6)
Net cash provided by (used in) financing activities	730	(497)	(2,283)
Effect of exchange rate changes on cash and cash equivalents	(1)	38	74
Increase (Decrease) in cash and cash equivalents	1,955	(228)	(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 change in the scope of consolidation	-	73	73
Cash and cash equivalents at end of the term	11,557	11,728	9,601

Segment Information

(1) Business Segment Information

First Quarter of FY 2007 (April 1, 2006 - June 30, 2006)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated or Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	21,368	31,441	6,454	59,264	-	59,264
2) Internal sales or transfers between segments	1,344	213	417	1,975	(1,975)	-
Total	22,712	31,654	6,872	61,239	(1,975)	59,264
Operating expenses	21,813	31,004	6,870	59,687	(1,963)	57,724
Operating income	899	650	2	1,552	(11)	1,540

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.

First Quarter of FY 2006 (April 1, 2005 - June 30, 2005)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated or Eliminations	Consolidated
Net sales and operating income						
Net sales						
1) Net sales to external customers	21,794	27,436	6,469	55,700	-	55,700
2) Internal sales or transfers between segments	1,190	588	326	2,105	(2,105)	-
Total	22,984	28,025	6,796	57,806	(2,105)	55,700
Operating expenses	21,991	27,590	6,738	56,321	(2,124)	54,196
Operating income	993	434	57	1,485	19	1,504

[Reference] FY 2006 (April 1, 2005 - March 31, 2006)

(Millions of yen)

	Flour Milling	Food	Others	Total	Unallocated or Eliminations	Consolidated
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 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.