

# Consolidated Financial Results for the First Quarter of FY2008

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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*\*Amounts under one million yen have been rounded down.*

## 1. Consolidated Results for the First Quarter of FY 2008 (April 1, 2007-June 30, 2007)

### (1) Business Results

(% of changes of the first quarter of FY2008 from the same period of the previous year)  
(Millions of yen, except for per share figures)

	Net Sales		Operating Income		Ordinary Income	
First Quarter of FY2008	61,868	4.4%	1,749	13.6%	2,171	10.8%
First Quarter of FY2007	59,264	6.4%	1,540	2.4%	1,959	3.8%
[Reference] FY2007	239,575	—	6,329	—	6,578	—

	Net Income		Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
First Quarter of FY2008	1,153	2.1%	6.82	6.24
First Quarter of FY2007	1,130	6.9%	6.72	6.25
[Reference] FY2007	4,146	—	24.66	22.93

### (2) Consolidated Financial Position

(Millions of yen, except for per share figures)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
First Quarter of FY2008	210,996	104,418	48.5	605.44
First Quarter of FY2007	203,548	98,698	47.6	575.71
[Reference] FY2007	212,152	102,172	47.2	592.48

### (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 Quarter of FY2008	239	(1,871)	(3,202)	7,315
First Quarter of FY2007	3,727	(2,500)	730	11,557
[Reference] FY2007	5,834	(7,894)	3,839	12,024

## 2. Forecast of the Consolidated Financial Results for FY 2008 (April 1, 2007-March 31, 2008)

(% of changes of full year from previous year and half year from previous interim period.)  
(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share(Yen)
Half Year	123,000	3.1	3,600	5.3	3,700	4.9	2,200	8.9	13.01
Full Year	245,000	2.3	7,000	10.6	7,000	6.4	4,200	1.3	24.84

## 3. Others

- (1) Changes in significant subsidiaries during the period: None  
(Changes in specified subsidiaries resulting in changes in the scope of consolidation)
- (2) Application of simplified accounting procedures: Yes
- (3) Difference in the accounting method from the method applied for the most recent fiscal year: Yes

Note: For details, please refer to 5. Other of Qualitative Information on Financial Statements on Page 5.

\* Disclaimer regarding Forward-looking Statements and Other Remarks

1. The forecast of results for the first six-month period announced on May 15, 2007, has been revised and presented in the report.
2. 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.

## [Qualitative information and financial statements]

### 1. Qualitative information on consolidated operating results

During the first quarter of the year ending March 31, 2008, the Japanese economy advanced along a modest recovery track supported by a broadly based improvement in corporate earnings. However, the food industry continued to operate in a challenging environment as sharp increases in grain prices and oil prices pushed raw material costs higher. Furthermore, in regard to the flour milling industry, the Japanese government sought to strengthen international competitiveness by reforming the wheat system for the first time since its inception 55 years ago. Specifically, in April 2007 the government introduced a variable price system for the sale of foreign wheat and a simultaneous buy-and-sell (SBS) system for certain types of wheat. These changes are likely to spur competition among companies.

In these circumstances, the Group made a concerted effort to implement in the final fiscal year of the 05/07 medium-term business plan covering the 3-year period from April 2005 to March 2008, in order to promote expansion of the business and implement measures to increase profitability and profit margin.

Consolidated net sales for the first quarter were ¥61,868 million, an increase of 4.4% compared with the same period of the previous year, operating income was ¥1,749 million, up 13.6%, ordinary income was ¥2,171 million, up 10.8%, and net income was ¥1,153 million, an increase of 2.1%.

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, a challenging operating environment persisted. 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 as well as enhancement of quality control to ensure food safety and reliability in order to meet customer needs and diversifying preferences concerning food.

As a result, sales and sales volume of wheat flour exceeded the level of the same period of the previous year. Although sales of bran, a by-product, exceeded the level of the same period of the previous year, reflecting the sharp increases in grain prices, revenues from the warehousing and harbor transport businesses were lower than a year earlier.

Consequently, sales for the Flour Milling segment were ¥22,147 million, an increase of 3.6% compared with the same period of the previous year.

In the Food segment, the Group launched new products catering to consumers whose aspirations are increasingly focused on easy-to-use as well as wellbeing and safety, and executed vigorous marketing, including exhibitions, the holding of new product introduction seminars. At the same time the Group worked to improve profitability by means of thorough cost reduction and sales management.

As a result, sales of premixes, pastas and frozen food products were brisk both in Japan and overseas and increased from the same period of the previous year. Sales of deli products decreased from the same period of the previous year. As a result of these developments, sales for the Food segment were ¥32,446 million, an increase of 3.2% year on year.

In the Other Businesses segment, sales of the pet food products business increased, partly due to the rising number of pet lovers. Also, sales of the engineering business and the biotechnology business increased from the same period of the previous year.

As a result, sales for the Other Businesses segment were ¥7,274 million, an increase of 12.7% year on year.

## 2. Qualitative information on consolidated financial position

Total assets were ¥210,996 million, having decreased ¥1,156 million compared with the figure at the end of the previous fiscal year (March 31, 2007) due to a decrease of cash and cash equivalent including repayment of debt.

Total liabilities were ¥106,577 million, having decreased ¥3,402 million compared with the figure at the end of the previous fiscal year, mainly due to repayment of debt.

Net assets were ¥104,418 million, having increased ¥2,246 million compared with the figure at the end of the previous fiscal year, due to posted net income of about ¥1,100 million including retained earnings, having increased ¥600 million and gain on revaluation of securities, having increased about ¥1,300 million, despite payment of dividends of about ¥600 million.

## 3. Qualitative information on consolidated cash flows

During the first quarter of the year ending March 31, 2008, cash and cash equivalents were ¥7,315 million, having decreased ¥4,708 million year on year.

The performance of individual cash flows was as follows.

Net cash provided by operating activities amounted to ¥239 million, having decreased ¥3,500 million compared with the same period of the previous year.

Although net income before payments for income taxes increased, the increase in trade notes and accounts receivable and income taxes paid were the main factor accounting for the decrease in net cash provided by operating activities. Net cash used in investing activities was mainly devoted to purchase of fixed assets. Net cash used in financing activities was ¥3,202 million. The principal factors were repayment of debt and payment of cash dividends.

## 4. Matters Concerning Preparation of the Outline of the Consolidated Financial Results

### Revision of the forecast of consolidated business results for the first six-month period (April 1, 2007 – September 30, 2007)

(% of changes of half year from previous interim period.)  
(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (Yen)
Original Forecast(A)	123,000	3.1%	3,400	(0.6%)	3,500	(0.7%)	2,100	4.0%	12.42
Revised Forecast(B)	123,000	3.1%	3,600	5.3%	3,700	4.9%	2,200	8.9%	13.01
Increase (Decrease) (B-A)	—		200		200		100		0.59

Management expects a challenging operating environment to persist in the second quarter. As a result of the review of the business results for the first quarter, although net sales are in accordance with the initial forecast, management considers operating income and other profit items to be on track to exceed the initial forecast, and therefore, has revised the forecast of consolidated business results for the first six-month period.

Incidentally, the projected amount of loss associated with the voluntary recall of products is negligible and it has no impact on business results.

No revision has been made to the forecast of business results for the full year ending March 31, 2008, considering the uncertainty of the outlook of the operating environment, including rises in grain prices, oil prices and prices of other resources, and interest rate increases.

**5. Others**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation)

Not applicable.

- (2) Application of simplified accounting procedures

Simplified procedures are applied in part of the calculation of tax expenses.

- (3) Difference in the accounting method from the method applied for the most recent fiscal year

In line with the amendment of the Corporation Tax Law, the Company records depreciation of tangible fixed assets purchased on and after April 1, 2007, by the method based on the amended Corporation Tax Law.

The impact of this change on operating income, ordinary income and income before income taxes for the first quarter is negligible.

## 6. Consolidated Financial Statements for the First Quarter Ended June 30, 2007

### (1) Consolidated Balance Sheets

(Millions of yen)

	First Quarter of FY2007	First Quarter of FY2008	Increase (Decrease)		[Reference] FY2007
	From Apr. 1, 2006 To Jun. 30, 2006	From Apr. 1, 2007 To Jun. 30, 2007	Amount	Ratio	Amount
	Amount	Amount	Amount	Ratio	Amount
<b>Assets</b>				%	
<b>I Current assets</b>					
Cash and deposits	11,557	7,355	(4,201)		12,064
Trade notes and accounts receivable	27,570	33,993	6,422		30,401
Inventories	14,550	16,675	2,125		19,138
Deferred tax assets	688	351	(336)		748
Others	2,679	3,102	423		3,374
Allowance for doubtful accounts	(147)	(191)	(43)		(191)
<b>Total current assets</b>	<b>56,898</b>	<b>61,287</b>	<b>4,388</b>	<b>7.7</b>	<b>65,535</b>
<b>II Fixed assets</b>					
Tangible fixed assets	75,367	73,586	(1,780)	(2.4)	73,166
Buildings and structures	28,317	27,187	(1,129)		27,442
Machinery, equipment and vehicles	21,040	19,863	(1,176)		20,174
Land	24,679	25,067	387		24,356
Construction in progress	227	149	(78)		141
Others	1,102	1,318	216		1,051
Intangible fixed assets	864	887	23	2.7	851
Investments and other assets	70,418	75,235	4,816	6.8	72,599
Investment in securities	64,092	68,401	4,309		66,025
Long-term loan receivable	707	667	(39)		677
Deferred tax assets	1,112	1,203	90		1,142
Prepaid pension cost	1,390	1,977	586		1,887
Others	3,223	3,349	126		3,234
Allowance for doubtful accounts	(107)	(364)	(257)		(367)
<b>Total fixed assets</b>	<b>146,649</b>	<b>149,708</b>	<b>3,059</b>	<b>2.1</b>	<b>146,617</b>
<b>Total assets</b>	<b>203,548</b>	<b>210,996</b>	<b>7,448</b>	<b>3.7</b>	<b>212,152</b>

(Millions of yen)

	First Quarter of FY2007 From Apr. 1, 2006 To Jun. 30, 2006	First Quarter of FY2008 From Apr. 1, 2007 To Jun. 30, 2007	Increase (Decrease)		[Reference] FY2007
	Amount	Amount	Amount	Ratio %	Amount
<b>Liabilities</b>					
<b>I Current liabilities</b>					
Trade notes and accounts payable	12,416	13,772	1,356		13,403
Short-term loans	25,135	20,040	(5,095)		19,357
Current portion of redeemable bonds within a year	500	-	(500)		-
Accrued income taxes	723	478	(244)		1,878
Others	10,482	15,978	5,495		18,673
Total current liabilities	49,258	50,270	1,012	2.1	53,313
<b>II Long-term liabilities:</b>					
Bonds	8,098	8,098	-		8,098
Long-term debt	22,340	21,586	(754)		22,849
Reserve for employee retirement benefits	1,903	1,954	51		1,963
Reserve for directors' retirement benefits	604	593	(11)		713
Deferred tax liabilities	20,483	22,085	1,602		21,074
Others	2,160	1,988	(172)		1,968
Total long-term liabilities	55,591	56,307	715	1.3	56,667
Total liabilities	104,849	106,577	1,728	1.6	109,980
<b>Net assets</b>					
<b>I Shareholders' equity</b>					
Common stock	12,240	12,240	-		12,240
Additional capital surplus	11,057	11,387	329		11,387
Retained earnings	49,669	52,659	2,989		52,097
Treasury stock, at cost	(1,621)	(1,523)	97		(1,522)
Total shareholders' equity	71,346	74,763	3,416	4.8	74,202
<b>II Unrealized gains and adjustment</b>					
Unrealized gains on revaluation of securities	25,429	27,022	1,592		25,686
Differed gains on hedges	(1)	(0)	1		(0)
Foreign currency translation adjustment	102	582	480		290
Total unrealized gains and adjustment	25,529	27,604	2,075	8.1	25,976
<b>III Minority interests</b>	1,822	2,050	228	12.5	1,992
Total net assets	98,698	104,418	5,719	5.8	102,172
Total liabilities and net assets	203,548	210,996	7,448	3.7	212,152

**(2) Consolidated Statements of Income**

(Millions of yen)

	First Quarter of FY2007	First Quarter of FY2008	Increase (Decrease)		[Reference] FY2007
	From Apr. 1, 2006 To Jun. 30, 2006	From Apr. 1, 2007 To Jun. 30, 2007	Amount	Ratio	Amount
	Amount	Amount	Amount	%	Amount
I Net sales	59,264	61,868	2,603	4.4	239,575
II Cost of sales	45,589	47,419	1,830		184,572
Gross profit	13,675	14,448	773	5.7	55,003
III Selling, general and administrative expenses	12,135	12,699	564		48,673
<b>Operating income</b>	<b>1,540</b>	<b>1,749</b>	<b>209</b>	<b>13.6</b>	<b>6,329</b>
IV Non-operating income					
Interest and dividend income	421	494	72		744
Others	444	298	(145)		1,027
Total non-operating income	866	793	(73)		1,772
V Non-operating expenses					
Interest expenses	201	199	(2)		771
Others	245	171	(73)		751
Total non-operating expenses	446	370	(76)		1,523
<b>Ordinary income</b>	<b>1,959</b>	<b>2,171</b>	<b>211</b>	<b>10.8</b>	<b>6,578</b>
VI Extraordinary income	34	-	(34)		2,568
VII Extraordinary losses	9	79	70		1,296
<b>Income before income taxes</b>	<b>1,985</b>	<b>2,091</b>	<b>106</b>	<b>5.4</b>	<b>7,850</b>
Income taxes	635	428	(206)		2,908
Deferred income taxes	220	485	264		647
Minority interest	(1)	24	25		146
<b>Net income</b>	<b>1,130</b>	<b>1,153</b>	<b>23</b>	<b>2.1</b>	<b>4,146</b>

**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

	First Quarter of FY2007 From Apr. 1, 2006 To Jun. 30, 2006	First Quarter of FY2008 From Apr. 1, 2007 To Jun. 30, 2007	[Reference] FY2007
<b>I</b> Cash flows from operating activities			
Income before income taxes	1,985	2,091	7,850
Depreciation and amortization	1,309	1,475	5,954
(Increase) Decrease in notes and accounts receivable	353	(3,540)	(2,323)
(Increase) Decrease in inventories	749	2,480	(3,781)
Increase (Decrease) in notes and accounts payable	96	267	1,044
Others, net	(35)	(991)	(872)
Sub-total	4,458	1,783	7,872
Interest and dividends received	416	504	754
Interest paid	(243)	(230)	(774)
Payments for income taxes	(904)	(1,817)	(2,016)
Net cash provided by operating activities	3,727	239	5,834
<b>II</b> Cash flows from investing activities			
Purchase of fixed assets	(2,997)	(1,652)	(9,013)
Proceeds from sale of fixed assets	52	8	1,155
Proceeds from sale and redemption of investment in securities	(430)	(103)	(450)
Others, net	874	(123)	413
Net cash used in investing activities	(2,500)	(1,871)	(7,894)
<b>III</b> Cash flows from financing activities			
Net increase (decrease) of short-term loans	(612)	(288)	367
Net increase (decrease) of commercial paper	-	-	5,000
Proceeds from long-term debt	7,300	-	9,500
Repayments of long-term debt	(275)	(307)	(8,678)
Payments for redemption of corporate bonds	(5,000)	-	(5,500)
Increase (Decrease) in proceeds from guarantee deposits of lending stock received	-	(2,000)	4,000
Acquisition of treasury stock	(1)	(1)	(453)
Proceeds from sale of treasury stock	0	-	879
Cash dividends paid by the company	(679)	(605)	(1,276)
Net cash provided by (used in) financing activities	730	(3,202)	3,839
<b>IV</b> Effect of exchange rate changes on cash and cash equivalents	(1)	125	32
<b>V</b> Increase (Decrease) in cash and cash equivalents	1,955	(4,708)	1,811
<b>VI</b> Cash and cash equivalents at beginning of the term	9,601	12,024	9,601
<b>VII</b> Increase in cash and cash equivalents due to inclusion of an additional subsidiaries	-	-	611
<b>VIII</b> Cash and cash equivalents at end of the term	11,557	7,315	12,024

**(4)Segment Information****[Business Segment Information]**

First Quarter of FY2007 (From April 1, 2006 to June 30, 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	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

First Quarter of FY2008 (From April 1, 2007 to June 30, 2007)

(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	22,147	32,446	7,274	61,868	-	61,868
2) Internal sales or transfers between segments	499	218	437	1,155	(1,155)	-
Total	22,646	32,664	7,711	63,023	(1,155)	61,868
Operating expenses	21,564	31,946	7,768	61,279	(1,160)	60,118
Operating income	1,082	718	(57)	1,744	4	1,749

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.

[Reference] FY2007 (From April 1, 2006 to March 31, 2007)

(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	87,431	126,206	25,937	239,575	-	239,575
2) Internal sales or transfers between segments	3,547	812	2,251	6,611	(6,611)	-
Total	90,979	127,018	28,188	246,186	(6,611)	239,575
Operating expenses	87,298	124,232	28,295	239,825	(6,579)	233,245
Operating income	3,680	2,786	(106)	6,360	(31)	6,329

**[Geographically Segmented Information]**

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

**[Overseas Sales]**

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