

Nippon Flour Mills draws up medium-term business plan

Tokyo, April 10, 2002—Nippon Flour Mills Co., Ltd., under the leadership of President Hiroshi Sawada, has formulated a medium-term business plan covering the three years beginning April 2002.

Since 1993 the Company's efforts to reinforce its fundamental strengths by restructuring operations have had a considerable impact—notably, the closure or integration of five out of 12 flour mills and a reduction in headcount to less than two-thirds. Concurrently, the Company has also reshaped operations dedicated to each business segment. While keeping the flour milling business as the core operation, management has expanded the scope of the food products operation, which now comprises basic food ingredients, processed food products, deli foods and frozen foods. In addition, biotechnology, medical, environment-related and other new businesses are moving forward.

In the latest medium-term business plan, management has set numerical targets together with a detailed plan of action for each business in a drive to overcome the competition. For the entire Company, the priorities are further cost cutting and strengthened sales capabilities. The plan calls for sales of ¥260 billion and operating income of ¥8 billion (operating margin of 3%) in the fiscal year ending March 31, 2005, the final year of the three-year plan.

Cost-reduction measures include implementing the optimum global network of production bases, strengthening the cost control system, revamping conventional business practices, and streamlining head office operations. Measures to fortify sales capabilities include close cooperation with wholesalers focused on building market share, greater selectivity in types of products handled, new product development, and establishing a business structure geared to profitability. For the product mix, through selection and focus, the Company intends to cultivate as many powerful brands as possible.

Furthermore, Nippon Flour Mills adopted an executive officer system from April 1—a move indicative of the Company's resolve to reform the human resources system, while also accelerating policy planning and decision making by deploying a management structure endowed with greater flexibility and responsiveness. By implementing the New Nippon Way Project, management is jettisoning ineffective traditional business practices to attain its objective of positioning Nippon Flour Mills as a food products company achieving sustained growth in diverse businesses grouped around the core flour milling operation.

Numerical targets of the medium-term business plan (consolidated)

Fiscal 2004 (ending March 31, 2005)

Net sales

Flour Milling: ¥100 billion

Food: ¥120 billion

Others Businesses: ¥40 billion

Total: ¥260 billion

Operating income: ¥8 billion

Ordinary income: ¥7 billion

Net income: ¥4 billion

Return on shareholders' equity (ROE): 5.0%

Basic strategies of Nippon Flour Mills Co., Ltd.'s medium-term business plan: New Nippon Way
(April 2002~March 2005)

1. Expand operations in strategic growth segments

The Company will selectively concentrate business resources in currently growing segments and segments likely to experience growth, and thereby strive to strengthen growth prospects for Nippon Group.

- (1) Pursue M&A and alliances that bring new types of businesses into the company's sphere of operations
- (2) Develop new growth businesses, such as the biotechnology, medical, and environment-related operations

2. Concentrate business resources in strong operations

The Company will concentrate business resources in segments where Nippon Group excels and fortify its dominant positions against rivals.

- (1) Strive to further boost market share for core operations—namely the flour milling and premixed batter divisions—as well as businesses peripheral to these
- (2) Construct a sales structure for each division (flour milling, food ingredients, home-use food products, frozen foods, deli foods, lifestyle business, etc.) enabling each business to overcome the competition
- (3) Develop new strategic products from the viewpoint of marketing

3. Shift to a highly profitable business structure

Actively pursue cost cutting across all operations, swiftly realize a lean corporate structure, and strive to enhance profitability

- (1) Promote ultra-low-cost operations capable of withstanding persistent deflationary pressures
- (2) Establish the optimum global structure (Japan, the US, and Asia) for production bases and capacity
- (3) Realize a streamlined strategic headquarters (by relying on outsourcing and collaboration)
- (4) Rationalize distribution and commercial operations by making use of supply chain management (SCM) and IT applications

4. Maximize the enterprise value of Nippon Group by improving asset efficiency

The Company will reorganize unprofitable and inefficient operations as Nippon Group shifts to a strategy emphasizing cash flow, asset efficiency, and capital efficiency.

- (1) Pare down interest-bearing debt, improve asset efficiency, and enhance profitability by selling idle property assets and securities holdings
- (2) Make more efficient use of Nippon Group's assets under a cash management system

5. Strengthen corporate governance and introduce incentives

The Company adopted an executive officer system from April 1. By introducing this system designed to improve human resources and organizational strategies and contribute to the smooth execution of companywide policies, Nippon Flour Mills aims to increase asset value per-employee, enrich the working environment, and vitalize the Company. Also, the Company plans to change the employee remuneration system to one based on performance.

- (1) Speed up strategic decision-making by adopting the executive officer system
- (2) Introduce incentives by adopting a performance-based remuneration system

6. Co-exist as a responsible member of society

The Company intends to work toward enhancing its corporate image (brand image) by promoting communication with the public so as to become an enterprise viewed favorably as a responsible member of society.

- (1) Practice compliance-focused business management
- (2) Beef up product quality assurance and environmental risk management
- (3) Strengthen efforts to ensure timely information disclosure and accountability

--END--