

## **Nippon Flour Mills Group Establishes the 05/07 Medium-Term Business Plan in Pursuit of Group-wide Growth through “Speed & Attack”**

Tokyo, February 21, 2005 — Nippon Flour Mills Co., Ltd. (president: Masataka Horikawa) has formulated a new medium-term business plan covering the three-year period beginning in April 2005.

Under the New Nippon Way Medium-Term Business Plan, implemented beginning in 2002, Nippon Flour Mills Group succeeded in strengthening its profit structure through initiatives to develop business units, increases in productivity at plants, and the restructuring of physical distribution systems.

The newly established 05/07 Medium-Term Business Plan sets milestones for strengthening the Group’s position as a multifaceted food conglomerate whose core business is flour milling and which maintains a strong presence in the market. The revenue targets in the plan are consolidated net sales of ¥350 billion in five year’s time and ¥500 billion in ten year’s time. The basic strategy set forth in the plan calls for engaging in business in the spirit of “Speed & Attack” while simultaneously placing importance on the interests of shareholders, customers, business partners, employees and the Company’s other stakeholders and recognizing the importance of corporate social responsibility in accordance with the corporate philosophy articulated in the Mission Statement of Nippon Flour Mills.

The top priority in the new medium-term business plan is to increase profits by improving the top line. At the same time, the Company intends to strengthen its competitive advantage by implementing further cost reductions and emphasizing customer-oriented management. Through these measures, the Company aims to increase enterprise value by achieving consolidated net sales of ¥280 billion and operating income of ¥11.2 billion (an operating margin of 4%) for the fiscal year ending March 31, 2008.

To ensure the speedy and efficient implementation of the new medium-term business plan, the Company will implement organizational and structural reforms on April 1.

An outline of the new medium-term business plan follows.

### **1. Basic Strategy in the 05/07 Medium-Term Business Plan**

#### **1) Business expansion in priority fields, cutting edge fields, and overseas**

The Group will expand its business in priority fields (deli foods and deli food ingredients, frozen foods, and lifestyle-related businesses), cutting-edge fields (biotechnology and environment-related businesses), and international business (pan-Pacific region).

→ Prioritize investment of management resources to address new growth sectors that will

drive the business in coming years

- Strengthen corporate functions to powerfully support these growth strategies.
- 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 market share in the core businesses (flour milling, premix, and pasta) and at the same time strengthen its commitment to peripheral products and businesses.

- Thoroughly strengthen the Group's core businesses. Seek to grow together with customers while improving the top line by establishing a market-oriented sales system.
- Prioritize investment of management resources to fully bring the Group's strengths to bear

## **3) Establishment of a highly profitable business structure**

To continue to strengthen business fundamentals, the Group will work to continuously improve the profit structure of all the Group's businesses.

- Thoroughly pursue low-cost operations from new perspectives.
- Promote rationalization of physical distribution and commercial distribution.
- Geographically optimize and improve production and physical distribution bases in Japan and overseas.
- Realize a streamlined, small strategic headquarters while strengthening corporate functions.

## **4) Strengthening of the corporate brand**

The Group will further increase public awareness of its activities by "Sharing heart-moving experiences with as many customers as possible."

- Nurture the NIPPON corporate brand and Oh'my product brand by capitalizing on the Oh'my Brand 50th Anniversary Campaign (fiscal 2006) and 110th anniversary events (fiscal 2007).
- Develop excellent personnel on the front lines of manufacturing and sales to support the Group's growth strategies through brand nurturing.

## **5) Strengthening of the financial position**

The Group will increase enterprise value by reducing interest-bearing debt and improving asset efficiency.

- Improve asset efficiency with an emphasis on cash flow through such means as inventory reduction, assets liquidation, and the disposal of idle fixed assets.
- Increase efficiency of the Group's financial assets by means of a cash management system.

## **6) Harmony with society as a good corporate citizen**

To meet the increasing expectations of society, the Group will strengthen its commitment to activities to fulfill its corporate social responsibility.

- Emphasize compliance in business management. Enhance internal control systems and

risk management systems.

- Enhance quality assurance systems and reduce environmental impacts.
- Disclose information in a timely manner and reinforce accountability

## **2. Numerical Targets for the Final Year of the 05/07 Medium-Term Business Plan (Consolidated Basis)**

- I Net sales: ¥280 billion
- I Operating income: ¥11.2 billion (operating margin of 4%)
- I Ordinary income: ¥11.0 billion
- I Net income: ¥6.5 billion

### **Reference Information**

#### **1. Basic Concepts for Organizational and Structural Reform**

- 1) Create an organization and structure adapted to diversified business lines and changes in the business structure.
- 2) In view of the need to cope with business growth and change, create an organization and structure that makes possible flexible and speedy action.
- 3) Strive for efficient deployment of personnel and full utilization of human resources.
- 4) Create an organization and structure that is clear-cut, easy to understand, and allows ample communication.
- 5) Create an organization and structure that can support the Company's future business expansion and global growth.

#### **2. Key Aspects of Organizational and Structural Reform**

- 1) The corporate headquarters organization and structure will be clearly defined along the lines of head office functions (corporate staff) and business execution functions (business operations), and specific work functions are organized accordingly.
- 2) The corporate staff will function as a support staff for executive management, deciding and executing group-wide policies.
- 3) Head office functions (corporate staff) will be divided into six departments (General Administration & Human Resources Department, Accounting & Finance Department, Production & Technology Department, Research & Development Department, Corporate Planning Department, and Corporate Strategy & Logistics Department), two divisions (Quality Assurance Division and International Division), and the Central Laboratory. The organizational structure based on departments and sections will be abolished and replaced with an organization based on groups, offices, and teams, resulting in an organizational structure that ensures flexible utilization of human resources and rapid response capabilities.

4) The business operations will be as follows, with the divisional headquarters located at the head office.

Wheat Flour Business Department

Foods Business Department

Nakashoku Business Division

Life & Health Care Business Division

5) A Corporate Coordination Department will be maintained to assist executive management in promoting collaboration among the operating divisions and settling matters that extend across multiple divisions.

6) With regard to local workplaces (organizations):

(1) The regional headquarters structure will be abolished.

(2) Branches will be established in each geographical region, and necessary divisions, groups, and teams will be organized at the branches.

(3) The Tobu Administration Division and Seibu Administration Division will be established and the functions of the current regional management departments (sections) will be concentrated in those divisions.

(4) Domestic production plants will remain in their present form.

7) Overseas operations will be under the control of the Wheat Flour Business Department or Foods Business Department.

Day-to-day business affairs will be concentrated within the Business Administration Division and Foods Business Administration Division, which will undertake those activities together with the International Division. Although the respective operating divisions will have control over marketing activities, local subsidiaries will have control over marketing specific to overseas markets.

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