



To Shareholders

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# Business Report 2007

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(April 1, 2006 to March 31, 2007)



## A Message from the Management

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\* The financial data in this report are prepared from the financial statements issued for domestic reporting purpose in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and accounting principles generally accepted in Japan.



**Osamu Shoda**  
Chairman

**Hiroshi Hasegawa**  
President

The Nisshin Seifun Group will improve productivity, further expand market share and accelerate next-generation new product development in Japan, and also reinforce competitiveness in terms of both costs and sales in North America, Southeast Asia and China. In addition, we will actively implement various measures to strengthen our internal control system, reinforce compliance throughout the Group and enhance food safety, environmental protection and other areas.

In view of these initiatives, in the fiscal year ended March 31, 2007, we have made efforts to increase shipments by actively conducting sales promotions and developing new sales channels, and have implemented ongoing cost reductions. The business climate, however, remained challenging, particularly in the food products industry due to a surge in raw materials costs owing to high crude oil prices and yen depreciation, as well as sluggish domestic demand for flour-related products.

In these circumstances, popularity of the key coenzyme Q<sub>10</sub> in the healthcare foods business receded, causing an imbalance between demand and supply and leading to a decline in sales. In the flour milling and processed food businesses, we made investment in sales promotion expenses to expand market share, and there was a negative shift in shipment structure and a rise in raw materials costs. On a consolidated basis, therefore, net sales edged down 0.8% from the previous year to ¥418,190 million, ordinary income decreased 7.9% to ¥22,815 million and net income declined 9.1% to ¥12,303 million.

With regard to the distribution of profits to our shareholders, we decided to pay an annual dividend of ¥18 per share. We will strive to live up to shareholders' expectations with a payout ratio of 30% or more on a consolidated basis,

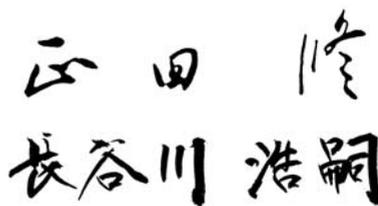
giving consideration to our current and future revenue status and financial position.

Despite steady corporate capital investment, we anticipate that the business climate for the fiscal year ending March 31, 2008 will continue to pose difficulties due to the high cost of raw materials and slow demand partially incurred by Japan's aging society. However, we will continue with our initiatives as we make steady progress toward business recovery.

To this end, each group company will promote a variety of activities and accommodate the forthcoming changes from the World Trade Organization (WTO) negotiations on agriculture and regulatory reforms in Japan. Moreover, Japan's revised Law for Stabilization of Supply, Demand and Prices of Staple Food became effective in April 2007. We are striving to deal with the establishment of this new wheat sales system in the wheat flour-related industry.

In addition, with our holding company, the Nisshin Seifun Group, playing a central role, group companies will devote themselves to further expanding their business operations as we strive to maximize corporate value and ensure that the Group remains highly regarded by customers, shareholders and all other stakeholders.

We thank you again for your continuing patronage and support.

The image shows two handwritten signatures in black ink. The top signature is 'Shoda Osamu' (正田 修) and the bottom signature is 'Hasegawa Hiroshi' (長谷川 浩嗣). The characters are written in a fluid, cursive style.

**Osamu Shoda**  
Chairman

**Hiroshi Hasegawa**  
President

June 2007

## Interview with the President

President Hasegawa was interviewed on the business environment in which the Nisshin Seifun Group operates, the efforts and measures taken by the Group for the year ended March 31, 2007, and the medium- to long-term direction of the Group's businesses.

### Efforts and Measures to be Taken by the Group and Its Business Performance for the Year Ended March 31, 2007

**Q** Please explain the business environment in which the Nisshin Seifun Group operates and outline the business performance for the year ended March 31, 2007.

**A** For the year under review, although some businesses of the Group successfully expanded shipments, the Group as a whole experienced decreased sales and income. The supply of coenzyme Q<sub>10</sub>, which had previously drawn much attention, grew excessive in the global market due to mass production among competitors and new companies entering the industry. That caused a plunge in product prices and a subsequent decrease in shipments, which resulted in the deterioration of business performance in the healthcare foods business of the Company. In addition, in the flour milling and processed food businesses, a negative



shift in shipment structure due to sluggish growth in demand; aggressive sales promotion activities aimed at expanding market share; and cost increases due to high crude oil prices, high grain prices and yen depreciation have adversely affected the Company's profitability.

Despite the challenging business environment, we were able to implement a number of measures that will contribute to the medium- to long-term growth of the Group. For example, in the flour milling business, as the first stage of construction to expand a line at the Higashinada Plant, for which our investment totaled ¥12 billion, a new automatic rack warehouse was completed in May 2006 and is showing logistical benefits. In the processed food business, in November 2006, a new large-capacity pasta manufacturing line was added at the Utsunomiya Plant of our pasta manufacturing subsidiary, Ma•Ma-Macaroni Co., Ltd. This is expected to fully address future shipment growth and further enhance competitiveness. In the overseas market, a new plant to double productivity in our prepared mix operation in China began operation in Ji Mo City, Shandong Province in December 2006. This reflects our efforts to grow shipments in China and steadily expand operational bases around the Pacific Rim.



Line expansion construction for the Higashinada Plant

## Future Outlook and Business Strategies

**Q Please explain the outlook for the Group's business results for the year ending March 31, 2008 and after, and the strategies for each business.**

**A** We will promote efforts to return to profitability after bottoming out in the first half of the fiscal year ending March 31, 2008. We will put forth our best efforts to reach our goal of a historical high in ordinary income in the fiscal year ending March 31, 2009. We estimate higher sales and lower income for the fiscal year ending March 31, 2008. The main reason for the expected decrease in income is the impact of a change in the depreciation system. However, even if this is discounted, there are other factors that will suppress our growth in profitability. Simply put, the business environment of the food industry is suffering from deflation in product prices in contrast with inflation in raw materials prices. The Group will continue to feel the effects of this. In addition, we will increase expenditures on prior investments and business expansion through promotional activities, research and development and other activities.

In such an environment, we will make the following specific measures as we head into the fiscal year ending March 31, 2008. In Japan, we will work on measures to further reduce costs and to secure profits in proportion to rising procurement costs. Each business line has a specific strategy for the year ahead. We will strive to increase market share and improve

productivity in the flour milling and processed food businesses. In the prepared dishes and other prepared foods business, which has fallen short of our expectations, we are striving to improve and catch up with our initial plan as soon as possible. We expect to expand our transactions via sales channels with department stores and volume retailers. In the healthcare foods business, although a short-term recovery cannot be expected due to the deteriorated demand-and-supply balance for the coenzyme Q<sub>10</sub>, we will review production and sales systems, and accelerate the development of products for consumers.

Overseas, a new plant for the prepared mix operation began operation in China, thereby completing a manufacturing structure by which further sales increases can be expected. In the flour milling business in North America and Thailand, we will reinforce our competitiveness in costs and sales.

Promoting such measures will contribute to improving consolidated net sales.

**Q In the flour milling business, the Japanese government changed the wheat sales system in April 2007, resulting in the first price increase in the past 24 years. Would you explain the impact of this change on business performance?**

**A** The April 2007 implementation of the government's variable wheat sales price system will mean enormous

## Interview with the President

### Introduction of the Japanese governments variable wheat sales price system (April 2007)

The government's sales price for foreign-produced wheat will be calculated by adding an annual fixed markup (foreign-produced wheat transaction margin) to the average purchase price paid by the government over a certain period in the past.

An average 1.3% rise in prices for wheat sold by the government

The first increase in the past 24 years

### The Group's measures to address this change

- Implement a revision in wheat flour prices on May 10, 2007
- Accurately reflect wheat prices in wheat flour prices

change for the wheat flour industry, which had been largely insulated from international market price movements. Under the new system, the government's sales price for foreign-produced wheat will be calculated by adding an annual fixed markup (foreign-produced wheat transaction margin) to the average purchase price paid by the government over a certain period in the past. From April 2007, the government's wheat sales price was raised, by an average of 1.3%. To accurately reflect the wheat price revision in wheat flour prices with the start of the new system, the Nisshin Seifun Group briefed our customers—the secondary processors using wheat flour—about the system and gained their understanding. Specifically, wheat flour is classified into hard, soft and plain grades, and wheat price variation amounts are reflected in the price of each type of

wheat flour. These price changes became effective on May 10, 2007, and are expected to raise sales slightly but have no impact on income.

To deal smoothly with revisions to wheat flour prices, we will strive to familiarize our customers with this system.

### Q In what business areas do you expect to launch new products?

A We are making a major launch of new products in the processed food business. One of the Group's priorities for R&D is "health." Reflecting this, we launched a new brand, *Naturart*, in February 2007. The first products released under this brand were organic pasta and pasta sauce, etc. For this brand, we are launching products with a focus on distinctive ingredients.

We also plan to release new commercial-use wheat flours in our flour milling business in the year ending March 31, 2008. In each business, there are many forthcoming new products based on the Group's original technologies. We will strive to turn these into hot-selling products that contribute to business



A new brand *Naturart* logo

performance over the medium- to long-term through various efforts including sales promotion activities.

The Group also emphasizes wrapping and packaging as an important issue in the future development of new products. We are promoting efforts to produce excellent results, not only in product safety and convenience but also in environmental concern and design.

**Q Please talk about the medium- to long-term direction of the Nisshin Seifun Group.**

**A** Due to the aging of Japanese society, we will seek a driving force toward growth in overseas businesses. The Group will strive to strengthen its presence in the Pacific Rim, mainly in the flour milling and prepared mix businesses, in which we can leverage our superior competitiveness due to our advanced production technology.

In Japan, we will optimize the strengths that come from our holding the top market share in many product groups to further increase sales share and make unstinting efforts to improve our profit structure. We will also secure profits by aggressively developing the prepared dishes and other prepared foods business etc., which have yet to grow.

**Q Lastly, are there any important issues other than business strategies that you think should be addressed?**

**A** The execution of management strategies and efforts to improve consolidated business performance are not a company's sole duties. To survive as a corporate entity, it is important to fulfill our social responsibility including thorough compliance with laws and regulations, food safety and environmental conservation, for which we have continued our efforts. In the fiscal year ending March 31, 2008, we will concentrate our Group-wide efforts on the key theme of rebuilding our internal control systems, one year ahead of the implementation of the Financial Instruments and Exchange Law.

In these efforts, our human resources will be the driving force behind maintaining the Company's source of strength and continuing to evolve. It has been six years since the Company was split up. Despite the strong centrifugal power reflected in company split-ups, nurturing human resources who are capable of centripetal management is an urgent task. Under our management policy to accelerate overseas strategies, it is also important to nurture internationally capable human resources.

## Doubling Production Capability at the Prepared Mix Operation in China

The Nisshin Seifun Group established a new plant to double production capacity in the Chinese market, for which we expect further expansion, thereby launching further development of the prepared mix operation in China.



Overall view of Shin Nisshin Seifun Foods (Qingdao) Co., Ltd.



Inside the new plant



Inauguration ceremony of the new company (April 2007)

In 2002, the Group was the first in the Japanese prepared mix industry to expand its business to China, supplying commercial-use prepared mix products mainly to local companies processing food for Japan. Responding to a steady increase in sales volume, a new plant was established in Ji Mo City, Shandong Province, and began operation in December 2006. The new plant features cutting-edge technologies such as enhanced product safety measures based on the latest design concepts, and the capacity to address even more meticulous production.

Drawing on the know-how accumulated in the prepared mix operation in China, the Group will continue to develop new business which leverage its strengths in the flour milling and processed food businesses, while paying attention to risks. To do so, we set up a China Business Development Office and deployed staff under our direct control in Shanghai to look into future investment opportunities.

## Expansion of the Prepared Mix Operation in China

### December 2002

Qingdao Nisshin Seifun Foods Co., Ltd. was established in Qingdao, China. A new plant for the prepared mix operation was established, and the first step toward doing business in China began.

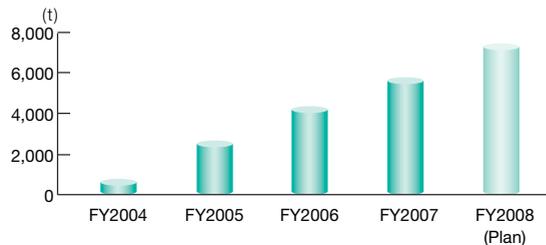
### December 2006

A plant of newly established Shin Nisshin Seifun Foods (Qingdao) Co., Ltd. began operation.

### Scheduled in the first half of the year ending March 31, 2008

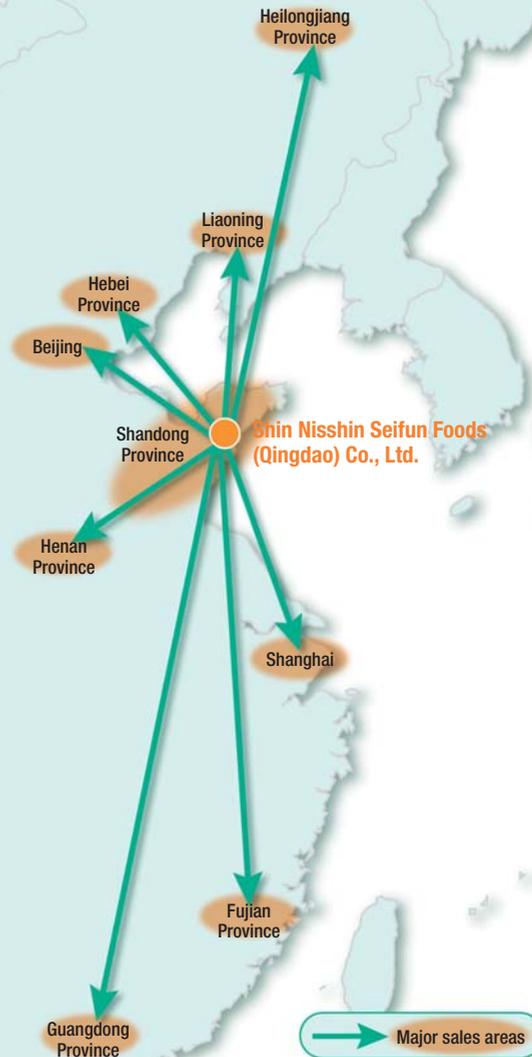
Facilities and equipment will be concentrated in a new plant to double productivity, and the two companies will be merged.

## Volume of Prepared Mix Shipped in China



## Outline of Shin Nisshin Seifun Foods (Qingdao) Co., Ltd. After Merger

- **Location:** No. 6 ChengXi Road, Ji Mo, Shandong, China
- **Paid-in capital:** ¥920 million
- **Productivity:** 4,500 tons a year (1 shift)
- **Produced items:** breader & batter mix, bakery mix, donut mix, cake mix and others



## Topics

### The Tsurumi Plant of Nisshin Flour Milling and the Tsurumi Office of Nisshin Grain Silo Were Evaluated as “Superior” by a Food Safety Audit Conducted by the AIB

The Tsurumi Plant of Nisshin Flour Milling, boasting Japan’s greatest wheat processing capacity of 2,150 tons a day, and the Tsurumi Office of Nisshin Grain Silo were audited by the American Institute of Baking (AIB). The Food Safety audit evaluated them as “Superior.” The Chita Plant of Nisshin Flour Milling and the Chita Office of Nisshin Grain Silo were ranked “Superior” for the fourth consecutive year since January 2004—a first in the industry, and both the Chita and Tsurumi Plants received the top-ranking evaluation.

In view of the rapidly increasing levels of quality control that are demanded from the food industry, Nisshin Flour Milling previously obtained its ISO 22000 certification and highly values the usefulness of the current audit system as a third-party evaluation system. We will continue to emphasize and reinforce our quality control system and make further efforts to supply safe food products.

Nisshin Flour Milling  
Tsurumi Plant



### Nisshin Foods Released the Commercial-Use Prepared Mix “Tatsujin Chubo.”

Nisshin Foods launched the Institutional Product Sales Department in June 2006 to expand sales of commercial-use products. In November 2006, we held our first ever “New Commercial-Use Products Show.”

Using our proprietary production method, we pursued a thorough study of the relationship between wheat flour and water and developed the “Super HHS- $\alpha$ ” wheat flour. We released four new products, which utilize its functions in our commercial-use prepared mix “Nisshin Tatsujin Chubo” series.

The “Super HHS- $\alpha$ ” has many attributes. It does not harden easily, retains moisture for long periods and does not become dry or stale quickly. These features make it possible to provide a special prepared mix that matches any cuisine; it gives a pleasantly melting and crispy feeling in the mouth with tempura, or a moist and smooth taste with pancakes and crepes. We will expand sales of “Tatsujin Chubo” at restaurants, convenience stores and for other commercial uses.



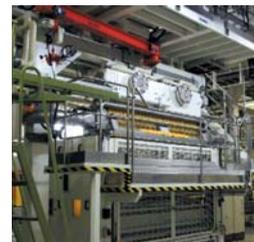
Nisshin Foods  
“New Commercial-Use Products Show”

### The Utsunomiya Plant of Ma•Ma-Macaroni

#### — Increased Pasta Production Facilities —

A large-scale pasta production line for Ma•Ma Macaroni was installed in January 2004 at the Kobe Plant. This was followed by production line expansion at the Utsunomiya Plant, which was recently completed. The new production lines began operation in November 2006.

We now have an extremely large-volume production system in place. The production capacity of the recently expanded new line is 2 tons per hour, which increased the long-pasta production capacity at the Utsunomiya Plant by 60%. To meet these increases, we have rationalized our wrapping and packaging line, and worked to further boost production efficiency and product safety. The expansion of the production facilities completed the supply system necessary to meet growth in pasta sales.



Ma•Ma-Macaroni  
New production line at the  
Utsunomiya Plant

## Adopting CHAGE and ASKA's New Song, "Here & There," for a New Nisshin Seifun Group Commercial

### Sponsoring the "CHAGE and ASKA Concert Tour 2007 DOUBLE" National Tour

The Nisshin Seifun Group Inc. adopted CHAGE and ASKA's new single, "Here & There," which was released in January 2007, for a Group commercial, and in 2007, we are sponsoring the band's national tour, the "CHAGE and ASKA Concert Tour 2007 DOUBLE."

CHAGE and ASKA's "Here & There," is a suitable song for the Group, whose image is dynamic, emotional and heading into the future. The new commercial has been airing since January 2007. The Nisshin Seifun Group is also sponsoring the band's national tour, the "CHAGE and ASKA Concert Tour 2007 DOUBLE," which started in March 2007. We are conducting public relations activities to concertgoers at 51 venues nationwide. Through CHAGE and ASKA's song, we aim to promote the presence of the Nisshin Seifun Group.



Sponsoring the "CHAGE and ASKA Concert Tour 2007 DOUBLE"

## The Nisshin Seifun Group Supports World Food Programme (WFP) Activities

In the world, 850 million people are starving. The World Food Programme (WFP), a frontline UN agency, is aggressively developing global activities in its mission to eradicate global hunger and poverty by getting food aid to the right people, at the right time, and in the right place.

At a ceremony held in 1950 to commemorate the 50th anniversary of the Company's establishment, Nisshin Seifun's founder, Teiichiro Shoda, said: "God does not allow us to earn money only. In conducting our business, we must serve society and shareholders, and think about enhancing the well-being of employees."

With this mission, the Nisshin Seifun Group joined the Japan Association for the UN World Food Programme, a Japanese nonprofit organization of the WFP, as a food company handling wheat, which is a major crop. We will continue to fulfill corporate social responsibility (CSR) in tune with the changing times and, through our enthusiasm to pass down earth's blessings to succeeding generations, we will support WFP activities.



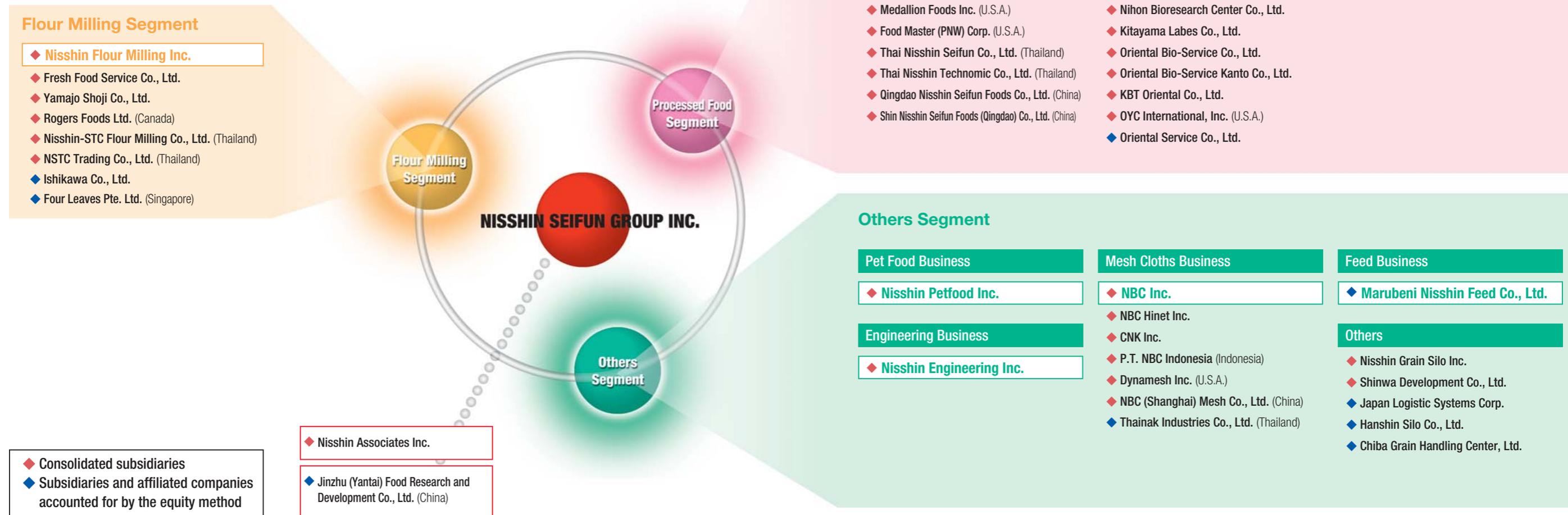
Supporting WFP activities

## Outline of the Nisshin Seifun Group

The Nisshin Seifun Group comprises the holding company, the Flour Milling Segment, the Processed Food Segment, and Others Segment. In addition to Nisshin Seifun Group Inc., the Group includes 46 subsidiaries and 15 affiliated companies. Nisshin Seifun Group Inc. and other principal companies are presented in the organizational diagram below.

Employees (as of March 31, 2007)	
Flour Milling Segment	1,264
Processed Food Segment	3,030
Others Segment	673
Nisshin Seifun Group Inc.	245
<b>Total</b>	<b>5,212</b>

### Organization of Nisshin Seifun and its Group Companies (as of March 31, 2007)



# Review of Operations

## Flour Milling Segment

### <Business Results>

In the face of difficult business conditions including lower demand in the domestic wheat flour market than last year and an ongoing demand shift toward lower-priced products, the flour milling business boosted shipments above last year's level by moving ahead with relationship-based marketing with business partners and pursuing clearly targeted sales promotion measures.

In production and distribution, construction of an automatic rack warehouse was completed in May 2006 at the Higashinada Plant and efforts were made to improve operational efficiency and cost competitiveness. In the area of reliability and safety, the Tsurumi Plant underwent an AIB audit (a hygiene management tool used in the U.S.) in March 2007 and became the second of the company's plants, after the Chita Plant, to receive a "Superior" rating, the highest possible AIB

### <Prospects for the Next Fiscal Year>

In the flour milling business, the company will further strengthen customer relationships through, for example, product development and sales promotion recommendations that swiftly and accurately read market changes and needs following in the wake of market deregulation, and will work to increase shipments and secure profits. In the areas of production and distribution, the company will move forward with steps anticipating the 2008 startup of the Higashinada Plant's new lines, increase productivity in preparation for market deregulation, and establish an operating base that will garner greater market share.

With the April 2007 implementation of the revised Law for Stabilization of Supply, Demand and Prices of Staple Food, the government introduced a variable wheat sales price system and the government's prices for imported wheat rose, by an average of 1.3%, for the first time in 24 years. In response, the company revised its prices for commercial wheat flour in May and will continue to reflect wheat price revisions, which are scheduled to take place twice a year for the foreseeable future.

In overseas operations, the company will push forward with efforts to enhance cost and sales competitiveness in North

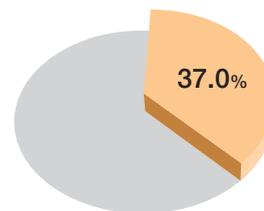
audit rating. Through this and other measures, the company has worked to further strengthen and enhance its quality management system.

The price of bran, a by-product, rose steadily compared to last year's levels.

Overseas, Rogers Foods Ltd. in Canada gradually increased its operating rate and worked to boost shipments. Meanwhile, in Thailand, active business measures were pursued and efforts were made to increase shipments.

America, work toward increasing shipments of wheat flour into the Chinese market, from Thailand, and take other steps to advance its Pacific Rim strategy.

Flour Milling Segment Net Sales  
¥154,722 million



Nisshin Flour Milling  
Exhibited entries at the Mobac Show  
2007: 2007 Machinery, Materials,  
Marketing of Bakery and Confectionery  
Show



Nisshin Flour Milling  
Exhibited entries at the  
2006 Industrial Exhibition  
for Noodles

## Processed Food Segment

### <Business Results>

The processed food business faced the ongoing demand weakness plaguing the entire processed food industry, and also had to deal with difficult conditions caused by sharply higher raw material prices and unfavorable foreign exchange movements. Despite that, however, aggressive sales promotion activities resulted in shipments of products including pasta, pasta sauce, *okonomiyaki* flour, hotcakes, fry batter flour, and frozen foods that exceeded results for last year. Additionally, in February of this year, the company introduced 26 new products and 14 updated products in home-use-room-temperature foods, and 7 new products and 1 updated product in home-use-frozen foods. Particularly noteworthy developments included efforts to develop new customer segments through initiatives like introduction of the new *Naturart* brand, which uses organic ingredients. In the prepared dishes and other prepared foods business, growth has been slow, but plant operation reforms and other improvements are steadily being implemented. As new initiatives, active business development activities, like the opening of *Premium Wa-Sozai Hyakuwan* stores featuring JAS-certified organic vegetables and other select ingredients, were undertaken. Regarding reliability and safety initiatives, quality assurance systems were further strengthened following the company's introduction of the positive list system for agricultural chemical residues in foods last May. In the overseas business, the production capacity increase achieved with the startup of a new prepared mix plant in China last December was just one example of steady business expansion efforts at company facilities in North America, Thailand, and China, leading to steady growth in shipments.

In the yeast and biotechnology business, new products were actively

### <Prospects for the Next Fiscal Year>

For the processed food business, the company, as a mealtime solution provider, will promote development of new brands based on the concepts of true simplicity and good health, enhance offerings under its market-leading Ma•Ma brand and other brands, and work to increase productivity. In the prepared dishes and other prepared foods business, improvement measures will be steadily implemented and efforts will be made to increase sales at department stores, volume retailers, and other retail outlets through measures like the development of menus using JAS-certified organic vegetables. Overseas business development will focus on further Pacific Rim business expansion with measures such as increasing sales at the Chinese prepared mix operation, which has just started up a new plant.

In the yeast business, efforts will be made to increase sales by promoting new measures like working with customers to jointly develop new products. In the biotechnology-related business, the company will aim to achieve even greater growth by using partnerships with foreign companies and other means to expand analysis operations and by accelerating new product development at the Bio-Innovation Center.

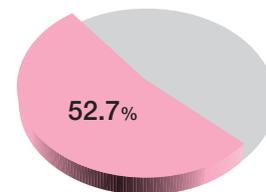
proposed to customers. In the yeast business, greater sales of mainstay yeast, flour paste, and other bread-making ingredients, as well as mineral yeasts used mainly as healthcare food ingredients resulted in higher year-on-year sales. Meanwhile, in the biotechnology-related business, custom testing, husbandry, and other research support operations grew steadily. However, bio-nutritional products and feed had an off year and, as a result, sales came in below results for last year.

The healthcare foods business saw significant declines in sales of both ingredients and consumer products from last year due to a change in the demand-supply balance, which was caused by the passing of the boom in demand for the mainstay coenzyme Q<sub>10</sub> product and the increase of production facilities by other companies. Amid these conditions, new consumer products programs were embarked upon and new products were introduced to boost earnings. New products sold only by mail-order included the *WGH Pro* sports supplement for athletes, which was launched in September 2006, and the new *rachic Diet* brand of diet foods, launched in December 2006. New products introduced in stores included *Refreline* launched in October 2006 and *Miwaku Suppli* and *icrystal*, both of which were introduced in March 2007.

In the healthcare foods business, expectations are that difficult market conditions for the mainstay coenzyme Q<sub>10</sub> raw materials will persist, so production and sales systems will be revised. The company will also strengthen sales to deepen market penetration for the series of new products introduced last fall for both retail-store and mail-order sales distribution.

### Processed Food Segment Net Sales

¥220,545 million



Nisshin Pharma  
Exhibited entries at the 7th JAPAN  
Drugstore Exhibition



Nisshin Foods  
Held Nisshin Foods' Enjoy Pasta! Party  
2006

## Review of Operations

### Others Segment

#### <Business Results>

Facing difficult conditions caused by sudden rises in ingredient prices, the pet food business worked to increase sales by introducing the *Carat Watashi-wa* cat food series and *Healthy Label* dog food in September 2006 and launching the industry's first dog food with soup, *Run Meal Mix with Savory Soup*, in March 2007. Sales of both cat and dog products surpassed results for last year. The line of *JP-Style* premium dog products was enhanced to meet broad customer needs, and targeted PR activities were pursued in an effort to expand brand awareness.

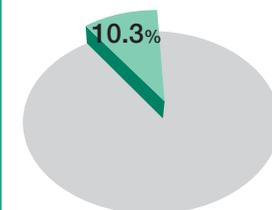
Regarding the engineering business, sales fell significantly from last year as plant-engineering-related industries pulled back from last year's high level of capital investment, and

large contract completions fell back from last year's extraordinarily high level.

In the mesh cloths business, both domestic and overseas sales of mainstay mesh cloths for screen-printing applications hovered around last year's levels, as forming filters saw steady growth in sales of automotive filters and industrial-use mesh cloths recorded significantly higher sales, driving overall results above those of last year.

#### Others Segment Net Sales

¥42,922 million



#### <Prospects for the Next Fiscal Year>

In the pet food business, the company will apply the advantages it enjoys as a domestic manufacturer to expand its product line by developing new dog and cat food products differentiated by reliability and safety, and good nutrition. It will also move forward with aggressive sales activities.

In the engineering business, the company will secure orders for mainstay plant engineering services, and expand sales in the powder processing field by applying technical capabilities such as those that resulted in the successful development of alloy nanoparticles with radio-frequency thermal plasma.

Meanwhile, in the mesh cloths business, the company will aggressively develop overseas markets, strengthen domestic sales capabilities, and push ahead with introductions of new products in high value-added product markets through measures such as enhancing the R&D system.



Nisshin Engineering  
Exhibited entries at nano tech 2007



Nisshin Petfood  
Aired commercial for the *Carat Watashi-wa* series

## New Products

### • Nisshin King of Tempura

(Nisshin Foods: Tempura flour)

By blending our newly developed wheat flour, we created a lighter-than-ever, soft and crispy batter. This makes it easy to prepare tempura from vegetables such as eggplant and *shishito* (small sweet green pepper), as well as *kakiage* (mixed-vegetable tempura). It is usually hard to put batter on such foodstuffs because the batter tends to come off quickly, and the mixed-vegetable tempura easily scatters in the oil. We have rejuvenated the market with the introduction of this highly functional tempura flour—the “King of Tempura.”

(Launched on the market in February 2007)



### • Ma•Ma Ai Dentino

(Nisshin Foods: Microwavable pasta)

To address consumers' continuing expectations for new microwavable products, we must keep proposing new and different menu items. Earlier this spring, Nisshin Foods introduced Sausage Pepperoncini featuring the distinctive delicious taste of finely ground sausage and the superbly seasoned Spicy Curry as new items in the Hot Snack Pasta series. Moreover, the Company added *Bolognese* with the rich and delicious flavor of beef to its regular menus and updated the well-received Cod Roe Fresh Flavor Sauce by adding egg yolk for a smoother and better taste.

(Launched on the market in February 2007)



### • Naturart Organic Spaghetti

(Nisshin Foods: Pasta)

“Naturart” is a new brand introduced by Nisshin Foods that proposes an “enjoyable life by eating delicious food.” Under the slogan of “Rejoice in Living for Eating,” the first series released were “organic” products. For instance, we manufacture spaghetti using 100% high-quality organic durum semolina produced in North America at the Nisshin Seifun Group's pasta plant in Washington, the United States. With this spaghetti, customers can enjoy the natural flavor of organic durum wheat.

(Launched on the market in February 2007)



### • De Cecco Frozen Pasta Series

(Nisshin Foods: Frozen pasta)

Last fall, Nisshin Foods released two items for the extensive frozen pasta series using the high-quality Italian pasta, De Cecco, to strengthen its lineup in the rapidly growing and high-priced frozen pasta market. This time, a higher-value-added Veal and Mushroom *Bolognese*, which features the light and fresh taste of veal, and *Basilico* (Basil) & Cheese Genoa Sauce with an irresistibly refreshing flavor and vivid colors, which can be retained only when frozen, were added to the regular *Bolognese* menu.

(Launched on the market in February 2007)



### • rachic Diet

(Nisshin Pharma: Diet meals)

The *rachic Diet* was developed under the concept of Beauty is based on good health; good health comes from daily meals. This lineup includes as a basic item—a Carbohydrate-Based Soup—to accompany ordinary meals, and also highly characteristic supporting items. The *rachic Diet* is a new diet program available only by mail order that aims to create healthy beauty with no fuss using a personalized diet method.

(Launched on the market in December 2006)



### • Run Meal Mix with Tuna-and-Carrot Soup (820 g)

(Nisshin Petfood: Comprehensively nutritious dog food)

This dog food that comes with a soup will allow you to pamper your beloved dog that is a picky eater. Pour the soup over the dog food, and you have a meal rich in flavor and full of affection for your dog.

(Launched on the market in March 2007)



# Consolidated Financial Highlights

\* The accompanying financial data are prepared for the sole purpose of domestic reporting purpose.

## Consolidated Financial Highlights (Years ended March 31)

	2003	2004	2005	2006	2007	Change	% change
<b>Results of operations</b>							
Net sales (¥ million)	402,313	434,125	416,222	421,359	418,190	(3,169)	(0.8%)
Operating income (¥ million)	17,706	21,756	22,896	22,169	19,184	(2,985)	(13.5%)
Ordinary income (¥ million)	19,937	22,893	25,120	24,774	22,815	(1,959)	(7.9%)
Net income (¥ million)	10,575	11,575	13,597	13,541	12,303	(1,238)	(9.1%)
<b>Profit ratio</b>							
Operating income to net sales (%)	4.4%	5.0%	5.5%	5.3%	4.6%	(0.7%)	
Ordinary income to net sales (%)	5.0%	5.3%	6.0%	5.9%	5.5%	(0.4%)	
Net income to net sales (%)	2.6%	2.7%	3.3%	3.2%	2.9%	(0.3%)	
Return on shareholders' equity (%)	5.0%	5.2%	5.8%	5.4%	4.6%	(0.8%)	
<b>Financial position</b>							
Total assets (¥ million)	316,330	359,820	372,968	399,899	408,437	+ 8,538	+ 2.1%
Net assets (¥ million)	211,197	230,555	241,282	264,535	300,306	+ 35,771	+ 13.5%
Shareholders' equity (¥ million)	211,197	230,555	241,282	264,535	270,974	+ 6,439	+ 2.4%
Shareholders' equity ratio (%)	66.8%	64.1%	64.7%	66.2%	66.3%	+ 0.1%	
<b>Per share data</b>							
Net income per share (¥)	44.29	49.16	58.06	52.80	48.66	(4.14)	
Net assets per share (¥)	904.80	996.59	1,042.92	1,046.00	1,069.71	+ 23.71	
Cash dividends per share (¥)	9	11	14	18	18	0	

Notes:

1. Net income per share in fiscal year ended March 2006 decreased substantially, but this was primarily due to executing a 1.1-for-1 stock split on November 18, 2005.
2. Until 2006, before the Company Law was enacted, total shareholders' equity was recorded instead of net assets. Since 2007, after the Company Law was applied, net assets have been presented including minority interests (¥29,331 million) etc.

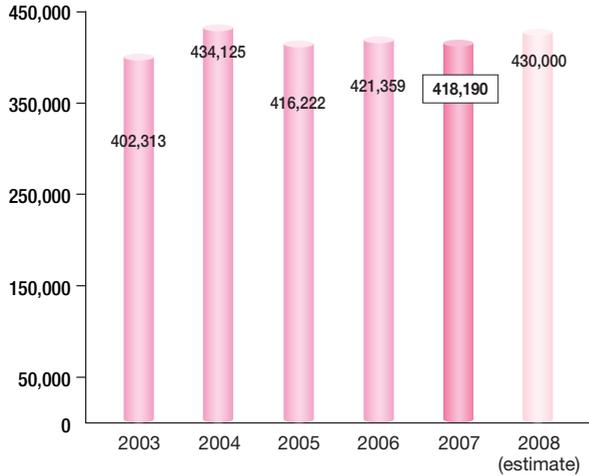
## Forecast for Consolidated Business Performance

### Forecast for Consolidated Business Performance in Fiscal 2008

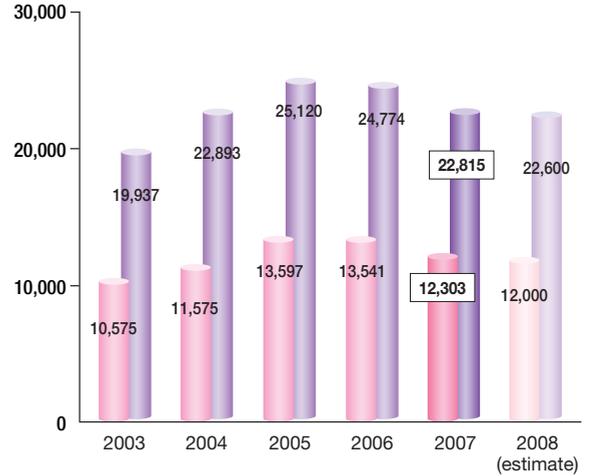
	2007	2008 (estimate)	Change	% change
Net sales (¥ million)	418,190	430,000	+ 11,810	+ 2.8%
Operating income (¥ million)	19,184	19,000	(184)	(1.0%)
Ordinary income (¥ million)	22,815	22,600	(215)	(0.9%)
Net income (¥ million)	12,303	12,000	(303)	(2.5%)

Note: The contents of this report are based on various premises and do not constitute a promise or guarantee of the realization of the planned results or policies described herein.

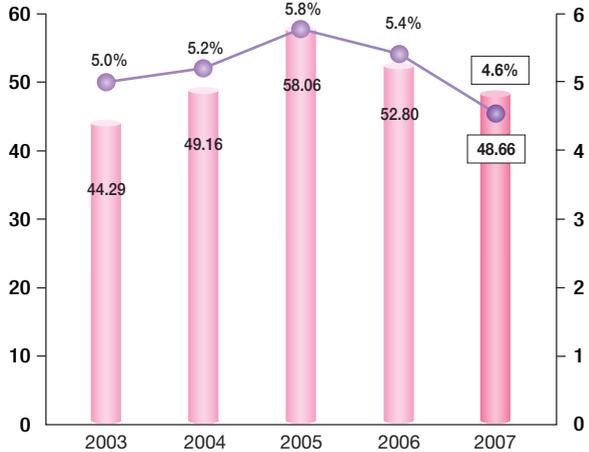
■ **Net Sales** (¥ million)



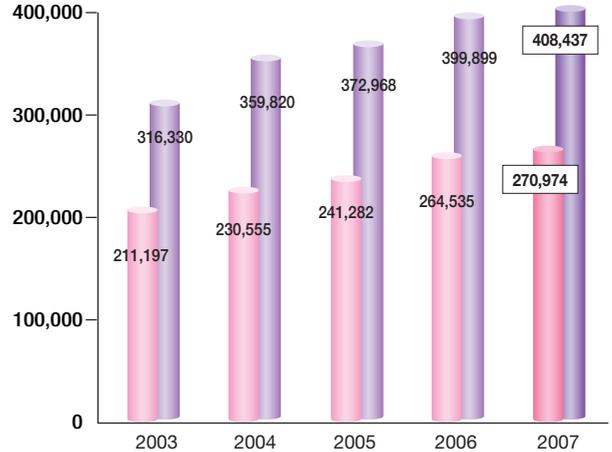
■ **Ordinary Income** ■ **Net Income** (¥ million)



■ **Net Income per Share** (¥)  
■ **Return on Shareholders' Equity (ROE)** (%)



■ **Total Assets**  
■ **Net Assets** (¥ million)



\* Net income per share in fiscal year ended March 2006 decreased substantially, but this was primarily due to executing a 1.1-for-1 stock split on November 18, 2005.

Note: The contents of this report are based on various premises and do not constitute a promise or guarantee of the realization of the planned results or policies described herein.

## Consolidated Financial Statements

### Consolidated Balance Sheets

As of March 31, 2006 and 2007

(¥ million)

Items	2006	2007	Change
<b>Assets</b>			
Current assets	172,870	178,649	5,779
Fixed assets	227,029	229,788	2,759
Total assets	399,899	408,437	8,538
<b>Liabilities</b>			
Current liabilities	64,530	67,304	2,773
Non-current liabilities	43,334	40,827	(2,507)
Total liabilities	107,865	108,131	266
<b>Minority interests</b>			
Minority interests	27,498	—	—
<b>Shareholders' equity</b>			
Common stock	17,117	—	—
Capital surplus	9,483	—	—
Retained earnings	200,487	—	—
Unrealized holding gain on securities	40,835	—	—
Foreign currency translation adjustments	(212)	—	—
Treasury common stock	(3,176)	—	—
Total shareholders' equity	264,535	—	—
Total liabilities, minority interests and shareholders' equity	399,899	—	—
<b>Net Assets</b>			
Shareholders' Equity	—	231,436	—
Common stock	—	17,117	—
Capital surplus	—	9,779	—
Retained earnings	—	207,550	—
Treasury common stock	—	(3,010)	—
Valuation and translation adjustments	—	39,537	—
Unrealized holding gain on securities	—	39,102	—
Deferred gains on hedging transactions	—	41	—
Foreign currency translation adjustments	—	394	—
Minority interests	—	29,331	—
Total net assets	—	300,306	—
Total liabilities and net assets	—	408,437	—

Note: The amounts recorded are rounded down to the nearest one million yen.

#### Net assets

Due to the adoption of a new accounting standard, Shareholders' equity and Minority interests etc. have been presented as Net assets since the consolidated fiscal year under review.

### Consolidated Statements of Income

For the years ended March 31, 2006 and 2007

(¥ million)

Items	2006	2007	Change
Net sales	421,359	418,190	(3,169)
Cost of sales	285,910	285,598	(311)
Gross profit	135,449	132,591	(2,857)
Selling, general and administrative expenses	113,279	113,407	128
Operating income	22,169	19,184	(2,985)
Non-operating income	3,437	4,234	796
Non-operating expenses	833	603	(229)
Ordinary income	24,774	22,815	(1,959)
Extraordinary income	1,224	3,776	2,551
Extraordinary losses	898	2,547	1,648
Income before income taxes and minority interests	25,101	24,044	(1,056)
Income taxes—current	8,869	7,875	(994)
Income taxes—deferred	676	1,494	818
Minority interests	2,014	2,371	356
Net income	13,541	12,303	(1,238)

Note: The amounts recorded are rounded down to the nearest one million yen.

#### Ordinary income

Although we strived to expand shipments and reduce costs in each business, ordinary income decreased year on year due to decreased revenues in the healthcare foods business, as well as investments for sales promotion, a negative shift in shipment structure, and a rise in costs due to high raw materials costs and yen depreciation in the flour milling and processed food businesses.

### Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2007

(¥ million)

Items	2006	2007	Change
Cash flows from operating activities	21,054	17,469	(3,585)
Cash flows from investing activities	(25,297)	(6,961)	18,335
Cash flows from financing activities	(7,274)	(5,225)	2,049
Effect of exchange rate changes on cash and cash equivalents	272	366	93
Increase (decrease) in cash and cash equivalents	(11,244)	5,648	16,893
Cash and cash equivalents at beginning of the year	54,047	42,803	(11,244)
Cash and cash equivalents at end of the year	42,803	48,452	5,648

Note: The amounts recorded are rounded down to the nearest one million yen.

### Consolidated Statements of Changes in Shareholder's Equity

For the year ended March 31, 2007

(¥ million)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury common stock	Total shareholders' equity
Balances as of March 31, 2006	17,117	9,483	200,487	(3,176)	223,912
Changes in the fiscal year					
Dividends from retained earnings			(2,785)		(2,785)
Interim dividends from retained earnings			(2,279)		(2,279)
Directors' bonuses			(175)		(175)
Net income			12,303		12,303
Purchases of treasury common stock				(86)	(86)
Disposal of treasury common stock		296		251	547
Total change for the fiscal year	—	296	7,062	165	7,524
Balances as of March 31, 2007	17,117	9,779	207,550	(3,010)	231,436

Note: The amounts recorded are rounded down to the nearest one million yen.

#### Net sales

Although we strived to expand shipments by sales promotion activities and opening up new markets in each business, sales decreased due to a price plunge and a decrease in shipments caused by excessive supply of the mainstay coenzyme Q10 in the healthcare foods business, as well as a weak comparison versus high sales created by the completion of large contracts in the engineering business the previous year.

## Non-Consolidated Financial Statements

### Non-Consolidated Balance Sheets

As of March 31, 2006 and 2007

(¥ million)

Items	2006	2007	Change
<b>Assets</b>			
Current assets	39,004	33,264	(5,739)
Fixed assets	196,543	209,170	12,626
Total assets	235,548	242,434	6,886
<b>Liabilities</b>			
Current liabilities	3,666	3,580	(85)
Non-current liabilities	22,260	21,608	(652)
Total liabilities	25,926	25,189	(737)
<b>Shareholders' equity</b>			
Common stock	17,117	—	—
Capital surplus	9,500	—	—
Retained earnings	153,847	—	—
Unrealized holding gain on securities	32,277	—	—
Treasury common stock	(3,122)	—	—
Total shareholders' equity	209,621	—	—
Total liabilities and shareholders' equity	235,548	—	—
<b>Net Assets</b>			
Shareholders' equity	—	185,638	—
Common stock	—	17,117	—
Capital surplus	—	9,500	—
Retained earnings	—	162,024	—
Treasury common stock	—	(3,003)	—
Valuation and translation adjustments	—	31,606	—
Unrealized holding gain on securities	—	31,606	—
Total net assets	—	217,245	—
Total liabilities and net assets	—	242,434	—

Note: The amounts recorded are rounded down to the nearest one million yen.

### Non-Consolidated Statements of Income

For the years ended March 31, 2006 and 2007

(¥ million)

Items	2006	2007	Change
Operating revenues	20,940	22,246	1,305
Operating expenses	10,993	11,315	322
Operating income	9,947	10,930	983
Non-operating income	1,051	1,595	543
Non-operating expenses	117	45	(72)
Ordinary income	10,881	12,480	1,599
Extraordinary income	566	1,692	1,125
Extraordinary losses	—	91	91
Income before income taxes	11,448	14,081	2,633
Income taxes—current	17	16	(1)
Income taxes—deferred	362	752	390
Net income	11,068	13,312	2,243
Unappropriated retained earnings brought forward	24,122	—	—
Loss on disposal of treasury stock	16	—	—
Interim dividend	1,611	—	—
Unappropriated retained earnings	33,563	—	—

Note: The amounts recorded are rounded down to the nearest one million yen.

## Stock Information (As of March 31, 2007)

### Total number of issuable shares:

932,856,000 shares

### Total number of shares issued and outstanding:

256,535,448 shares

### Number of shareholders:

15,028 (a increase of 243 shareholders from the end of the previous fiscal year)

### Major shareholders (top 10):

Name	Number of Shares Held (thousand)	Ratio of Share Holdings (%)
Nippon Life Insurance Company	15,022	5.8
Yamazaki Baking Co., Ltd.	14,040	5.4
Japan Trustee Services Bank, Ltd. (Trust Account)	11,818	4.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,666	4.5
Mizuho Corporate Bank, Ltd.	9,943	3.8
Mitsubishi Corporation	6,982	2.7
Mizuho Bank, Ltd.	5,804	2.2
Sumitomo Corporation	5,034	1.9
Sumitomo Mitsui Banking Corporation	4,616	1.7
The Norinchukin Bank	4,489	1.7

### Stock prices

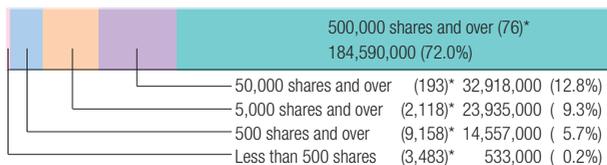


### Composition of Shareholders

#### Shareholders by Type



#### Shareholders by Number of Shares Held



\* Number of shareholders

## Corporate Data

**Corporate name:** Nisshin Seifun Group Inc.  
**Head office:** 25, Kanda-Nishiki-cho 1-chome,  
Chiyoda-ku, Tokyo  
**Foundation:** October 1900  
**Paid-in capital:** ¥17,117,856,746 (As of March 31, 2007)  
**Main business:**

- Control and management of the operations of segments in the following industries through stock ownership
  - Flour Milling Segment
  - Processed Food Segment
  - Others Segment (Pet food, Engineering, Mesh cloths, others)
- Research and Development, Surveys
- Leasing and management of real estate
- Industrial Property Rights Acquisition, Preservation, Management, Usage Management and Assignment

**Board of Directors:** (As of June 27, 2007)

**Chairman:** Osamu Shoda

**President:** Hiroshi Hasegawa

**Senior Managing director:** Ippei Murakami

**Managing director:** Yasutaka Miyauchi

**Managing director:** Ryuji Nakamura

**Managing director:** Masaru Nakamura

**Director:** Masami Ohta

**Director:** Yuki Yoshi Yamada

**Director:** Masuro Yamazaki

**Director:** Miki hisa Nanri

**Director:** Kazuo Ikeda

**Director:** Ariyoshi Okumura

**Senior Corporate auditor:** Takeo Ito

**Corporate auditor:** Kimio Ohishi

**Corporate auditor:** Akira Takeuchi

**Corporate auditor:** Akio Mimura

**Corporate auditor:** Tetsuo Kawawa

### Offices and Laboratories:

**Head Office:** Chiyoda-ku, Tokyo

**Institutes and Laboratories:** Fujimino, Saitama Prefecture  
Research Center for Production and Technology  
Research Center for Basic Science Research and Development  
QE Center

## Investor Information

**Fiscal year:**  
April 1 to March 31 of the following year

**Date of record for year-end dividends (profit dividends) on retained earnings:**  
March 31

**Date of record for interim dividends:**  
September 30

**Ordinary general meeting of shareholders:**  
June

**Method of public notice:**  
The Company posts notices via electronic notification on its website at <http://www.nisshin.com>.  
(However, if electronic notification is not possible due to an accident or other unavoidable circumstances, notices will be published in the Nihon Keizai Shimbun newspaper.)

**Share trading unit:**  
500 shares

**Custodian of shareholder register:**  
The Chuo Mitsui Trust and Banking Company, Ltd.  
3-33-1 Shiba, Minato-ku, Tokyo Japan

Transfer agent:  
The Chuo Mitsui Trust and Banking Company, Ltd.  
Stock Transfer Agency Department  
2-8-4 Izumi, Suginami-ku, Tokyo  
168-0063, Japan  
Tel: 0120-78-2031 (toll-free)

Transfer agent's handling office:  
The Chuo Mitsui Trust and Banking Company, Ltd., branches throughout Japan  
Japan Securities Agents, Ltd., Head office and branches

### Notice:

- To request forms for a change of address, for purchasing shares in less than the allotted trading unit, for transferring shares, or for designating an account for dividends to be remitted, please contact the custodian of the shareholder register toll-free in Japan at 0120-87-2031 or go to the website [http://www.chuomitsui.co.jp/person/p\\_06.html](http://www.chuomitsui.co.jp/person/p_06.html). Requests taken 24 hours a day.
- The Company has implemented a system whereby shares numbering less than the trading unit can be purchased. Shareholders with shares numbering less than the trading unit (less than 500) can apply to purchase the number of shares required to bring the number held up to the trading unit. Please contact the custodian of the shareholder register for applications. (If using the central depository system, please contact the securities company handling the trade.)

# **NISSHIN SEIFUN GROUP INC.**

25, Kanda-Nishiki-cho 1-chome, Chiyoda-ku, Tokyo  
URL <http://www.nisshin.com>