162nd Fiscal Term (April 1, 2005 to March 31, 2006)

Securities Report

Nisshin Seifun Group Inc.

Contents

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Part A: Company Information

[1] Company Overview

(1) Principal Business Performance Indicators

1. Consolidated business performance indicators

Fiscal term		158th	159th	160th	161st	162nd
Fiscal years ended March 31		2002	2003	2004	2005	2006
Net sales	(¥ million)	397,173	402,313	434,125	416,222	421,359
Ordinary income	(¥ million)	17,467	19,937	22,893	25,120	24,774
Net income	(¥ million)	9,334	10,575	11,575	13,597	13,541
Net assets	(¥ million)	215,354	211,197	230,555	241,282	264,535
Total assets	(¥ million)	340,637	316,330	359,820	372,968	399,899
Net assets per share	(¥)	904.15	904.80	996.59	1,042.92	1,046.00
Net income per share	(¥)	38.40	44.29	49.16	58.06	52.80
Diluted net income per share	(¥)	37.93	43.75	49.16	58.00	52.77
Shareholders' equity ratio	(%)	63.2	66.8	64.1	64.7	66.2
Return on equity	(%)	4.2	5.0	5.2	5.8	5.4
Price-earnings ratio (p/e)	(times)	19.71	19.06	20.71	19.63	22.78
Cash flows from operating activities	(¥ million)	13,068	11,050	20,999	21,567	21,054
Cash flows from investing activities	(¥ million)	23,110	(1,312)	(7,931)	(17,590)	(25,297)
Cash flows from financing activities	(¥ million)	(4,772)	(10,890)	(7,549)	(4,317)	(7,274)
Cash and cash equivalents at end of year	(¥ million)	50,066	48,789	54,154	54,047	42,803
Number of employees [average number of part-time employees]	(persons)	4,684 [1,582]	4,645 [1,633]	5,185 [1,805]	5,054 [1,825]	5,101 [2,002]

Notes:
1. Consumption taxes and other taxes are not included in net sales.
2. The decline in net sales in the 161st fiscal term mainly reflected the conversion of the feed business subsidiary into an equity-method affiliate.
3. On November 18, 2005, the company undertook a 1.1 for 1 common stock split. Net income per share and diluted net income per share for the 162nd fiscal term are calculated based on the assumption that the stock split had taken place at the beginning of the term. In addition, assuming that the stock split had taken place at the beginning of the 161st fiscal term, figures for the term would be as follows: net assets per share ¥948.11; net income per share ¥52.79; diluted net income per share ¥52.73.

2. Non-consolidated business performance indicators

Fiscal term		158th	159th	160th	161st	162nd
Fiscal years ended March 31		2002	2003	2004	2005	2006
Net sales	(¥ million)	86,185	15,030	17,856	19,138	20,940
Ordinary income	(¥ million)	3,080	4,503	6,950	8,946	10,881
Net income	(¥ million)	3,338	5,472	8,165	9,392	11,068
Common stock	(¥ million)	17,117	17,117	17,117	17,117	17,117
Shares issued and outstanding	(thousand shares)	238,610	235,614	233,214	233,214	256,535
Net assets	(¥ million)	181,256	172,856	187,079	192,274	209,621
Total assets	(¥ million)	220,126	199,925	222,432	210,741	235,548
Net assets per share	(¥)	760.01	739.49	807.40	829.86	827.55
Total dividends per share (interim dividend amount)	(¥) (¥)	8.00 (4.00)	9.00 (4.00)	11.00 (4.50)	14.00 (5.50)	18.00 (7.00)
Net income per share	(¥)	13.72	22.95	34.84	40.31	43.42
Diluted net income per share	(¥)	13.70	22.81	34.84	40.29	43.40
Shareholders’ equity ratio	(%)	82.3	86.5	84.1	91.2	89.0
Return on equity	(%)	1.7	3.1	4.5	5.0	5.5
Price-earnings ratio (p/e)	(times)	55.17	36.78	29.22	28.28	27.71
Dividend payout ratio	(%)	57.8	38.7	31.6	34.7	40.0
Number of employees [average number of part-time employees]	(persons)	282 [21]	265 [26]	254 [26]	237 [20]	246 [16]

Notes:

1. Consumption taxes are not included in net sales.
2. The significant year-on-year decline in net sales in the 159th fiscal term was due to the Company’s July 2001 spin-off of all operating businesses and conversion to a holding company system.
3. On November 18, 2005 the company undertook a 1.1 for 1 common stock split. Net income per share and diluted net income per share for the 162nd fiscal term are calculated based on the assumption that the stock split had taken place at the beginning of the term. In addition, assuming that the stock split had taken place at the beginning of the 161st fiscal term, figures for the term would be as follows: net assets per share ¥754.42; net income per share ¥36.64; diluted net income per share ¥ 36.63.
4. Assuming that the stock split had taken place at the beginning of the 162nd fiscal term, the dividend per share for the term would be ¥17.36. The dividend payout ratio is calculated based on the dividend per share after the assumed stock split.

(2) History

The predecessor of Nisshin Seifun Group Inc. ("the Company") was Tatebayashi Flour Milling Co., Ltd., a company established in 1900 to specialize in the manufacture and sales of flour. In 1908, Tatebayashi Seifun bought Nisshin Flour Milling Co., Ltd., and changed its name to that of the company it acquired.

Nisshin Flour Milling expanded operations steadily through plant constructions, mergers, and acquisitions. After World War II, the company undertook extensive rationalization of its core flour milling operations and diversified its business into several areas. This process eventually created a corporate group that incorporated new businesses comprising processed food, livestock feed, pet food, pharmaceuticals and engineering.

In July 2001, the Nisshin Seifun Group adopted a holding company structure, under which the Company holds all shares in each operating company covering the Group's principal business fields: flour milling, processed food, livestock feed, pet food, and pharmaceuticals.

Date	Event
October 1900	Tatebayashi Flour Milling Co., Ltd. established in Tatebayashi (Gunma Prefecture).
February 1908	Acquired Nisshin Flour Milling Co., Ltd.; company name changed to that of acquired entity.
February 1926	Construction of Tsurumi Plant completed.
1934	Nippon Bolting Cloth, Co., Ltd. (predecessor of NBC Inc.) established.
1949	Reconstruction and expansion of plants damaged during World War II largely completed.
May 1949	Shares listed on the Tokyo Stock Exchange.
February 1961	Feed production and research operations of affiliate Nisshin Feed Co., Ltd. absorbed by Nisshin Flour Milling.
September 1963	Research operations in Tokyo and Osaka consolidated into a new facility in Oimachi (now Fujimino), Saitama Prefecture.
July 1965	Acquired Nisshin Nagano Chemical Co., Ltd., which was renamed Nisshin Chemicals Co., Ltd.
October 1965	Prepared mix production and research operations of affiliate Nisshin Foods absorbed by Nisshin Flour Milling.
December 1966	Established Nisshin-DCA Foods Inc., a joint venture with DCA Food Industries Inc. of the U.S. (later renamed Nisshin Technomic Co., Ltd. in 1997).
February 1968	Construction of food production lines within the Nagoya Plant completed.
October 1970	Nisshin Pet Food Co., Ltd. established.
April 1972	Nisshin Engineering Co., Ltd. established.
April 1978	Fresh Food Service Co., Ltd. established.
October 1987	Operations of Nisshin Foods and Nisshin Chemicals absorbed by Nisshin Flour Milling by a merger.
March 1988	Thai Nisshin Seifun Co., Ltd., a joint venture, established in Thailand; operations commenced in January 1989.
September 1989	Canadian flour milling company Rogers Foods Ltd. acquired by Nisshin Flour Milling.
October 1989	Nasu Laboratory established in Nasu (now Nasu Shiobara), Tochigi Prefecture by transferring operations from Second Central Laboratory.
September 1990	Chiba Plant expanded to include a fourth flour milling facility (Mill D).
August 1991	Nisshin-STC Flour Milling Co., Ltd., a joint venture, established in Thailand; operations started in March 1993.
September 1994	Higashinada Plant expanded to include a third flour milling facility (Mill C).
April 1996	Nisshin Kyorin Pharma Co., Ltd., a joint venture with Kyorin Pharmaceutical Co., Ltd., commenced operations.
October 1996	Medallion Foods Inc. established in the United States.
October 1997	Frozen food operations of Nisshin Flour Milling transferred to newly established Nisshin Foods Co., Ltd.
March 1998	Head office relocated Chiyoda Ward, Tokyo.
April 1999	Operations of Nisshin Technomic Co., Ltd. absorbed by Nisshin Flour Milling by a merger.
October 1999	Management stake in SANKO Co., Ltd. acquired by Nisshin Flour Milling.
July 2001	New corporate entity created with operating companies (Nisshin Flour Milling, Nisshin Foods, Nisshin Feed, Nisshin Petfood, and Nisshin Pharma Inc.) under a holding company (Nisshin Seifun Group Inc.)
April 2002	Qingdao Nisshin Seifun Foods Co., Ltd. established in China.
October 2002	Tsurumi Plant of Nisshin Flour Milling expanded to include a seventh flour milling facility (Mill G).
April 2003	Additional shares in Oriental Yeast Co., Ltd. acquired as a consolidated subsidiary.
October 2003	Operations commenced at Marubeni Nisshin Feed Co., Ltd. (an equity-method affiliate), a joint venture created through the merger of Nisshin Feed with Marubeni Feed Co., Ltd.
March 2004	Initio Foods Inc. established.
December 2004	Constructed a new flour milling facility completed by Rogers Foods Ltd. in Chilliwack, British Columbia, Canada.
July 2005	Shin Nisshin Seifun Foods (Qingdao) Co., Ltd. established in China.
October 2005	Initio Foods Inc. took over SANKO Co., Ltd. in a merger.

(3) Business Overview

The Nisshin Seifun Group consists of 48 subsidiaries and 15 affiliates. The following is a description of the group businesses and the relationships among the subsidiaries and affiliates within respective business segments. The business operations are grouped by business segment.

1. Flour Milling Segment

Nisshin Flour Milling Inc., a consolidated subsidiary, produces flour and bran, a by-product, and sells them through sales agents. Fresh Food Service Co., Ltd., a consolidated subsidiary, primarily sells frozen foods and their ingredients and operates restaurants serving food using flour-based commercial ingredients. It purchases flour and other ingredients from Nisshin Flour Milling. Yamajo Shoji Co., Ltd., a consolidated subsidiary, and Ishikawa Co., Ltd., an affiliate accounted for by the equity method, are Nisshin Flour Milling sales agents. Ishikawa also sells packaging materials to Nisshin Flour Milling.

Rogers Foods Ltd. in Canada and Nisshin-STC Flour Milling Co., Ltd. in Thailand, both consolidated subsidiaries, produce flour, and sell it in the North American and Southeast Asian markets, respectively. Four Leaves Pte. Ltd., an affiliate accounted for by the equity method, operates bakeries, primarily in Singapore.

2. Processed Food Segment

Nisshin Foods Inc., a consolidated subsidiary, produces and sells prepared mix and other processed food products. It sells flour for household use purchased from Nisshin Flour Milling and frozen foods and other processed foods procured from companies outside the Nisshin Seifun Group. Ma·Ma-Macaroni Co., Ltd., a consolidated subsidiary, produces pasta whose primary ingredient is flour produced by Nisshin Flour Milling and sells the pasta through Nisshin Foods. Initio Foods Inc., a consolidated subsidiary, produces and sells chilled and prepared dishes and also directly operates concessions in stores including department stores. SANKO Co., Ltd., formerly a consolidated subsidiary, was taken over in a merger by Initio Foods in October 2005. Daisen Ham Co., Ltd., also a consolidated subsidiary, produces and sells processed meat products.

Medallion Foods Inc., a consolidated subsidiary in the U.S., produces pasta. Thai Nisshin Seifun Co., Ltd., a consolidated subsidiary in Thailand, produces pasta sauce and frozen food products. Nisshin Foods is the primary importer and seller of these products in Japan. Thai Nisshin Technomic Co., Ltd., a consolidated subsidiary, manufactures prepared mix and sells it in Southeast Asia. Qingdao Nisshin Seifun Foods Co., Ltd., a consolidated subsidiary, manufactures and sells prepared mix in mainland China. In order to expand supply capacity in response to growing sales in China, the Company established another consolidated subsidiary, Shin Nisshin Seifun Foods (Qingdao) Co., Ltd., and is currently constructing a factory, due to come on line in December 2006.

Oriental Yeast Co., Ltd., a consolidated subsidiary, manufactures and sells cake and bread ingredients and biochemical products, as well as operating a life science business.

Nisshin Pharma Inc., a consolidated subsidiary, manufactures and sells healthcare foods and pharmaceuticals. Nisshin Kyorin Pharmaceutical Co., Ltd., an affiliate accounted for by the equity method, manufactures and sells pharmaceuticals.

3. Others Segment

Nisshin Petfood Inc., a consolidated subsidiary, manufactures and sells pet foods. Nisshin Engineering Inc., a consolidated subsidiary, undertakes design, subcontracted construction, and management of production and processing facilities for grain, food products, and chemical products. In addition, it manufactures and sells powder-processing machines and engages in powder-processing, as well as engaging in subcontracted construction for some Nisshin Seifun Group companies.

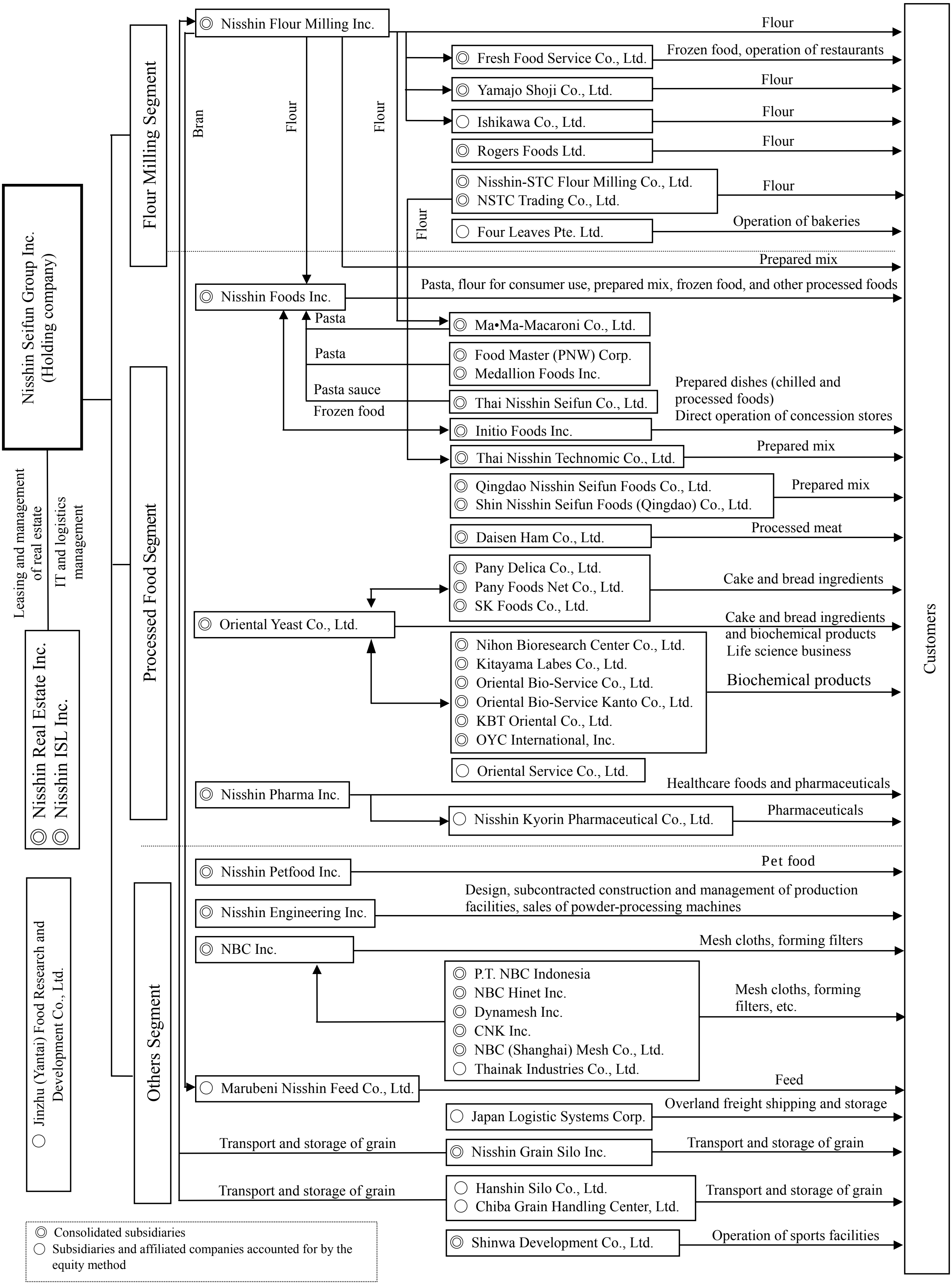
NBC Inc., a consolidated subsidiary, manufactures and sells mesh cloths and forming filters.

Marubeni Nisshin Feed Co., Ltd., an affiliate accounted for by the equity method, manufactures and sells compound feed.

Japan Logistic Systems Corp., an affiliate accounted for by the equity method, is engaged in overland freight shipping and storage. It ships and stores some of the Group's products. Nisshin Grain Silo Inc., a consolidated subsidiary, and Hanshin Silo Co., Ltd. and Chiba Grain Handling Center, Ltd., both affiliates accounted for by the equity method, are engaged in transport and storage operations for grain. Shinwa Development Co., Ltd., a consolidated subsidiary, operates sports facilities.

The diagram on the following page illustrates the structure of the Nisshin Seifun Group.

Nisshin Seifun Group Structure



Note: Nisshin Real Estate Inc. will be renamed Nisshin Associates Inc. on June 1, 2006.

(4) Subsidiaries and Affiliates

Name	Location	Paid-in capital (¥ million)	Main businesses	Share of voting rights (indirect ownership) (%)	Details of relationship	
					Directors	Comments
Consolidated subsidiaries						
Nisshin Flour Milling Inc.	Chiyoda-ku, Tokyo	13,000	Production and sales of flour and prepared mix	100.0	Concurrent 6 Temporarily transferred 3 Transferred 4	The Company provides partial loan for working capital and rents commercial land and office space
Nisshin Foods Inc.	Chiyoda-ku, Tokyo	5,000	Sales of pasta, flour for consumer use, frozen foods, other products Production and sales of prepared mix	100.0	Concurrent 6 Temporarily transferred 2 Transferred 2	The Company provides partial loan for working capital and rents commercial land and office space
Ma·Ma-Macaroni Co., Ltd.	Utsunomiya-shi, Tochigi	350	Production and sales of pasta	68.1 (53.1)	Concurrent 2 Transferred 1	None
Initio Foods Inc.	Chiyoda-ku, Tokyo	450	Production and sales of chilled and prepared dishes; direct operation of concessions in department stores, etc.	100.0 (64.8)	Concurrent 3 Temporarily transferred 1	The Company provides partial loan for working capital and rents office space
Oriental Yeast Co., Ltd.	Itabashi-ku, Tokyo	2,617	Production and sales of cake and bread ingredients and biochemical products, life science business	43.1 (0.0)	Concurrent 3 Transferred 3	None
Nisshin Pharma Inc.	Chiyoda-ku, Tokyo	2,550	Production and sales of healthcare foods and pharmaceuticals	100.0	Concurrent 3 Temporarily transferred 3 Transferred 3	The Company provides partial loan for working capital and rents office space
Nisshin Petfood Inc.	Chiyoda-ku, Tokyo	1,315	Production and sales of pet foods	100.0	Concurrent 4 Temporarily transferred 3 Transferred 3	The Company rents buildings and office space
Nisshin Engineering Inc.	Chuo-ku, Tokyo	107	Design, subcontracted construction and management of production facilities, sales of powder-processing machines	100.0	Concurrent 2 Temporarily transferred 1 Transferred 5	The Company rents office space
NBC Inc.	Hino-shi, Tokyo	1,992	Manufacturing and sales of mesh cloths and forming filters	48.8 (10.1)	Concurrent 1 Transferred 3	None
30 other consolidated subsidiaries						
Subsidiaries and affiliated companies accounted for by the equity method						
Marubeni Nisshin Feed Co., Ltd.	Chuo-ku, Tokyo	5,500	Production and sales of feed	40.0	Concurrent 2 Transferred 4	The Company rents commercial land
Japan Logistic Systems Corp.	Shinagawa-ku, Tokyo	3,145	Freight shipping and storage	25.6 (20.5)	Concurrent 1 Temporarily transferred 1 Transferred 1	None
8 other companies						

Notes:

1. SANKO Co., Ltd., formerly a consolidated subsidiary, was taken over in a merger by Initio Foods in October 2005.
2. Nisshin Flour Milling Inc., Nisshin Foods Inc., Oriental Yeast Co., Ltd., Nisshin Pharma Inc., NBC Inc., Nisshin-STC Flour Milling Co., Ltd. and P.T. NBC Indonesia are special-purpose subsidiaries of Nisshin Seifun Group Inc. Nisshin-STC Flour Milling Co., Ltd. and P.T. NBC Indonesia are included in the 30 other consolidated subsidiaries.
3. Oriental Yeast Co., Ltd., NBC Inc., and Japan Logistic Systems Corp. also submit separate regulatory filings.
4. Oriental Yeast Co., Ltd. and NBC Inc. are both treated as subsidiaries despite equity ownership of less than 50% because the Company practically controls the management of both companies.
5. Figures in parentheses in the voting rights percentage column indicate shares attributable to indirect ownership.
6. Financial data for subsidiaries accounting for more than 10% of consolidated net sales (excluding any sales transactions between consolidated subsidiaries) are shown in the table below. Oriental Yeast Co., Ltd. is omitted from the following table despite contributing more than 10% of consolidated net sales because the company submits a separate regulatory filing.

Company name	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Net assets (¥ million)	Total assets (¥ million)
Nisshin Flour Milling Inc.	175,727	11,325	6,984	44,368	79,679
Nisshin Foods Inc.	121,122	2,164	1,362	25,214	46,585

(5) Employees

1. Consolidated level

(As of March 31, 2006)

Business segment	Number of employees
Flour milling	1,269 [92]
Processed food	2,928 [1,679]
Others	578 [190]
Corporate (across the Group divisions)	326 [41]
Total	5,101 [2,002]

Note:
Numbers refer to full-time employees only. Additional figures for the average numbers of part-time staff employed during the year are provided in square brackets.

2. Non-consolidated level

(As of March 31, 2006)

Number of employees	Average age (years)	Average length of service (years)	Average annual pay (¥)
246 [16]	42.2	17.9	9,322,220

Notes:
1. Numbers refer to full-time employees only. An additional figure for the average number of part-time staff employed during the year is provided in square brackets.
2. Average annual pay includes bonuses and any non-standard wages.

3. Labor unions

Nisshin Seifun Group workers are members of in-house unions, including the Nisshin Flour Milling Workers' Union. There are no matters to report regarding labor-management relations.

[2] Review of Operations & Financial Position

(1) Review of Operations

1. Results

During the fiscal year ended March 31, 2006, the market environment was challenging, with weak demand due to unusual weather conditions and a consumer propensity for low prices throughout the food industry both continuing. Against this backdrop, the second medium-term business plan—with the core theme of growth—was launched, and the Nisshin Seifun Group worked to generate higher sales volumes. To this end, the Company undertook aggressive promotional activities and developed new sales channels in all its businesses.

As a result of the above, consolidated net sales increased 1.2% compared with the previous year to ¥421,359 million. However, earnings decreased with ordinary income down 1.4% to ¥24,774 million and net income also down 0.4% to ¥13,541 million.

The following is a review of operations by business segment.

(1) Flour Milling Segment

Nisshin Flour Milling Inc. worked to promote sales through relationship-based marketing with trusted business partners, but with the domestic flour market underperforming compared with the previous fiscal year as demand stagnated, shipments were unchanged year on year. In response to these challenges, Nisshin Flour Milling strove to expand flour demand by using flour in new ways to add value, an example being the August 2005 launch of its Maison Kayser Traditional premium flour for manufacturing use.

In production and distribution, the company continued to promote low-cost operations while working to produce high-quality flour efficiently. In quality control, meanwhile, in November 2005 Nisshin Flour Milling was the first Japanese manufacturer to win certification under ISO 22000 (the ISO standard for food safety management) for its entire manufacturing system including the headquarters and 12 domestic manufacturing plants.

In March 2006, Nisshin Flour Milling lowered prices for its flour products in response to the Japanese government's February reduction of the price of wheat, the raw material for flour; this was the first reduction in two years.

The price of bran, a by-product of the milling process, remained strong due to high demand for animal feed products within Japan.

In overseas operations, the capacity utilization rate increased steadily at Rogers Foods Ltd.'s new flour milling plant in Canada. While working to increase overall flour shipments, the plant has also commenced sales to the U.S. west coast.

Due to the effects of increased expenditure on aggressive sales promotion and other measures, segment sales declined 0.7% year on year to ¥153,850 million, and operating income declined 1.9% to ¥10,760 million.

(2) Processed Food Segment

During the period under review, the operating environment for Nisshin Foods Inc. was challenging: continued sluggish demand and a consumer propensity for low prices throughout the food industry were compounded by sharply increased raw material procurement costs due to the rise in the price of crude oil and other factors. Against this backdrop, Nisshin Foods Inc. implemented aggressive marketing and sales promotion activities centering on the campaign marking the 50th anniversary of the Ma•Ma pasta brand. As a result, shipments of pasta, pasta sauces, prepared mix and frozen foods were higher than a year earlier. In February 2006, the company introduced 13 new products and 22 updated products in home-use room-temperature foods. In home-use frozen foods, the company also introduced 5 new products and 5 updated products. In prepared dishes and other prepared foods, September 2005 saw the completion of a new manufacturing plant for prepared dishes in Shiraoka, Saitama. The following month saw the merger of subsidiaries Initio Foods Inc. and SANKO Co., Ltd. However, this and other measures designed to bolster the operational base, did not achieve the initial targets due to delayed progress with business plans. The overseas strategy of the business made a significant contribution to increased operating results, with all three operational bases—North America, Thailand and China—achieving steady business expansion. In light of its strong performance, the Chinese prepared mix business started work to double manufacturing capacity, targeting further penetration of the Chinese market.

At Oriental Yeast Co., Ltd., May 2005 saw completion of the P&B Center, which combines R&D functions with facilities for presentations to customers on new products and recipes. Since then, the company has been making good use of the center. In the processed foods division, sales were higher than a year earlier, due in part to growth in shipments of bread-making ingredients, including mainstay yeast and flour paste products, as well as mineral yeasts. Another contributor was the start of business at SK Foods Co., Ltd. following the

July 2005 takeover of operations from Sankyo Foods Co., Ltd. In the biotechnology-related division, sales were roughly on a par with the previous year, with steady growth in shipments of bionutritional products offset by sluggish performances in feed products supplied to fish farms and other feed contracts.

Nisshin Pharma Inc. concentrated resources on bolstering the supply network and extending market penetration for its value-added products. For the company's mainstay coenzyme Q10 product, it established a new manufacturing line for concentrated water-soluble coenzyme Q10 at its Ueda Plant in November 2005. In addition, the company focused on bolstering the lineup of finished products for the retail market and undertook a range of promotional activities, successfully increasing consumer awareness of its products.

Segment sales rose 1.4% compared to a year earlier to ¥221,571 million, but the effects of investment in sales promotion, and strategic and other expenses targeting growth under the new medium-term business plan resulted in a 7.9% decline in operating income to ¥7,352 million.

(3) Others Segment

Nisshin Petfood Inc. undertook aggressive sales promotion activities. In cat food, it posted significantly higher sales, particularly of mixed-type dried products and retort pouch products. Dog food sales also rose. In February 2006, the company launched mail order sales of JP-Style, a premium dog food product developed with a focus on good health and food safety.

Nisshin Engineering Inc. benefited from recovery in corporate capital expenditures accompanying the expansionary trend in the Japanese economy. Sales grew significantly with the successful completion of large contracts in the plant engineering division.

NBC Inc. recorded overall growth in sales with mainstay mesh cloths for screen-printing applications posting steadily increased sales both domestically and overseas, while sales of industrial-use mesh cloths and forming filters also grew significantly. In November 2005, NBC took action to expand and upgrade production facilities by establishing a new plant in Kikugawa, Shizuoka prefecture.

Segment sales increased 7.3% to ¥45,938 million, but due to the effects of factors including strategic investment in new products at Nisshin Petfood in particular, operating income fell 2.5% to ¥4,907 million.

2. Cash flows

Cash flow from operating activities

Income before income taxes and minority interests amounted to ¥25,101 million and depreciation amortization amounted to ¥11,993 million. However, increased working capital, due partly to increase in inventories of raw materials for flour manufacturing, combined with payment of income taxes and other factors, resulted in net cash provided by operating activities of ¥21,054 million.

Cash flow from investing activities

Capital investments to extend and upgrade production capacity amounted to ¥12,362 million, while purchase of marketable securities and investments in time deposits with terms exceeding three months amounted to ¥14,581 million. As a result, net cash used in investing activities was ¥25,297 million.

Free cash flow, defined as the sum of cash flows provided by operating and investing activities, equaled an outflow of ¥4,242 million in the year ended March 31, 2006.

Cash flow from financing activities

Payment of dividends and re-purchase of treasury stock were among the factors that resulted in net cash used in financing activities of ¥7,274 million. Compared to the previous fiscal year, the cash outflow increased by ¥2,957 million, principally reflecting higher dividend payments and the repurchase of treasury stock.

As detailed above, the cash inflow from consolidated operating activities in the fiscal year ended March 31, 2006 was allocated to strategic capital spending and increased returns to shareholders. In order to increase the efficiency of cash in hand utilization, funds earmarked for future strategic investments and similar were invested in time deposits with terms exceeding three months, marketable securities, and similar investments. As of March 31, 2006, consolidated cash and cash equivalents totaled ¥42,803 million, a decline of ¥11,244 million from the previous fiscal year-end.

(2) Status of Production, Orders Received & Sales

1. Production

Production values by business segment were as follows.

(Millions of yen)

Name of business segment	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006	Change (%)
Flour milling	144,080	143,626	(0.3)
Processed food	108,815	111,718	2.7
Others	17,277	19,098	10.5
Total	270,173	274,444	1.6

Notes:

1. The above financial amounts use average sales prices during the fiscal year under review. Inter-segment transactions have been eliminated.
2. Figures do not include consumption taxes.

2. Orders received

The Company does not produce a significant volume based on orders and this item is therefore omitted.

3. Sales

Sales values by business segment were as follows.

(Millions of yen)

Name of business segment	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006	Change (%)
Flour milling	154,888	153,850	(0.7)
Processed food	218,529	221,571	1.4
Others	42,804	45,938	7.3
Total	416,222	421,359	1.2

Notes:

1. Inter-segment transactions have been eliminated.
2. Transactions with major business partners and the ratio of corresponding sales to total sales are shown in the table below.

(Millions of yen)

Business partner	Fiscal year ended March 31, 2005		Fiscal year ended March 31, 2006	
	Value	Proportion (%)	Value	Proportion (%)
Mitsubishi Corp.	53,812	12.9	54,374	12.9

3. Figures do not include consumption taxes.

(3) Prospective Challenges

The Company plans to invest in three areas as core businesses: flour milling (“the best in the world”); processed food (“a growth business”); and healthcare/biotechnology business (“good prospects for the future”). Including other businesses, the basic goal remains to ensure the competitive survival of the Nisshin Seifun Group as a whole.

1. Segmental Overview of Business Strategy

The strategy in the flour milling business is to increase market share. To this end, Nisshin Flour Milling will further enhance relationship marketing and upgrade marketing initiatives to create entirely new market segments, such as by proposing products that accurately reflect customer needs. Furthermore, ahead of the anticipated deregulation of the wheat market, Nisshin Flour Milling hopes to develop a dominant competitive position in the Japanese market. Plans are in hand to boost production efficiency and productivity with the ongoing construction of state-of-the-art flour milling equipment on two new production lines at the Higashinada Plant. These lines are due to commence operations in 2008, and at that time the company will close the Kobe Plant.

In the processed food business, Nisshin Foods continues to enhance its lineup of products commanding leading market shares by developing new products that are genuinely easy to use as well as being healthy. At the same time, the company is targeting enhanced cost competitiveness with measures such as the establishment of a new large-scale pasta production line at the Utsunomiya Plant of pasta manufacturing subsidiary Ma•Ma-Macaroni Co., Ltd. The production line is slated to come on line in November 2006. In addition, Nisshin Foods has expanded further into processed food segments spanning all temperature ranges, from frozen foods to chilled foods and other prepared dishes. Through these efforts it plans to establish itself as a “mealtime solution provider” to drive the growth of the Nisshin Seifun Group. In the chilled foods sector, subsidiaries Initio Foods and SANKO merged in October 2005 to accelerate the growth of operations in prepared dishes and other prepared foods. The merger serves to integrate production, management and sales resources amid a focus on developing a multi-channel approach that targets department stores and large retail chains, in addition to opening stores in roadside locations to sell chilled dishes directly to consumers.

With an aging Japanese society and generally heightened awareness of health issues, the Company continues to channel resources into development of the healthcare and biotechnology business, which possesses considerable growth potential. The goal in this sector is to develop this business to the point where it provides a third source of core earnings, on a par with flour milling and processed food. The two main companies in this field of operations are Oriental Yeast and Nisshin Pharma. Oriental Yeast aims to become a leader in the development of original yeast-based technology, an area with almost infinite possibilities. The firm is developing new products and technologies to support enhanced longevity and health. These efforts are also exploiting synergies within the Nisshin Seifun Group, in terms of joint product development and sales initiatives, spanning operations in flour milling, processed food and healthcare foods. In particular, Oriental Yeast forms the nucleus of the Nisshin Seifun Group’s biotech research strategy, which is expected to yield results across a variety of fields. Nisshin Pharma, meanwhile, is a healthcare foods manufacturer distinguished by its emphasis on establishing the scientific basis for products that prevent lifestyle-related diseases. Focusing on research into new ingredients and the development of original products, the firm continues to develop new sales channels and build up its production capabilities to establish an unrivalled position.

In other businesses, which include pet food, engineering and mesh cloths, the Company aims to develop a significant presence within each industry, either through self growth or through a strategy based on internal and external alliances.

2. Global Development Strategy

To accelerate progress and build operational scale as quickly as possible, the Company is focusing international business development efforts primarily in three regions in addition to Japan: the west coast of North America, Southeast Asia, and China. International operations are managed as a single unit to ensure a cohesive Nisshin Seifun Group business strategy across the entire Pacific Rim, utilizing functional divisions between each base to exploit maximum synergy. To take the initiative in driving forward its strategy for China, which has huge potential as a consumer market, in June 2005 the Company set up its China Business Development Office. Besides working to expand trade between Chinese companies and Nisshin Seifun Group member firms based in Japan and overseas markets, the Company is pursuing new business opportunities that leverage core strengths in the flour milling and processed food sectors. To develop its Chinese operations, the Company commenced the manufacture and sale of prepared mix in Qingdao, Shandong, in 2002, and has been successful in achieving steadily increasing sales. To supply this sales expansion, the Company is currently constructing a new factory in Jimo, Shandong, due to come on stream in December 2006. This investment will double production capacity of prepared mix in China. Meanwhile, in October 2005, a sales subsidiary of NBC started operations and is expanding sales in the Chinese market.

3. R&D Strategy and Total Low-Cost Operations

The development of next-generation products and new business models to complement and drive the growth of existing businesses is another important goal for the Nisshin Seifun Group. Rather than aim just to upgrade products, the ongoing theme of new product development (NPD) programs is to focus maximal effort on developing innovative, high-value-added products to win the support of customers and underpin sustained business expansion. The Company recognizes that such items are the key to generating continuous growth. In healthcare foods operations, in particular, it is accelerating initiatives aimed at efficiently researching new ingredients. Such measures include the October 2005 establishment of an endowed chair at the University of Shizuoka. The endowed position is to be known as the “Nisshin Seifun Group Endowed Chair, Department of Search for Higher Functional Foods.” Joint research has already commenced. New products launched in the year ended March 31, 2006 made a substantial contribution to growth across all sectors, particularly in the core businesses of flour milling, processed food and healthcare foods.

Besides new product development, another critical objective is to realize low costs throughout the Company’s operations, from purchasing and production to sales and distribution, as a fundamental means of increasing profitability. Cost-reduction initiatives are now focused on reviewing processes and systems to engineer reforms across the entire value chain from novel perspectives. The Company also continues to make investments where necessary to boost productivity and efficiency.

4. Wheat Policy Reforms

The outcome of ongoing World Trade Organization (WTO) negotiations on agriculture, as well as bilateral free trade agreements (FTAs) and economic partnership agreements (EPAs), could potentially have a significant impact on Nisshin Seifun Group’s flour milling and processed food interests, and on the industry as a whole. In Japan, following the November 2005 completion of a document on the future development of wheat policy by the Ministry of Agriculture, Forestry and Fisheries, a proposal was submitted to a regular session of the Diet for revision of the Japanese law governing the supply, demand and prices of staple foods. Assuming that the law will be amended to allow the Ministry of Agriculture, Forestry and Fisheries to proceed with making concrete plans for creating a new system, the Company’s policy will be to urge it to establish a strong foundation for the Japanese flour milling industry to compete internationally. In view of the substantial premium of the government-controlled selling price over international prices for wheat, Company policy is to support the implementation of successive reductions in this price to reduce the gap on an ongoing basis. At the same time, the Company plans to increase the pace of structural reforms and its global business development program in order to accelerate the evolution of the Nisshin Seifun Group into a strong, globally competitive enterprise.

5. Corporate Social Responsibility (CSR)

Besides making steady progress on these strategic business issues, the Nisshin Seifun Group has been active in fulfilling its responsibilities as a corporate citizen, with the aim of retaining its status as a corporate entity that plays an essential role in society. To this end, the Company established a committee to study and develop Group operating companies’ basic attitudes as well as their actions with regard to all their stakeholders. Thus, the Company and all Group operating companies have focused on developing enhanced compliance procedures to ensure all business activities are legal and appropriate. Other specific programs – all of which are ongoing – include the strengthening of quality control systems to improve traceability and quality assurance (QA) procedures from a consumer perspective, alongside a range of environmental protection measures such as reduction of wastes and carbon dioxide emissions. As part of these programs, the Company is also actively working to obtain certification under international management standards. For example, it is focusing on its processed food and flour milling operations to address the requirements of the positive list system for agricultural chemical residues in foods, introduced in May 2006. In order to ensure the safety of the increasing volume of food ingredients it is importing from China, the Company collaborated in a joint venture with Nichirei Corporation to establish a company in Yantai, Shandong, to undertake food testing and analysis. The company is due to commence operations in May 2006. With regard to reducing carbon dioxide emissions, the Company has drawn up a plan for achieving Kyoto Protocol emissions targets. The voluntary target the Company is working to achieve under the plan is an 8.6% reduction in carbon dioxide emissions between the fiscal year ended March 1991 and the fiscal year ending March 2011.

The current environment is moving toward more stringent evaluation of internal controls over financial reporting by management, combined with increased legislation for internal control and auditing systems by external auditors. Against this backdrop, the Company initiated an overhaul of its internal control system, with the establishment in September 2005 of an Internal Control Preparatory Office. This office is charged with evaluating, reinforcing and reviewing the Group's internal control system and its operation.

The Nisshin Seifun Group has received plaudits from independent evaluation organizations, media-related institutions and other bodies for the actions taken to fulfill corporate social responsibilities. The Company plans to continue such actions going forward.

(4) Business Risks

Risks that could have an impact on the business performance, share price, and financial position of the Nisshin Seifun Group are outlined below. All matters relating to the future in the section below are based on the current views of the Nisshin Seifun Group as of the date of filing this document in Japanese (June 28, 2006).

1. Economic conditions and industry environment

The Nisshin Seifun Group continues to work to reinforce its earnings base to minimize the impact of economic and industry conditions on business results. However, shipment levels of the Company's major products are subject to economic trends, primarily in Japan. Price erosion for these products is also a possibility under a prevailing deflationary environment. Other risks include losses caused by the failure of investment or business partners due to deterioration in economic conditions.

2. Wheat policy reforms and international trade discussions

Although the Nisshin Seifun Group has undertaken structural reforms of its flour milling and processed food operations to build a strong earnings base, these businesses remain subject to risk due to international negotiations by the Japanese government on agricultural issues. Talks are ongoing with the WTO and with various countries regarding free-trade agreements. The government is also reviewing its internal and trade policies with regard to wheat. Policy changes affecting the handling of wheat (including policies governing the government purchase, stockpiling, and sale of wheat) imply serious ramifications for the domestic flour industry and the markets for secondary processed products, and could potentially lead to industry restructuring alongside major changes in methods of wheat procurement.

3. Product safety

While the Nisshin Seifun Group continues to upgrade efforts to improve its product quality assurance systems, group operations are exposed to a variety of safety-related risks due to external and other factors. Events beyond the scope of the Company's projections could lead to product recalls or the discovery of defective items. On the material procurement side, the Nisshin Seifun Group is also exposed to similar risks associated with diseases such as bovine spongiform encephalopathy (BSE) and avian influenza.

4. Sharp increases in raw material prices

The Nisshin Seifun Group continues to aim to develop low-cost operations to ensure that earnings are more resistant to deflationary pressures and the possibility of future wheat market deregulation. Nevertheless, the Company remains exposed to the risk of changes in raw material prices, and higher costs for distribution and raw materials including packaging, due to oil price rises. The resulting sharp rises in purchasing costs could make it impossible for the Company to achieve cost reductions.

5. Foreign exchange movements (principally yen-dollar and yen-euro)

Although the Nisshin Seifun Group uses currency forwards and other hedging tools to minimize the impact of foreign exchange movements on results, the sourcing of some raw materials and other inputs from overseas exposes some group operations to the risk of variance in purchasing costs due to currency market fluctuations, particularly in processed food. The operational performance and financial position of overseas operations may also vary due to changes in the value of the yen. In flour milling operations, the level of prices for imported bran, which vary according to foreign exchange movements, also affect the price of bran, a milling by-product.

6. Contract manufacturing

The Nisshin Seifun Group contracts out the manufacturing of some products to optimize production efficiency. Although the Company makes suitable efforts to ensure that contract manufacturers adhere to the same levels of quality control and input purchase stability, the Company remains exposed to the risk of the business failure of subcontractors due to circumstances beyond its control. Any such eventuality could result in higher purchasing costs or an interruption in product supply.

7. Information- and system-related risks

The Nisshin Seifun Group has established appropriate levels of management controls for its internal systems. Problems encountered with the operation of these systems have the potential to interrupt supplies to customers or to incur extra costs. Although the Nisshin Seifun Group maintains proper controls to thwart viruses and other computer-related problems and manage IT systems, any unforeseen attacks by viruses or unauthorized access to internal systems have the potential to interrupt supplies to customers. Other information- and system-related risks include the leakage of operationally sensitive data or confidential personal information, which could also result in higher costs or damage to the Company’s reputation.

8. Alliances with other companies

The Nisshin Seifun Group maintains alliances with other companies as part of efforts to optimize use of management resources and to maximize the benefits of technology. Disagreements with alliance partners could result in failure to realize such benefits.

9. Facility security and natural disasters

The Nisshin Seifun Group continues to work to upgrade its safety and site management systems to ensure the security of production plants and other facilities and to prevent accidents such as fires or explosions. Management, maintenance, and repair systems are also in place to minimize any injury to personnel or damage to facilities in the event of natural disasters such as earthquakes or storms. However, events beyond the scope of the Company’s projections could lead to damage or to the interruption of product supplies to customers. In particular, due to the high concentration of sales of Nisshin Seifun Group products in Tokyo and the surrounding metropolitan area, a major disaster affecting this region could have a negative impact on the Company’s operating performance.

10. Retirement benefits and pension liabilities

Calculations of Nisshin Seifun Group retirement benefits and pension liabilities are based on actuarial assumptions (such as the discount rate) and an expected rate of return on pension plan assets. There could be a material impact on the Company’s operating performance and financial position if actual results are significantly different from initial assumptions.

11. Regulatory compliance

Although the Nisshin Seifun Group continues to focus on upgrading legal and regulatory compliance, unforeseen events have the potential to result in higher costs.

12. Overseas incidents

Although the Nisshin Seifun Group makes efforts to prevent accidents at its overseas operations, the performance of these businesses is subject to various economic and political risks that could result in higher costs.

13. Intellectual property

Ongoing efforts by the Nisshin Seifun Group to protect its intellectual property notwithstanding, the launch and sale of similar products by other companies could be potentially detrimental to the value of the Company’s brands. In addition, the Company also faces the risk of possible future claims against it by other companies for intellectual property infringement.

14. Environmental management

The environmental impact of Nisshin Seifun Group businesses is relatively low compared to other industries. Nevertheless, the Company continues to make assiduous efforts to improve the environmental profile of Nisshin Seifun Group business activities in terms of environmental management systems, energy efficiency, and waste reduction. Despite such efforts, events beyond the scope of the Company's projections could force the Company to undertake measures that result in higher costs.

(5) Legal & Contractual Matters

There are no significant matters to be reported under this heading.

(6) Research and Development

The Nisshin Seifun Group (the Company and its consolidated subsidiaries) operates various research and development (R&D) facilities. The Research Center for Basic Science Research and Development focuses on the development of ingredients for new functional foods targeting health-conscious consumers and basic technologies for application in the prepared dishes and other prepared foods business. The Research Center for Production and Technology, another centralized R&D function, focuses mainly on the development of production technology and nanotechnology, for potential application across the entire Group. Consolidated subsidiaries operate separate R&D facilities with specialized functions tailored to each business field. These subsidiaries are Nisshin Flour Milling (in the Flour Milling Segment); Nisshin Foods, Oriental Yeast, Nisshin Pharma, Ma·Ma-Macaroni and Daisen Ham (in the Processed Food Segment); and Nisshin Petfood, Nisshin Engineering and NBC (in the Others Segment). In the pharmaceuticals field, the Company undertakes joint R&D activities with Kyorin Pharmaceutical Co., Ltd.

R&D program goals vary widely. While all Group R&D organizations seek to identify new product ideas and undertake basic research to create new technology, they also create new products to meet market needs and preferences and develop food preparation technologies while improving existing products, automating production systems and developing powder technologies. The Nisshin Seifun Group also actively seeks to further cooperation among Group research centers, and with other research institutions, to enhance specialist research expertise and promote adoption of the latest technical innovations. Through these efforts, the Group aggressively seeks to conduct highly effective R&D activities that generate new business opportunities.

Consolidated R&D expenditures totaled ¥5,043 million in the fiscal year ended March 31, 2006. This figure also includes ¥913 million in R&D spending that cannot be attributed to any particular segment. The following is an overview of the main R&D programs and results in the year under review.

1. Flour Milling Segment

R&D activities in this segment are conducted mainly at Nisshin Flour Milling's New Product Development Center and Tsukuba Laboratory, in collaboration with the Research Center for Basic Science Research and Development and the Research Center for Production and Technology. Major programs focus on the development of commercial eco-friendly and bio-related products and associated technologies, based on new flour-processing technologies and fermentation promoters, and on flavoring additives for brewed products. Major achievements included the development of specific flours for manufacturing use and environmental technologies (developed jointly with a leading construction company) aimed at cleaning up oil-contaminated soil and detoxifying sludge from construction sites. R&D expenditures attributable to this segment totaled ¥573 million.

2. Processed Food Segment

R&D activities in this segment, which are conducted mainly at Nisshin Foods' Food Research and Development Center in collaboration with the Research Center for Basic Science Research and Development and the Research Center for Production and Technology, focus on developing new processed foods across all temperature ranges, including prepared mix products, dried noodles, pasta, boil-in-bag foods, frozen foods, and prepared dishes. Major achievements included the creation of a rich variety of distinctive new processed food products and further development of the Company's lineup of prepared dishes, which emphasize taste along with safety and reliability.

Elsewhere, the R&D programs led by Oriental Yeast, primarily at the Tokyo Food Research Center, focused on developing new baking yeasts in the processed foods division, while the Nagahama Institute for Biochemical Science and other institutes engaged in the development of products in the biotechnology-related division. Nisshin Pharma's Health Care Research Center concentrated mainly on developing coenzyme Q10 products and other healthcare foods and ingredients. Major results for the year included the development of new food supplements containing coenzyme Q10 in combination with over ten vitamins and minerals, along with a highly concentrated (40% solution) water-soluble powder formulation of coenzyme Q10. Other R&D programs focused on strengthening intra-Group collaborative efforts in biotechnology-related fields, including joint research conducted by Nisshin Foods, Oriental Yeast and Nisshin Pharma. R&D expenditures attributable to this segment totaled ¥3,082 million.

3. Others Segment

Nisshin Petfood conducts R&D into tasty, healthy pet foods at its Nasu Laboratory. In cooperation with the Research Center for Production and Technology, Nisshin Engineering's facility at Kamifukuoka develops new types of machinery for powder grinding and separation. Major achievements during the year included the development of liquid crystal spacer dispersion equipment for 6G glass substrates and of metallic nano-powders (extremely fine silver or copper powders produced through heating in a high-frequency plasma). In addition, NBC developed new products and materials for screen-printing and industrial use. R&D expenditures attributable to this segment totaled ¥474 million.

(7) Analysis of Financial Position and Performance

All forward-looking statements in the text below represent the best judgments of the Company based on the information that was available at the time of the filing of the Japanese version of this document (June 28, 2006).

1. Significant accounting policies and estimates

The Consolidated Financial Statements of the Nisshin Seifun Group are prepared in conformity with accounting standards that are generally accepted in Japan.

In preparing the Consolidated Financial Statements, the Nisshin Seifun Group makes the following estimates and assumptions that have a material impact on the reported values of assets and liabilities as of the balance-sheet date, the disclosure of contingent liabilities, and the reported values of income and expenditure. While the Company makes such estimates and assumptions based on various factors deemed rational based on the analysis of historical performance and business conditions, the uncertainties inherent in the estimation process mean that actual performance can differ from forecasts.

(1) Allowance for doubtful accounts

The Nisshin Seifun Group provides for possible losses stemming from bad debts created by monetary claims and other receivables. Estimates of irrecoverable amounts are determined by considering historical loan-loss ratios for general receivables and recoverable amounts on a case-by-case basis in instances of suspected bad debt or other dubious accounts. Additional credit-loss provisions are made in some cases following any deterioration in the financial condition of a customer that results in diminution of payment capabilities.

(2) Write-downs of investments in securities

The Nisshin Seifun Group holds securities for investment purposes. Securities with a readily determinable market value are stated at fair market value and securities with no readily determinable market value are stated at cost. Investments in securities with a readily determinable market value are written down if the market value of the securities falls below 50% of acquisition value. A write-down may also be made depending on the financial position of the issuer of the securities in question if the decline in market value falls between 30% and 50% of the acquisition price. Investments in securities with no readily determinable market value are written down if the effective price of the securities in question falls markedly to a level significantly less than the acquisition price, unless a recovery in value is deemed probable.

Having previously written down the value of investments in securities as required, the Nisshin Seifun Group currently holds no securities where such measures are deemed necessary. However, further write-downs may become necessary in the future if a fall in financial market prices or deterioration in the financial performance of companies in which the Group has invested results in unrealized losses relative to the book value or otherwise precipitates conditions under which such value is irrecoverable.

(3) Impairment of fixed assets

Effective the fiscal year ended March 31, 2006, the Nisshin Seifun Group introduced Japanese accounting standards for the impairment of fixed assets. No losses for the impairment of fixed assets were recorded for the year under review. Such losses may arise in the future if changes in operating conditions cause the recoverable value of any Nisshin Seifun Group assets to fall significantly below book value.

(4) Deferred tax assets

The Nisshin Seifun Group estimates deferred tax assets by fully investigating forecast recoverable amounts based on projections of future taxable income and tax payments.

Any changes in the amounts of deferred tax assets deemed recoverable may result in a reduction in deferred tax assets, or in an adjustment to profit if additional deferred tax assets are booked.

(5) Retirement benefit expense and pension liabilities

Calculations of retirement benefits for Nisshin Seifun Group employees and the related pension liabilities are based on actuarial assumptions. These assumptions include the discount rate, projected future remuneration levels, employee turnover and retirement rates, the mortality rate (based on the most recent statistical data), and the expected rate of return on pension plan assets. Under the pension system for employees of Nisshin Seifun Group Inc. and domestic consolidated subsidiaries, the discount rate is based on the historical market yield of long-term Japanese government bonds, while the expected rate of return on pension plan assets is determined according to the historical performance of each asset class within the pension fund portfolio. The effects of material changes in these assumptions or any differences between actual results and the assumptions are cumulative and subject to recognition on a regular basis over future fiscal periods. Hence, such changes and differences could potentially have a material effect on the future values of pension-related expenses and liabilities.

2. Analysis of financial performance in the year under review and significant factors influencing results

(1) Net sales and operating income

In the Flour Milling Segment, flour shipment levels were on a par with the previous year despite a drop in domestic flour demand, due to aggressive promotional efforts by the Group. Prices remained strong for bran, a by-product of the milling process. In overseas operations, Canadian subsidiary Rogers Foods posted a significant increase in shipments due to the smooth operation of a new plant. Overall, although shipment volumes declined in some areas, sales revenue was only slightly down on the previous year. Higher spending on promotion outweighed the effects of ongoing cost-reduction measures, resulting in slightly lower profits.

In the Processed Food Segment, overall demand within the industry was generally sluggish. A trend in consumer preferences toward lower-priced items reinforced the poor market conditions. Due to the adoption of an aggressive promotional stance, the Company was able to achieve year-on-year gains in shipment volumes of pasta, pasta sauces, prepared mix and frozen foods, along with growth in shipments of yeasts and other bread-making ingredients. Growth in overseas operations via the steady expansion of operating bases in North America, Thailand and China also made a significant positive contribution to performance. Elsewhere, the Company focused on raising supply capacity for value-added products containing coenzyme Q10 and on boosting market share. Although sales were slightly higher than in the previous year, the effect of higher growth-oriented promotional spending and other strategic investments depressed profits, despite the continued benefits of cost-reduction efforts.

In the Others Segment, successful completion of large contracts within plant engineering operations was accompanied by higher sales of mesh cloths in Japan and overseas markets. Aggressive promotion of pet food also resulted in higher sales, particularly of dried cat food products. Overall segment sales rose compared with the previous year, but profits declined in year-on-year terms, due mainly to the effect of strategic expenses related to the introduction of new pet food products.

Consolidated net sales increased by ¥5,136 million, or 1.2%, compared with the previous year, to ¥421,359 million. Expanded sales of many products and the effect of cost-reduction initiatives raised the gross margin on sales to 32.1%, a year-on-year improvement of 0.2 percentage points. Selling, general, and administrative expenses increased by ¥3,409 million, primarily reflecting the rise in sales promotional expenses due to aggressive marketing campaigns and higher strategic expenses in the form of IT investment-related depreciation costs, along with advertising and promotional costs for new products. As a result, the operating margin declined by 0.2 percentage points, to 5.3%. Operating income fell by ¥726 million, or 3.2%, to ¥22,169 million.

(2) Ordinary income

Net financial income amounted to a profit of ¥792 million, an increase of ¥225 million compared with the previous year. Equity in earnings of subsidiaries and affiliated companies totaled ¥1,505 million, a year-on-year increase of ¥494 million. This was mainly attributable to improved financial performance on the part of a feed business accounted for by the equity method. On a net basis, other miscellaneous income registered a profit of ¥306 million. This represented a year-on-year decrease of ¥339 million, due primarily to the absence of gains on the sale of marketable securities that were recorded in the previous year.

On a net basis, non-operating income amounted to a profit of ¥2,604 million, which represented a year-on-year gain of ¥380 million. Ordinary income edged down by ¥345 million, or 1.4%, to ¥24,774 million.

(3) Net income

Extraordinary income of ¥1,224 million was offset by extraordinary losses totaling ¥898 million, resulting in a net extraordinary gain of ¥326 million. Income before income taxes and minority interests amounted to ¥25,101 million, an increase of ¥38 million compared with the previous year. The principal components of extraordinary income were gains on the sale of investments in securities (¥568 million) and on the sale of corporate housing and others (¥448 million), while the main item in extraordinary losses was expenses related to the transfer of a subsidiary's office premises (¥478 million).

Profits were broadly flat at the after-tax level. After the deduction of income taxes (¥9,545 million) and minority interests (¥2,014 million) from income before income taxes and minority interests, net income equaled ¥13,541 million. This represented a decline of ¥56 million, or 0.4%, compared with the previous year.

Net income per share amounted to ¥52.80. This figure was broadly on a par with the previous year after correcting for the share split conducted in the year under review. Return on equity (ROE) equaled 5.4%, a year-on-year decline of 0.4 percentage points that mainly reflected a rise in shareholders' equity caused by higher unrealized holding gains on securities.

3. Business strategy status and outlook

Having significantly exceeded the profit targets set for the first medium-term business plan, the Nisshin Seifun Group formulated a second medium-term business plan to cover the three fiscal years from April 2005 to March 2008. The Company continues to progress with the implementation of measures to achieve the performance targets established therein.

The core theme of the second medium-term business plan is growth. The aim of the plan is to ensure that all Nisshin Seifun Group businesses are on a sustainable growth trajectory by the end of the three-year period. In terms of basic strategy, the plan calls for feasible measures to be drawn up in each business area from a growth-oriented perspective. In particular, the Company has identified overseas operations as well as prepared dishes and other prepared foods as the main engines of growth. In addition, ahead of the anticipated liberalization of the wheat market, the Company plans to progress with ongoing initiatives to strengthen the base of operations in flour milling and in processed food. The plan envisages more specific linkages between R&D activities and each business to enable product innovation to become the key driving force behind strategic business development. The plan also specifies the study of new cost-reduction initiatives based on fresh concepts to ensure that the Company reduces its risk sensitivity in various aspects of growth. Through the implementation of such strategies, the Company aims to achieve sustained growth in earnings per share (EPS) over the long term, while also raising sales, ordinary income, net income and return on equity (ROE: defined as net income divided by shareholders' equity). In doing so, the Company hopes to maximize the long-term value of the Nisshin Seifun Group.

Performance targets for the final year of the plan (to March 2008) are net sales of ¥451.0 billion, ordinary income of ¥28.0 billion, net income of ¥14.5 billion, and ROE of 5.8%. Although these targets have been trimmed slightly compared with the figures announced in 2005 (by ¥14.0 billion for net sales, ¥1.0 billion for ordinary income, ¥0.5 billion for net income, and 0.2 percentage points in terms of ROE), in line with behind-forecast progress achieved to date in the development of the prepared dishes and other prepared foods business, these revised targets still represent record sales and profits for the Nisshin Seifun Group. The Company is investing additional resources in the development of the prepared dishes and other prepared foods business in an attempt to build the necessary operational infrastructure and recover time lost to date in achieving performance goals.

4. Capital financing and liquidity

On a consolidated basis, operating cash flow totaled ¥21.0 billion in the fiscal year ended March 2006. Strategic investments in facilities to boost production capacity and other capital spending projects totaled ¥12.3 billion. The Company also sought to raise returns on cash reserves allocated for future strategic investments by directing ¥14.5 billion toward investments in time deposits with terms greater than three months, marketable securities and similar investments. After accounting for income of ¥1.6 billion due to gains on the sale of investments in securities, this resulted in negative free cash flow of ¥4.2 billion. In terms of financing activities, the Company sought to return more profits to shareholders while repaying debt. Dividend payments totaled ¥3.5 billion and treasury stock acquisitions absorbed ¥2.4 billion in cash. As a result, the balance of cash and cash equivalents at the end of March 2006 was ¥42.8 billion, a fall of ¥11.2 billion compared with the previous fiscal year-end.

Total consolidated debt amounted to ¥9.3 billion at the end of March 2006. Based on the operating cash flow and the balance of cash and cash equivalents, the Nisshin Seifun Group regards the current level of internal liquidity as ample for financing long-term business development and repayments of interest-bearing liabilities.

5. Long-term management issues and future policies

In April 2005 the second three-year medium-term business plan was started, focusing on the theme of growth. Under the plan, the Company has positioned the development of overseas operations as well as prepared dishes and other prepared foods as the “main engines” of future expansion. Moreover, in anticipation of deregulation of the wheat market, measures are ongoing to strengthen the operational bases in flour milling and processed food. At the same time, the Company is promoting linkage between R&D activities and each business, while also investing to implement new cost-reduction initiatives based on innovative concepts and enhancing productivity. All these steps aim to raise the performance of the Nisshin Seifun Group and maximize corporate value over the long term.

The Nisshin Seifun Group is concentrating management resources in three core businesses: flour milling, “the best in the world”; processed food, “a growth business”; and the healthcare and biotechnology business, which promises “good prospects for the future.” While aiming to boost the market share of leading products and cost competitiveness, the Company is also restructuring its internal control system and promoting reforms of its organization to thoroughly enhance its corporate social responsibility in areas such as food safety, environmental protection, and compliance with laws, regulations, social norms, and business ethics. These efforts reinforce the Nisshin Seifun Group’s commitment to actively earn the trust of all stakeholders, including shareholders, customers, suppliers, employees, and society.

In addition, the Nisshin Seifun Group is aware of possible medium- and long-term changes in business conditions in the flour and processed food industries due to anticipated deregulation of the wheat market and changes in demographic trends in Japan such as declining birth rates, higher life expectancy, and shrinking population. These factors may have a significant impact on Group performance.

Amid a long-term downturn in demand that currently affects several industries related to Nisshin Seifun Group operations and the increasingly fierce sales competition in Japanese food markets fueled by a surge in cheaply priced imported foods, popular interest in food safety is rising in Japan. This trend demands that restaurants and food producers reinforce and upgrade ongoing efforts to improve quality assurance systems.

The Nisshin Seifun Group aims to seize new opportunities, responding accurately and quickly to changing social trends and the operating environment by aggressively promoting the strategic measures outlined above.

[3] Facilities & Capital Expenditures

(1) Capital Expenditures

The Nisshin Seifun Group (the Company and consolidated subsidiaries) makes capital investments with the aim of raising production capacity, rationalizing and increasing the efficiency of manufacturing and logistics, and upgrading quality control to improve food safety. The following is a breakdown of capital expenditures for the fiscal year ended March 2006, based on actual expenditures.

Segment	Fiscal year ended March 2006 (¥ million)	Year-on-year change (%)
Flour milling	¥5,111	(27.0)
Processed food	5,070	(29.7)
Others	2,394	20.7
Subtotal	12,576	(22.4)
Elimination/all companies	(213)	—
Total	12,362	(23.0)

Capital investments in the flour milling and processed food businesses were principally made to increase production capacity and improve quality control. Capital investments in other businesses were largely made to increase production capacity and improve streamlining and efficiency of production procedures.

All capital spending within the Nisshin Seifun Group during the year under review was financed internally from cash flow.

(2) Principal Facilities

The main facilities of the Nisshin Seifun Group (the Company and consolidated subsidiaries) are listed in the tables below.

1. Nisshin Seifun Group Inc. and domestic consolidated subsidiaries

(As of March 31, 2006)

Company name	Site name (location)	Business segment	Facility type/purpose	Book value (¥ million) Buildings and structures	Machinery and equipment	Land (thousand m²)	Other	Total	Number of employees (persons)
Nisshin Flour Milling Inc.	Tsurumi Plant (Kawasaki-ku, Kawasaki)	Flour milling	Flour production	6,369	5,622	(Note 4) 4,468 (79)	195	16,655	144 [3]
Nisshin Flour Milling Inc.	Higashinada Plant (Higashinada-ku, Kobe)	Flour milling	Flour production	2,323	1,943	(Note 4) 1,448 (28)	807	6,523	61 [0]
Nisshin Flour Milling Inc.	Nagoya Plant (Nakagawa-ku, Nagoya)	Flour milling	Flour production	1,160	1,660	(Note 4) 69 (20)	56	2,947	65 [11]
Nisshin Flour Milling Inc.	Chiba Plant (Mihama-ku, Chiba)	Flour milling	Flour production	1,981	1,945	(Note 4) 294 (43)	87	4,308	75 [1]
Nisshin Flour Milling Inc.	Chita Plant (Chita)	Flour milling	Flour production	1,478	1,459	(Note 4) 64 (31)	76	3,079	49 [2]
Nisshin Foods Inc.	Nagoya Plant (Nakagawa-ku, Nagoya)	Processed food	Prepared mix production	976	1,771	(Note 4) 46 (13)	59	2,853	87 [39]
Ma·Ma-Macaroni Co., Ltd.	Head Office and Utsunomiya Plant (Utsunomiya)	Processed food	Pasta production	542	908	27 (23)	176	1,655	69 [129]
Ma·Ma-Macaroni Co., Ltd.	Kobe Plant (Higashinada-ku, Kobe)	Processed food	Pasta production	293	1,145	393 (16)	19	1,851	44 [51]
Daisen Ham Co., Ltd.	Head Office and Yonago Plant (Yonago)	Processed food	Production of processed meats	1,346	609	92 (25)	56	2,104	187 [205]
Oriental Yeast Co., Ltd.	Tokyo Plant (Itabashi-ku, Tokyo)	Processed food	Yeast manufacture	773	859	0 (11)	57	1,690	57 [16]
Oriental Yeast Co., Ltd.	Osaka Plant (Suita)	Processed food	Manufacture of yeast and other items	1,250	1,153	169 (22) (Note 7) [5]	138	2,712	66 [10]
Oriental Yeast Co., Ltd.	Biwa Plant (Nagahama, Shiga)	Processed food	Production of flour paste, *kansui* powder, baking powders and other items	755	297	709 (36)	8	1,770	34 [3]
Nisshin Pharma Inc.	Ueda Plant (Ueda)	Processed food	Production of healthcare foods, pharmaceuticals and other items	789	906	93 (33)	67	1,857	130 [11]
Nisshin Petfood Inc.	Tsurumi Plant (Kawasaki-ku, Kawasaki)	Other	Pet food production	(Note 5) 426	508	---	12	948	19 [17]
NBC Inc.	Yamanashi Plant (Tsuru)	Other	Manufacture of mesh cloths and forming filters	1,537	925	469 (35)	404	3,336	163 [103]
NBC Inc.	Kikugawa Plant (Kikugawa)	Other	Manufacture of mesh cloths	331	131	911 (69)	6	1,381	6 [2]
Nisshin Seifun Group Inc.	Research Center for Basic Science Research and Development and two other research facilities (Fujimino, Saitama)		Research and development	710	419	(Note 4) 70 (40)	255	1,455	81 [1]
Nisshin Seifun Group Inc.	Head Office (Chiyoda-ku, Tokyo, and others)			3,764	112	(Note 4) 9,945 (2)	312	14,134	148 [14]

2. Overseas subsidiaries

(As of March 31, 2006)

Company name	Site name (location)	Business segment	Facility type/purpose	Book value (¥ million)					Number of employees (persons)
				Buildings and structures	Machinery and equipment	Land (thousand m^2)	Other	Total	
Rogers Foods Ltd.	Chilliwack Plant (Canada)	Flour milling	Flour production	1,069	1,329	183 (41)	2	2,584	16 [0]
Medallion Foods Inc.	Head Office and Plant (U.S.A.)	Processed food	Pasta production	496	298	270 (72)	7	1,073	58 [0]

Notes:

1. Book values in the “Other” column refer to the total for tools, fixtures and furnishings and construction in progress.
2. There were no principal facilities that were not in operation as of March 31, 2006.
3. Numbers of employees in square brackets refer to additional part-time workers.
4. Figures refer to land owned and leased by Nisshin Seifun Group Inc. or Nisshin Real Estate Inc. (now Nisshin Associates Inc.)
5. Figure includes buildings owned and leased by Nisshin Seifun Group Inc.
6. Book values in the “Total” column include leased assets as mentioned in Notes 4 and 5 above.
7. Figures in parentheses in the “Land” column refer to leased areas.

(3) Facility Construction & Disposal Plans

1. Construction of major facilities

Capital expenditure plans by the Nisshin Seifun Group (the Company and consolidated subsidiaries) primarily aim to raise production capacity, rationalize and increase the efficiency of manufacturing and logistics, and upgrade quality control to improve food safety.

As of March 31, 2006, funds committed to the construction of major facilities (actual expenditure) amounted to ¥16,000 million. Plans call for this entire sum to be financed internally from cash flow.

The table below outlines the major facilities currently in planning or under construction.

Company name and site	Location	Business segment	Facility type/purpose	Planned investment		Financing method	Planned start/ completion dates		Production capacity after completion
				Total value (¥ million)	Sunk capital (¥ million)		Start	Completion	
Nisshin Flour Milling Inc. Higashinada Plant	Higashinada-ku, Kobe	Flour milling	Flour production	12,360	1,887	Internal cash flow	May 2005	May 2008	Raw materials processing daily capacity: 530 tons
Shin Nisshin Seifun Foods (Qingdao) Co., Ltd. Head Office and Plant	China	Processed food	Prepared mix production	780	312	Internal cash flow	August 2005	December 2006	4,500 tons annually

2. Disposal of major facilities

Nisshin Flour Milling Inc. plans to close its Kobe Plant (daily capacity of raw materials processing: 390 tons) once the work on the Higashinada Plant detailed above has been completed.

[4] Other Matters Related to Nisshin Seifun Group Inc.

(1) Share-Related Matters

1. Share totals

(1) Total number of shares authorized to be issued

Share type	Total number of shares authorized to be issued (shares)
Common stock	932,856,000
Total	932,856,000

Notes:

1. In accordance with the articles of association, any share cancellations result in an equivalent reduction in the total number of shares authorized to be issued.
2. By resolution of the Ordinary General Meeting of Shareholders held on June 28, 2006, a revision to the articles of association resulted in cancellation of the above provision.

(2) Total number of shares issued and outstanding

Share type	Shares issued and outstanding on March 31, 2006	Shares issued and outstanding at date of filing (June 28, 2006)	Exchanges on which stock is listed	Comments
Common stock	256,535,448	256,535,448	Tokyo Stock Exchange (First Section) Osaka Securities Exchange (First Section)	Standard form of share ownership confers unrestricted shareholder rights
Total	256,535,448	256,535,448	—	—

2. Stock options

The Company has granted the stock options detailed below in line with the provisions of Articles 280-20 and 280-21 of the former Commercial Code of Japan (as amended in 2001).

(1) Options granted on July 23, 2002

Date of authorizing resolution at the General Meeting of Shareholders: June 26, 2002		
	Options outstanding at the most recent fiscal year-end (March 31, 2006)	Options outstanding at the last month-end prior to filing this report (May 31, 2006)
Number of options granted	91 (Note 1)	85 (Note 1)
Share type issuable on option exercise	Common stock	Common stock
Total number of issuable shares	100,100 (Note 4)	93,500 (Note 4)
Amount payable on option exercise	¥885,000 per option (Notes 2 & 4)	¥885,000 per option (Notes 2 & 4)
Exercise period	July 16, 2004 – July 15, 2009	July 16, 2004 – July 15, 2009
Issuance price and capital increase per share on option exercise	Issuance price: ¥805 Capital increase: ¥403 (Note 4)	Issuance price: ¥805 Capital increase: ¥403 (Note 4)
Option exercise conditions	(See Note 3)	Same as the left column.
Option transfer conditions	Approval of the Board of Directors is required for the transfer of any options.	Same as the left column.

Notes:

1. The number of shares corresponding to each option shall equal 1,100.
2. In the event of a stock split or share consolidation subsequent to option issuance, the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{1}{\text{Split/consolidation ratio}}$$

In addition, in the event of any new share issuance or treasury stock disposals at less than market price (excluding any share issuance associated with the exercising of stock options), the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Share price prior to new issuance}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

"Number of shares already issued" in the above formula shall equal the total number of shares issued and outstanding, less the number of shares of treasury stock owned by the Company. In the case of treasury stock disposals, "Number of newly issued shares" in the above formula shall be taken to mean "Number of shares of treasury stock in disposal," "Amount paid per share" shall be taken to mean "Disposal value per share," and "Share price prior to new issuance" shall be taken to mean "Share price prior to disposal."

Furthermore, in the event of such stock options being inherited by a surviving entity in a merger involving the Company or by a new company pursuant to a merger or acquisition, or in the event of a stock split by the Company related to establishment or absorption, the Company reserves the right to make appropriate adjustments to the amount paid per option as deemed necessary.

3. Conditions attached to the exercise of options are as follows:
   (1) Persons granted an allotment of options (hereinafter referred to as "option holders") must be a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) at the time that the option is exercised. However, option holders that are no longer a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) may exercise options up to two (2) years after leaving the Company or by July 15, 2006, whichever is the later date.
   (2) A designated successor that inherits options on the death of the option holder may own and exercise such options on the same terms, provided proof of inheritance and other ownership procedures are completed within 10 months of the death of the original option holder. However, another person may not inherit such options on the death of the new option holder.
   (3) Options may not be sold, pawned, or otherwise disposed of under any circumstances.
   (4) Options shall be subject to immediate forfeiture under any circumstances that are deemed to invalidate vesting rights, including, but not limited to: the dismissal of the option holder from the position as director or executive officer; voluntary resignation from such post (except for reasons of illness or injury); imprisonment or worse for a criminal offence; or appointment to a directorship or senior advisory position at a company that is a direct competitor of the Company or one of its subsidiaries.
   (5) Other conditions shall be as stipulated in the option vesting contracts concluded between the Company and option holders, based on resolutions of the Board of Directors and the Ordinary General Meeting of Shareholders held on June 26, 2002.
4. Following the stock split on November 18th 2005, adjustments have been made to "total number of issuable shares," "amount payable on option exercise," and "issuance price and capital increase per share on option exercise."

(2) Options granted on July 23, 2003

Date of authorizing resolution at the General Meeting of Shareholders: June 26, 2003		
	Options outstanding at the most recent fiscal year-end (March 31, 2006)	Options outstanding at the last month-end prior to filing (May 31, 2006)
Number of options granted	159 (Note 1)	144 (Note 1)
Share type issuable on option exercise	Common stock	Common stock
Total number of issuable shares	174,900 (Note 4)	158,400 (Note 4)
Amount payable on option exercise	¥892,100 per option (Notes 2 & 4)	¥892,100 per option (Notes 2 & 4)
Exercise period	July 16, 2005 – July 15, 2010	July 16, 2005 – July 15, 2010
Issuance price and capital increase per share on option exercise	Issuance price: ¥811 Capital increase: ¥406 (Note 4)	Issuance price: ¥811 Capital increase: ¥406 (Note 4)
Option exercise conditions	(See Note 3)	Same as the left column.
Option transfer conditions	Approval of the Board of Directors is required for the transfer of any options.	Same as the left column.

Notes:

1. The number of shares corresponding to each option shall equal 1,100.
2. In the event of a stock split or share consolidation subsequent to option issuance, the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{1}{\text{Split/consolidation ratio}}$$

In addition, in the event of any new share issuance or treasury stock disposals at less than market price (excluding any share issuance associated with the exercising of stock options), the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Share price prior to new issuance}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

"Number of shares already issued" in the above formula shall equal the total number of shares outstanding, less the number of shares of treasury stock owned by the Company. In the case of treasury stock disposals, "Number of newly issued shares" in the above formula shall be taken to mean "Number of shares of treasury stock in disposal," "Amount paid per share" shall be taken to mean "Disposal value per share," and "Share price prior to new issuance" shall be taken to mean "Share price prior to disposal."

Furthermore, in the event of such stock options being inherited by a surviving entity in a merger involving the Company or by a new company pursuant to a merger or acquisition, or in the event of a stock split by the Company related to establishment or absorption, the Company reserves the right to make appropriate adjustments to the amount paid per option as deemed necessary.

3. Conditions attached to the exercise of options are as follows:
   (1) Persons granted an allotment of options (hereinafter referred to as "option holders") must be a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) at the time that the option is exercised. However, option holders that are no longer a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) may exercise options up to two (2) years after leaving the Company or by July 15, 2007, whichever is the later date.
   (2) A designated successor that inherits options on the death of the option holder may own and exercise such options on the same terms, provided proof of inheritance and other ownership procedures are completed within 10 months of the death of the original option holder. However, another person may not inherit such options on the death of the new option holder.
   (3) Options may not be sold, pawned, or otherwise disposed of under any circumstances.
   (4) Options shall be subject to immediate forfeiture under any circumstances that are deemed to invalidate vesting rights, including, but not limited to: the dismissal of the option holder from the position as director or executive officer; voluntary resignation from such post (except for reasons of illness or injury); imprisonment or worse for a criminal offence; or appointment to a directorship or senior advisory position at a company that is a direct competitor of the Company or one of its subsidiaries.
   (5) Other conditions shall be as stipulated in the option vesting contracts concluded between the Company and option holders, based on resolutions of the Board of Directors and the Ordinary General Meeting of Shareholders held on June 26, 2003.
4. Following the stock split on November 18th 2005, adjustments have been made to "total number of issuable shares," "amount payable on option exercise," and "issuance price and capital increase per share on option exercise."

(3) Options granted on July 26, 2004

Date of authorizing resolution of general meeting of shareholders: June 25, 2004		
	Options outstanding at the most recent fiscal year-end (March 31, 2006)	Options outstanding at the last month-end prior to filing (May 31, 2006)
Number of options granted	245 (Note 1)	245 (Note 1)
Share type issuable on option exercise	Common stock	Common stock
Total number of issuable shares	269,500 (Note 4)	269,500 (Note 4)
Amount payable on option exercise	¥1,098,900 per option (Notes 2 & 4)	¥1,098,900 per option (Notes 2 & 4)
Exercise period	July 17, 2006 – July 16, 2011	July 17, 2006 – July 16, 2011
Issuance price and capital increase per share on option exercise	Issuance price: ¥999 Capital increase: ¥500 (Note 4)	Issuance price: ¥999 Capital increase: ¥500 (Note 4)
Option exercise conditions	(See Note 3)	Same as the left column.
Option transfer conditions	Approval of the Board of Directors is required for the transfer of any options.	Same as the left column.

Notes:

1. The number of shares corresponding to each option shall equal 1,100.
2. In the event of a stock split or share consolidation subsequent to option issuance, the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{1}{\text{Split/consolidation ratio}}$$

In addition, in the event of any new share issuance or treasury stock disposals at less than market price (excluding any share issuance associated with the exercising of stock options), the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Share price prior to new issuance}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

"Number of shares already issued" in the above formula shall equal the total number of shares outstanding, less the number of shares of treasury stock owned by the Company. In the case of treasury stock disposals, "Number of newly issued shares" in the above formula shall be taken to mean "Number of shares of treasury stock in disposal," "Amount paid per share" shall be taken to mean "Disposal value per share," and "Share price prior to new issuance" shall be taken to mean "Share price prior to disposal."
Furthermore, in the event of such stock options being inherited by a surviving entity in a merger involving the Company or by a new company pursuant to a merger or acquisition, or in the event of a stock split by the Company related to establishment or absorption, the Company reserves the right to make appropriate adjustments to the amount paid per option as deemed necessary.
3. Conditions attached to the exercise of options are as follows:
   (1) Persons granted an allotment of options (hereinafter referred to as "option holders") must be a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) at the time that the option is exercised. However, option holders that are no longer a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) may exercise options up to two (2) years after leaving the Company or by July 16, 2008, whichever is the later date.
   (2) A designated successor that inherits options on the death of the option holder may own and exercise such options on the same terms, provided proof of inheritance and other ownership procedures are completed within 10 months of the death of the original option holder. However, another person may not inherit such options on the death of the new option holder.
   (3) Options may not be sold, pawned, or otherwise disposed of under any circumstances.
   (4) Options shall be subject to immediate forfeiture under any circumstances that are deemed to invalidate vesting rights, including, but not limited to: the dismissal of the option holder from the position as director or executive officer; voluntary resignation from such post (except for reasons of illness or injury); imprisonment or worse for a criminal offence; or appointment to a directorship or senior advisory position at a company that is a direct competitor of the Company or one of its subsidiaries.
   (5) Other conditions shall be as stipulated in the option vesting contracts concluded between the Company and option holders, based on resolutions of the Board of Directors and the Ordinary General Meeting of Shareholders held on June 25, 2004.
4. Following the stock split on November 18th 2005, adjustments have been made to "total number of issuable shares," "amount payable on option exercise," and "issuance price and capital increase per share on option exercise."

(4) Options granted on August 17, 2005

Date of authorizing resolution of general meeting of shareholders: June 28, 2005		
	Options outstanding at the most recent fiscal year-end (March 31, 2006)	Options outstanding at the last month-end prior to filing (May 31, 2006)
Number of options granted	235 (Note 1)	235 (Note 1)
Share type issuable on option exercise	Common stock	Common stock
Total number of issuable shares	258,500 (Note 4)	258,500 (Note 4)
Amount payable on option exercise	¥1,193,500 per option (Notes 2 & 4)	¥1,193,500 per option (Notes 2 & 4)
Exercise period	July 21, 2007 – July 20, 2012	July 21, 2007 – July 20, 2012
Issuance price and capital increase per share on option exercise	Issuance price: ¥1,085 Capital increase: ¥543 (Note 4)	Issuance price: ¥1,085 Capital increase: ¥543 (Note 4)
Option exercise conditions	(See Note 3)	Same as the left column.
Option transfer conditions	Approval of the Board of Directors is required for the transfer of any options.	Same as the left column.

Notes:

1. The number of shares corresponding to each option shall equal 1,100.
2. In the event of a stock split or share consolidation subsequent to option issuance, the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{1}{\text{Split/consolidation ratio}}$$

In addition, in the event of any new share issuance or treasury stock disposals at less than market price (excluding any share issuance associated with the exercising of stock options), the amount payable on option exercise shall be adjusted in accordance with the following formula, with any fractional amounts under ¥1 thus generated rounded up.

$$\text{Post-adjustment amount} = \text{Pre-adjustment amount} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Share price prior to new issuance}}}{\text{Number of shares already issued} + \text{Number of newly issued shares}}$$

"Number of shares already issued" in the above formula shall equal the total number of shares outstanding, less the number of shares of treasury stock owned by the Company. In the case of treasury stock disposals, "Number of newly issued shares" in the above formula shall be taken to mean "Number of shares of treasury stock in disposal," "Amount paid per share" shall be taken to mean "Disposal value per share," and "Share price prior to new issuance" shall be taken to mean "Share price prior to disposal."

Furthermore, in the event of such stock options being inherited by a surviving entity in a merger involving the Company or by a new company pursuant to a merger or acquisition, or in the event of a stock split by the Company related to establishment or absorption, the Company reserves the right to make appropriate adjustments to the amount paid per option as deemed necessary.

3. Conditions attached to the exercise of options are as follows:
   (1) Persons granted an allotment of options (hereinafter referred to as "option holders") must be a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) at the time that the option is exercised. However, option holders that are no longer a director or executive officer of the Company or one of its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries thereof) may exercise options up to two (2) years after leaving the Company or by July 20, 2009, whichever is the later date.
   (2) A designated successor that inherits options on the death of the option holder may own and exercise such options on the same terms, provided proof of inheritance and other ownership procedures are completed within 10 months of the death of the original option holder. However, another person may not inherit such options on the death of the new option holder.
   (3) Options may not be sold, pawned, or otherwise disposed of under any circumstances.
   (4) Options shall be subject to immediate forfeiture under any circumstances that are deemed to invalidate vesting rights, including, but not limited to: the dismissal of the option holder from the position as director or executive officer; voluntary resignation from such post (except for reasons of illness or injury); imprisonment or worse for a criminal offence; or appointment to a directorship or senior advisory position at a company that is a direct competitor of the Company or one of its subsidiaries.
   (5) Other conditions shall be as stipulated in the option vesting contracts concluded between the Company and option holders, based on resolutions of the Board of Directors and the Ordinary General Meeting of Shareholders held on June 28, 2005.
4. Following the stock split on November 18th 2005, adjustments have been made to "total number of issuable shares," "amount payable on option exercise," and "issuance price and capital increase per share on option exercise."

3. Changes in shares issued and outstanding and in capital

Date	Change in shares issued and outstanding (thousands)	Total number of shares issued and outstanding after change (thousands)	Change in common stock (¥ million)	Common stock balance (¥ million)	Change in capital surplus (¥ million)	Capital surplus balance (¥ million)
Feb. 20, 2002 (Note 1)	(5,710)	238,610	—	17,117	—	9,446
Dec. 12, 2002 (Note 2)	(2,996)	235,614	—	17,117	—	9,446
Mar. 16, 2004 (Note 3)	(2,400)	233,214	—	17,117	—	9,446
Aug. 3, 2005	—	233,214	—	17,117	53 (Note 4)	9,500
Nov. 18, 2005	23,321 (Note 5)	256,535	—	17,117	—	9,500

Notes:

1. By resolution of the meeting of the Board of Directors held on February 13, 2002, the Company acquired 5,710,000 shares of treasury stock in line with a supplementary provision (Article 3, Section 4) to a partial revision of the former Commercial Code of Japan (Law No. 79, 2001), and then canceled the same number of shares in line with provisions of Article 212 of the Commercial Code of Japan.
2. By resolution of the meeting of the Board of Directors held on December 11, 2002, the Company canceled 2,996,000 shares of treasury stock in line with provisions of Article 212 of the former Commercial Code of Japan.
3. By resolution of the meeting of the Board of Directors held on March 15, 2004, the Company canceled 2,400,000 shares of treasury stock in line with provisions of Article 212 of the former Commercial Code of Japan.
4. As a result of consolidation of SANKO Co., Ltd. as a wholly owned subsidiary via a share exchange, capital reserves increased by ¥53,621,559.
5. As a result of the 1.1 for 1 common stock split, the number of shares issued and outstanding increased by 23,321,404 shares.

4. Ownership and share distribution

(As of March 31, 2006)

Category	Shareholders and ownership status (N.B. Minimum trading unit [MTU] = 500 shares)								Sub-MTU holdings (shares)
	Government (national and local) entities	Financial institutions	Securities companies	Other institutions	Foreign institutions, etc.		Individuals and other shareholders	Total	
					Non-individual	Individuals			
Numbers of shareholders (persons)	—	123	25	320	255	4	10,711	11,438	—
Numbers of shares owned (MTUs)	—	237,178	7,147	93,760	92,930	24	77,485	508,524	2,273,448
Ratio to total shares (%)	—	46.7	1.4	18.4	18.3	0.0	15.2	100.0	—

Notes:

1. Treasury stock holdings of 3,299,431 shares consist of 6,598 MTUs listed under “Individuals and other shareholders” and 431 shares listed under “Sub-MTU holdings.” All of these treasury shares are listed in the shareholder register. As of March 31, 2006, total beneficial ownership of treasury stock was equivalent to 3,299,143 shares.
2. Shares nominally held under the name of Japan Securities Depository Center Inc. account for 32 MTUs in the column marked “Other corporate investors” and 7 shares in the column marked “Sub-MTU holdings.”
3. On October 3, 2005, the number of shares per MTU was reduced from 1,000 to 500.

5. Major shareholders

(As of March 31, 2006)

Name	Address	Shares owned (thousands)	Shareholding as proportion of total shares outstanding (%)
Nippon Life Insurance Company	5-12, Imabashi 3-chome, Chuo-ku, Osaka	15,022	5.85
Yamazaki Baking Co., Ltd.	10-1, Iwamotocho 3-chome, Chiyoda-ku, Tokyo	14,040	5.47
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	12,187	4.75
Mizuho Corporate Bank, Ltd.	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo	9,943	3.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	9,933	3.87
Mitsubishi Corporation	6-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	6,982	2.72
Mizuho Bank, Ltd.	1-5, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo	5,804	2.26
Sumitomo Corporation	8-11, Harumi 1-chome, Chuo-ku, Tokyo	5,034	1.96
Sumitomo Mitsui Banking Corporation	1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo	4,616	1.79
The Norinchukin Bank	13-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo	4,489	1.75
Total	—	88,054	34.32

6. Voting rights

(1) Distribution within shares issued and outstanding

(As of March 31, 2006)

Category	Number of shares	Number of voting rights	Comments
Shares with no voting rights	—	—	—
Shares with restricted voting rights (treasury stock, etc.)	—	—	—
Shares with restricted voting rights (other)	—	—	—
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 3,299,000	—	Standard form of share ownership confers unrestricted shareholder rights
	(Mutually held shares) Common stock 1,324,000	—	As above
Shares with full voting rights (other)	Common stock 249,639,000	499,278	As above
Sub-MTU share holdings	Common stock 2,273,448	—	As above
Total number of shares issued and outstanding	256,535,448	—	—
Total voting rights of all shareholders	—	499,278	—

Notes:

1. Shares nominally held under the name of Japan Securities Depository Center Inc. (JASDEC) account for 16,000 shares of "Shares with full voting rights (other)" and 7 shares of "Sub-MTU share holdings." Total voting rights accorded to all shares held under the name of JASDEC (the central depository) equaled 32 as of March 31, 2006.
2. Components of "Sub-MTU share holdings" that are either treasury stock owned by the Company or mutually held shares are shown in the table below. In addition, as of March 31, 2006, there were 288 shares of treasury stock listed under Company ownership in the register of shareholders but without any beneficial owner.

Treasury stock	
Nisshin Seifun Group Inc.	431 shares
Mutually held shares	
Chiba Grain Handling Center, Ltd.	129 shares
Wakaba Co., Ltd.	306 shares
Yamajo Shoji Co., Ltd.	236 shares
Oriental Yeast Co., Ltd.	449 shares (including 400 shares belonging to the pension trust fund)
Ishikawa Co., Ltd.	241 shares

3. On October 3, 2005, the number of shares per MTU was reduced from 1,000 to 500.

(2) Treasury stock

(As of March 31, 2006)

Name	Address	Shares owned under own name	Shares owned under other name	Total number of shares held	Share holding as proportion of total shares outstanding (%)
Treasury stock					
Nisshin Seifun Group Inc.	25, Kanda-Nishiki-cho 1-chome, Chiyoda-ku, Tokyo	3,299,000	—	3,299,000	1.28
Mutually held shares					
Oriental Yeast Co., Ltd.	6-10, Azusawa 3-chome, Itabashi-ku, Tokyo	526,500	130,500	657,000	0.25
Yamajo Shoji Co., Ltd.	1-21, Nihonbashi-Ningyocho 1-chome, Chuo-ku, Tokyo	340,500	—	340,500	0.13
Ishikawa Co., Ltd.	2-10, Shimagami-cho 1-chome, Hyogo-ku, Kobe	139,000	—	139,000	0.05
Wakaba Co., Ltd.	2-8, Mayafuto, Nada-ku, Kobe	103,000	—	103,000	0.04
Chiba Grain Handling Center, Ltd.	16, Shinminato, Mihama-ku, Chiba	79,000	—	79,000	0.03
Japan Logistic Systems Corp.	19-17, Ebara 1-chome, Shinagawa-ku, Tokyo	5,500	—	5,500	0.00
Total	—	4,492,500	130,500	4,623,000	1.80

Note:

The 130,500 shares owned by Oriental Yeast Co., Ltd. under another name belong to the pension trust fund of the company. The name under which this share holding is registered is Mizuho Trust Retirement Benefit Trust (Oriental Yeast Account) Custodial Trustee Asset Management Services Trust (address: 8-12, Harumi 1-chome, Chuo-ku, Tokyo).

7. Stock option scheme

Nisshin Seifun Group Inc. operates a stock option scheme.

Under this system, the Company has granted stock options in line with the provisions of Articles 280-20 and 280-21 of the former Commercial Code of Japan (as amended in 2001) to certain directors and executive officers of the Company and its consolidated subsidiaries (with the exception of any publicly listed companies and their subsidiaries and overseas subsidiaries). Stock options have been granted free of charge with the approval of the Ordinary General Meetings of Shareholders held on June 26, 2002, June 26, 2003, June 25, 2004, and June 28, 2005.

Details of each of the four sets of stock options granted to date under this scheme are summarized below.

(1)

Date of authorizing resolution	June 26, 2002
Number and description of persons granted stock options	Directors and executive officers of the Company and its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries), totaling 49 persons
Share type issuable on option exercise	As detailed above in “2. Stock options” (see p. 31)
Numbers of shares issuable	As above
Amount payable on option exercise (¥)	As above
Exercise period	As above
Option exercise conditions	As above
Option transfer conditions	As above

(2)

Date of authorizing resolution	June 26, 2003
Number and description of persons granted stock options	Directors and executive officers of the Company and its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries), totaling 52 persons
Share type issuable on option exercise	As detailed above in “2. Stock options” (see p. 32)
Numbers of shares issuable	As above
Amount payable on option exercise (¥)	As above
Exercise period	As above
Option exercise conditions	As above
Option transfer conditions	As above

(3)

Date of authorizing resolution	June 25, 2004
Number and description of persons granted stock options	Directors and executive officers of the Company and its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries), totaling 47 persons
Share type issuable on option exercise	As detailed above in “2. Stock options” (see p. 33)
Numbers of shares issuable	As above
Amount payable on option exercise (¥)	As above
Exercise period	As above
Option exercise conditions	As above
Option transfer conditions	As above

(4)

Date of authorizing resolution	June 28, 2005
Number and description of persons granted stock options	Directors and executive officers of the Company and its consolidated subsidiaries (excluding any publicly listed companies and their subsidiaries and overseas subsidiaries), totaling 45 persons
Share type issuable on option exercise	As detailed above in “2. Stock options” (see p. 34)
Numbers of shares issuable	As above
Amount payable on option exercise (¥)	As above
Exercise period	As above
Option exercise conditions	As above
Option transfer conditions	As above

(2) Acquisitions of Treasury Stock

1. Treasury stock purchases by resolution of the Ordinary General Meeting of Shareholders or the Board of Directors

(1) Treasury stock acquisitions during the previous resolution period

Stock type: Common stock

a. Purchases by resolution of the Ordinary General Meeting of Shareholders

None.

b. Purchases from subsidiaries

None.

c. Purchases by resolution of the Board of Directors

(As of June 28, 2006)

Item	Number of shares	Total value (¥)
Board of Directors resolution (June 14, 2005)	2,000,000	2,400,000,000
Treasury stock acquisitions in the previous resolution period	1,660,000	1,924,312,000
Number and value of the outstanding portion of unacquired shares	—	103,571,000
Unacquired proportion (%)	—	4.3

Note:

Calculation of the “number and value of the outstanding portion of unacquired shares” and the “unacquired proportion” above included treasury stock acquisitions prior to the previous resolution period (number of shares acquired: 340,000; value of shares acquired: ¥372,117,000). The period of acquisition determined at the meeting of the Board of Directors detailed above was June 15, 2005 to July 19, 2005.

d. Disposals of acquired treasury stock

(As of June 28, 2006)

Item	Number of shares disposed of, retired or transferred	Total value of disposals (¥)
Treasury stock disposed of using new stock issuance procedures	—	—
Treasury stock retired	—	—
Treasury stock transfers accompanying merger, share exchange or corporate demerger	490,950	561,155,850

Note:

The figures above refer to shares allocated in connection with the consolidation of SANKO Co., Ltd. as a wholly owned subsidiary via a share exchange on August 3, 2005.

e. Treasury stock holdings

(As of June 28, 2006)

Item	Number of shares
Shares of treasury stock held	3,284,824

Note:

“Shares of treasury stock held” above includes treasury stock acquired through purchases of sub-MTU share holdings. The figure does not include decreases in the shares of treasury stock as a result of the exercise of stock options between June 1, 2006 and the filing of the original Japanese version of this report, or the initial or additional purchase of sub-MTU share holdings.

(2) Resolution for treasury stock acquisition at the most recent Ordinary General Meeting of Shareholders

None.

2. Treasury stock purchases associated with capital decreases, or cancellations of profit or retired shares in line with provisions of the articles of association

(1) Purchases of treasury stock during previous resolution period

None.

(2) Resolution for treasury stock acquisition at the most recent Ordinary General Meeting of Shareholders

None.

(3) Dividend Policy

The Company aims to meet the expectations of shareholders to distribute profits, based on the current and future profitability of the business and the financial position, in addition to targeting a payout ratio of at least 30% on a consolidated basis.

In the fiscal year ended March 2006, the Company further raised returns to shareholders by increasing the final dividend by ¥2.50 to ¥11.00 per share and the interim dividend by ¥1.50 to ¥7.00 per share. These moves increased total dividends for the year by ¥4.00 to ¥18.00 per share. This represented the fourth consecutive annual rise in dividend levels. The dividend payout ratio for the year was 32.9% (40.0% at the non-consolidated level) and the return on equity was 5.4% (5.5% at the non-consolidated level). The dividend yield was 1.7% (2.1% at the non-consolidated level).

To enable the Company to maintain a dynamic capital stance, the meeting of the Board of Directors held on June 28, 2006 approved a resolution to amend the articles of incorporation to allow allocation of retained earnings and related matters to be decided by the Board of Directors in addition to the General Meeting of Shareholders.

Note: The Board of Directors' resolution date for the interim dividend of the 162nd fiscal term was November 10, 2005.

(4) Share Price Movements

1. Share price highs and lows in previous five fiscal years

Fiscal term	158th	159th	160th	161st	162nd
Fiscal year-end	March 2002	March 2003	March 2004	March 2005	March 2006
Intra-year high[1] (¥)	1,070	925	1,023	1,181	1,287 1,318*[2]
Intra-year low[1] (¥)	662	730	776	911	1,045 1,073*[2]

Notes:

1. Share-price highs and lows refer to market trading of the Company's shares listed on the First Section of the Tokyo Stock Exchange.
2. Denotes ex-rights share price following stock split.

2. Share price highs and lows in the final six months of the most recent fiscal year

Month	Oct. 2005	Nov. 2005	Dec. 2005	Jan. 2006	Feb. 2006	Mar. 2006
Intra-month high (¥)	1,180	1,192	1,318	1,289	1,230	1,240
Intra-month low (¥)	1,073	1,128	1,173	1,200	1,145	1,146

Note: Share-price highs and lows refer to market trading of the Company's shares listed on the First Section of the Tokyo Stock Exchange.

(5) Directors & Auditors

Title	Position	Name	Date of birth	Abbreviated CV [Roles in parentheses signify head of function in addition to position as director or executive officer; [C] = current role]		Share holding (thousands)
Chairman		Osamu Shoda	October 11, 1942	Mar. 1967 Jun. 1976 Jun. 1980 Jun. 1984 Jun. 1986 Jun. 1996 Jun. 2004	Joined the Company Director Managing Director Senior Managing Director President Corporate Auditor, Tobu Railway Co., Ltd. [C] Chairman [C]	226
President		Hiroshi Hasegawa	December 25, 1943	Apr. 1971 Jun. 1993 Jun. 1996 Jun. 1997 Jun. 1998 Jun. 1999 Jun. 1999 Jun. 2000 Jun. 2004 Jun. 2005	Joined the Company General Manager, Processed Food Sales Director (Processed Food Sales) Director (Processed Food Sales and Marketing) Director (Processed Food Sales) Managing Director (Processed Food Sales) President, Nisshin Foods (concurrent roles) Managing Director President (Corporate Planning) President [C]	17
Managing Director	Executive Manager, Corporate Planning Division	Ippei Murakami	March 3, 1945	Apr. 1967 Jun. 1993 Jun. 1995 Jun. 1997 Jun. 1998 Jun. 2000 Jul. 2001 Jun. 2004 Jun. 2005 Jun. 2006	Joined the Company Deputy General Manager, Finance Director (Planning, Finance) Director (Finance) Director Managing Director Managing Director (Finance and Accounting) Managing Director (Finance and Accounting, Corporate Planning [deputy]) Managing Director (Finance and Accounting, Corporate Planning) Managing Director (Corporate Planning) [C]	7
Managing Director		Ryuji Nakamura	January 25, 1945	Apr. 1967 Oct. 1994 Jun. 1995 Jun. 1996 Jun. 1998 Jun. 2000 Jun. 2000 Jul. 2001 Jul. 2001 Jun. 2004	Joined the Company General Manager, Flour Milling Operations Director (Flour Milling Operations) Director (Flour Milling Operations and Development) Director (Flour Milling Operations) Director (Distribution) Managing Director (Distribution) Managing Director [C] Senior Managing Director, Nisshin Flour Milling President, Nisshin Flour Milling [C] (concurrent roles)	11
Managing Director		Masaru Nakamura	February 25, 1945	Apr. 1968 Jun. 1996 Jun. 1997 Oct. 1998 Jun. 2000 Jun. 2001 Jul. 2001 Jun. 2002 Jun. 2002 Jun. 2004	Joined the Company General Manager, Distribution Control Director (Distribution Control) Director (Distribution) Director Executive Officer Senior Managing Director, Nisshin Pharma Director President, Nisshin Pharma [C] (Concurrent roles) Managing Director [C]	11

Title	Position	Name	Date of birth	Abbreviated CV [Roles in parentheses signify head of function in addition to position as director or executive officer; [C] = current role]	Share holding (thousands)
Director	Executive Manager, Research and Development, Quality Assurance Division	Masami Ohta	September 13, 1946	Apr. 1970 Joined the Company Jun. 2003 Executive Officer (R&D and Quality Assurance) Jun. 2003 Director (R&D and Quality Assurance) [C]	13
Director	Executive Manager, Technology and Engineering Division	Yukiyoshi Yamada	September 14, 1948	Apr. 1973 Joined the Company Jun. 2003 General Manager, Technology Jun. 2003 Director (Technology and Engineering) [C]	8
Director	Executive Manager, General Administration Division	Yasutaka Miyauchi	January 31, 1949	Apr. 1972 Joined the Company Jun. 2005 Executive Officer (General Administration) Jun. 2005 Director (General Administration) [C]	8
Director	Executive Manager, Finance and Accounting Division	Masuro Yamazaki	June 12, 1947	Apr. 1971 Joined the Company Jun. 2005 Executive Officer (Finance and Accounting) Jun. 2006 Director (Finance and Accounting) [C]	12
Director		Kazuo Ikeda	September 14, 1947	Apr. 1971 Joined the Company Jun. 2002 Executive Officer Jun. 2003 Managing Director, Nisshin Foods (Business Planning) Jun. 2004 Director [C] Jun. 2004 President, Nisshin Foods [C] (Concurrent roles)	7
Director		Ariyoshi Okumura	February 15, 1931	Apr. 1955 Joined Industrial Bank of Japan (IBJ) Jun. 1983 Director, IBJ May 1987 Managing Director, IBJ Feb. 1989 President, IBJ Asset Management Co., Ltd. Jun. 1997 Director, Nippon Light Metal Co., Ltd. Jul. 2000 Board Governor, International Corporate Governance Network Jun. 2003 Corporate Auditor Jun. 2006 Director [C]	1
Senior Corporate Auditor	Full-time	Takeo Ito	August 1, 1942	Apr. 1966 Joined the Company Jun. 1994 Director Jun. 1998 Managing Director Jun. 2005 Senior Corporate Auditor [C]	18
Corporate Auditor	Full-time	Kimio Ohishi	April 27, 1944	Apr. 1964 Joined the Company Jun. 2005 Advisor (General Administration Division, Internal Auditing) Jun. 2005 Corporate Auditor [C]	2
Corporate Auditor	Full-time	Akira Takeuchi	April 4, 1944	Apr. 1968 Joined Tobu Railway Co., Ltd. Apr. 1996 General Manager (Development, Local Administration), Tobu Railway Co., Ltd. Jul. 2000 General Manager (Asset Management), Tobu Railway Co., Ltd. Jun. 2003 Director (Asset Management), Tobu Railway Co., Ltd. [C] Jun. 2006 Corporate Auditor [C]	0
Corporate Auditor		Akio Mimura	November 2, 1940	Apr. 1963 Joined Fuji Iron & Steel Co., Ltd. Jun. 1993 Director, Nippon Steel Corporation Apr. 1997 Managing Director, Nippon Steel Corporation Apr. 2000 Representative Director & Executive Vice President, Nippon Steel Corporation Apr. 2003 Representative Director & President, Nippon Steel Corporation [C] Jun. 2006 Corporate Auditor [C]	2
Total					349

Notes:

1. Director Ariyoshi Okumura is externally appointed in accordance with Section 2, Article 15 of the Company Law.
2. Auditors Akira Takeuchi and Akio Mimura are externally appointed in accordance with Section 2, Article 16 of the Company Law.
3. In case the number of auditors should ever fall below the number required by law, the Company has appointed one alternate auditor in accordance with Section 329, Clause 2 of the Company Law. An abbreviated CV for the alternate auditor is as follows.

Name	Date of Birth	Abbreviated CV		Shareholding (thousands)
Morio Hatakeyama	December 15, 1932	Apr. 1957 Apr. 1957 Jan. 1967 Apr. 1980 May 1989 Jun. 1999	Registered as attorney-at-law Joined Matsumoto Masao Law Office Representative Partner, Marunouchi Sogo Law Office [C] Lecturer, Legal Research and Training Institute Chairman, Committee on Judicial System Research, Japan Federation of Bar Associations Corporate Auditor	5

(6) Corporate Governance

This section provides an overview of corporate governance at the Nisshin Seifun Group. All data are accurate as of the date of filing the original Japanese version of this report (June 28, 2006).

1. Basic policy on corporate governance

The Company views the basic purpose of corporate governance as one of ensuring the transparency of the management of the business for the benefit of shareholders and other stakeholders. To that end, the Company aims to build and maintain effective functional management structures that promote accelerated decision-making. Other goals of corporate governance are to raise operational efficiency while seeking to clarify management responsibilities.

The organizational structure and systems of the Nisshin Seifun Group are designed to strengthen corporate governance functions and to promote efficient management. The Company has adopted a holding company structure under which the holding company Nisshin Seifun Group Inc. oversees and evaluates the actions of operating companies with the best interests of shareholders in mind. The Board of Directors is organized along functional lines to promote swifter and more effective decision-making. The statutory functions of auditors have been reinforced and are augmented by systematic, specialized internal audits covering areas such as environmental protection, quality control, and facilities.

The Nisshin Seifun Group has adopted the statutory auditor system. The corporate auditors attend important meetings, such as the meetings of the Board of Directors, and also maintain separate, regular channels of communication with representative directors. These activities facilitate the general auditing oversight of the business.

(Implementation status of corporate governance measures)

(1) Corporate governance institutions

The Company has adopted the statutory auditor system. The Company has introduced measures to strengthen management oversight such as setting the tenure of directors at one year and appointing 11 directors, including one outside director. An executive officer system has been adopted for the execution of business functions. Under the auditing system adopted for the Nisshin Seifun Group, the Company assigns auditors to audit the performance of Nisshin Seifun Group operating companies. The results of these audits are reported to the Board of Auditors. Two of the four members of this board are outside auditors. There are no material conflicts of interest of a personal, financial, commercial or other nature that exist between the Company, the outside director and the outside auditors.

(2) Basic policy on internal control systems and status

Basic policy

The Company's internal control systems are fully compliant with Japan's Company Law and associated regulations. These systems underpin the hierarchical command structure for operational execution; clarify authority and responsibility; and establish a platform for management control of business execution, together with the necessary internal checks and balances.

Status

The internal control systems of the Nisshin Seifun Group currently function along the lines outlined above. In September 2005, the Company established the Internal Control Preparatory Office, which is currently implementing initiatives to overhaul these systems with a view to creating an even stronger and more integrated management platform for the Group's future development.

(3) Risk management systems

To ensure that the Company fulfills its social responsibilities, the Nisshin Seifun Group has formulated the "Nisshin Seifun Group Corporate Code of Conduct and Employee Action Guidelines." The Company undertakes group-wide training and other educational activities to ensure that all employees understand and abide by this code of conduct. Environmental and other specialist audits are undertaken as a further check of the code's effectiveness. The Company has also established a "Compliance Hotline System" that allows employees to communicate directly with external legal counsel or internal departments regarding any compliance-related matters.

Separately, the Nisshin Seifun Group has established the "Nisshin Seifun Group Risk Management Rules" to prevent crisis occurrence and ensure that appropriate actions are taken in the event of any such emergency. The Company has set up the Risk Management Committee, whose job is to identify and clarify potentially serious emergencies based on a sound grasp of the underlying risks and to formulate suitable emergency-response measures. All Nisshin Seifun Group employees are obliged to report any emergency to the Company call center so that the information can be relayed swiftly to senior management. The system aims to ensure that any damage caused is minimal due to prompt initial action.

(4) Internal audits, independent financial audits, and corporate auditor oversight

Within the Company's internal control systems, the Internal Auditing Office is the designated division responsible for overseeing internal audits of Nisshin Seifun Group companies. Expert personnel assist with audits covering specialized areas such as environmental protection, quality control and facilities. Currently, the Internal Auditing Office employs four staff and the specialist personnel teams comprise four people for environmental audits, seven people for quality control audits and eight people for facility audits.

All four corporate auditors sit on the Board of Auditors. In line with auditing standards and plans formulated by the Board of Auditors, corporate auditors attend all meetings of the Board of Directors and other important business meetings. Auditors also maintain separate, regular channels of communication with representative directors. Three of the auditors are designated full-time auditors, and their duties also include acting as auditors for major Nisshin Seifun Group operating companies. Each major operating company also appoints one dedicated full-time auditor to undertake its own auditing.

Corporate auditors share audit results with the Internal Auditing Office. Operating company auditors and the teams consisting of specialist auditing personnel also report their audit results both to the Internal Auditing Office and to the corporate auditors to aid cooperative efforts. In addition, the corporate auditors and the operating company auditors convene regular meetings to review Group audit case studies. These meetings provide a forum to exchange opinions, discuss issues and share related information, thereby contributing to higher internal audit quality across the Nisshin Seifun Group.

The Company has an independent auditing contract with Ernst & Young ShinNihon. Company auditors and the operating company auditors hold regular meetings with the independent auditors to review financial audit plans and results. These meetings also provide a forum to explain specific audit items and to exchange information.

Further details of the independent auditing personnel are given below.

*Certified Public Accountants leading the independent financial audit:
Representative and engagement partner	Masato Tsukahara
Representative and engagement partner	Shoji Hoshino

*Independent auditing firm:
Ernst & Young ShinNihon

*Continuous involvement with independent audits of the Company:
Shoji Hoshino: 7 years

Ernst & Young ShinNihon has voluntarily introduced a system of personnel rotation for staff assigned to audits ahead of the enforcement of related provisions of the Certified Public Accountant Law and the implementation of a self-regulating system by the Japanese Institute of Certified Public Accountants. Under the rotation plan formulated by Ernst & Young ShinNihon, Shoji Hoshino was due to remain involved in financial audits of the Company up to and including the accounts for the fiscal year ending March 2007. Following amendment of Ernst & Young ShinNihon's rotation-related provisions, this schedule has since been brought forward by a year.

*Composition of support staff in auditing team (including audits of consolidated subsidiaries):
CPAs: 15 Assistant accountants: 24

(5) Remuneration of executives and auditors

The aggregate amounts of financial remuneration paid to Company directors and auditors were as specified below. As of the end of March 2006, the Board of Directors did not contain any outside directors.

Directors: Ten (10) ¥166 million
Auditors: Four (4) ¥44 million

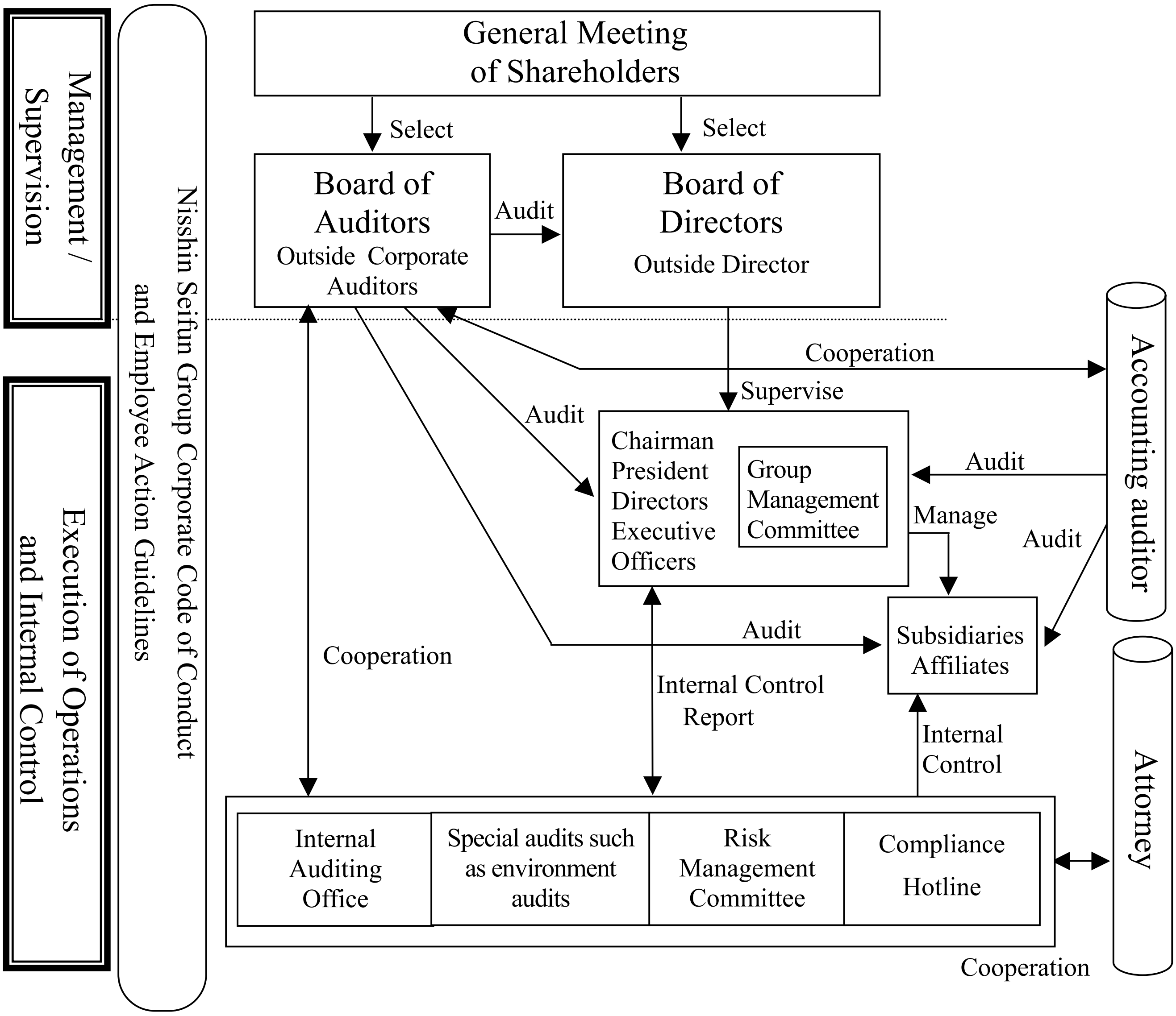
In addition to these sums, directors received bonuses totaling ¥55 million in respect of the appropriation of retained earnings from the previous year. A total of ¥65 million was paid in the form of lump-sum retirement allowances to two retiring directors, and ¥30 million was paid in similar allowances to two retiring auditors.

Payments made to the independent auditors (Ernst & Young ShinNihon) were as specified below (including audits of consolidated subsidiaries).

	(¥ million) Amount
Payments for certified auditing*	128
Payments for other services	10
Total	138

- As stipulated in Article 2, Section 1 of the Certified Public Accountant Law.

The diagram below sets out the supervision and internal control structure of the Nisshin Seifun Group.



[5] Financial Accounts

1. Basis of presentation for consolidated and non-consolidated financial statements

(1) The Company's Consolidated Financial Statements are prepared in conformity with regulations issued by the Ministry of Finance in 1976 (Ministerial Ordinance No. 28) governing the terminology, form and presentation methods for consolidated financial accounts (hereinafter referred to as the "consolidated financial accounting rules.")

The consolidated financial accounting rules were partially revised by an ordinance issued by the Cabinet Office on January 30, 2004 (Cabinet Office Ordinance No. 5). In accordance with a proviso in Section 2 of the supplementary articles of this ordinance, the Company's Consolidated Financial Statements for the previous fiscal year (April 1, 2004 to March 31, 2005) are prepared in conformity with the pre-revision rules.

(2) The Non-consolidated Financial Statements are prepared in conformity with regulations issued by the Ministry of Finance in 1963 (Ministerial Ordinance No. 59) governing the terminology, form and presentation methods for financial accounts (hereinafter referred to as the "non-consolidated financial accounting rules.")

The non-consolidated financial accounting rules were partially revised by an ordinance issued by the Cabinet Office on January 30, 2004 (Cabinet Office Ordinance No. 5). In accordance with a proviso in Section 2 of the supplementary articles of this ordinance, the Non-consolidated Financial Statements for the 161st fiscal term (April 1, 2004 to March 31, 2005) are prepared in conformity with the pre-revision rules.

2. Independent auditing of financial statements

In accordance with the provisions of Article 193-2 of the Securities and Exchange Law, the Company arranged for auditing firm Ernst & Young ShinNihon to conduct independent audits of the consolidated and non-consolidated financial accounts of the Company for both the consolidated fiscal year under review (April 1, 2005 to March 31, 2006; the 162nd fiscal term) and the previous consolidated fiscal year (April 1, 2004 to March 31, 2005; the 161st fiscal term).

Note: Only the Japanese original of this report has been audited.

(1) Consolidated Financial Statements

1. Consolidated Financial Statements

(1) Consolidated Balance Sheets—As of March 31, 2006 and 2005

Item	See Note	Fiscal year ended March 31, 2005 Amount (¥ million)	Fiscal year ended March 31, 2005 Proportion of total (%)	Fiscal year ended March 31, 2006 Amount (¥ million)	Fiscal year ended March 31, 2006 Proportion of total (%)
Assets:					
I Current assets:					
Cash on hand and in banks		54,065		50,111	
Notes and accounts receivable		59,468		57,678	
Marketable securities		6,783		14,339	
Inventories		38,580		39,601	
Deferred tax assets		4,517		4,431	
Other current assets		7,146		6,935	
Allowance for doubtful accounts		(211)		(227)	
Total current assets		170,349	45.7	172,870	43.2
II Fixed assets:					
(1) Tangible fixed assets:	1, 3				
Buildings and structures	5	42,407		42,866	
Machinery and equipment	5	32,741		32,243	
Land	2, 5	29,729		30,726	
Construction in progress		1,152		3,733	
Other tangible fixed assets		2,830		2,862	
Total tangible fixed assets		108,860	29.2	112,432	28.1
(2) Intangible fixed assets		9,124	2.4	7,977	2.0
(3) Investments and other assets:					
Investment in securities	4	77,262		101,369	
Long-term loans		261		131	
Deferred tax assets		4,099		2,434	
Other investments and other assets	4	3,641		3,081	
Allowance for doubtful accounts		(630)		(397)	
Total investments and other assets		84,634	22.7	106,619	26.7
Total fixed assets		202,618	54.3	227,029	56.8
Total Assets		372,968	100.0	399,899	100.0

Item	See Note	Fiscal year ended March 31, 2005 Amount (¥ million)	Fiscal year ended March 31, 2005 Proportion of total (%)	Fiscal year ended March 31, 2006 Amount (¥ million)	Fiscal year ended March 31, 2006 Proportion of total (%)
Liabilities:					
I Current liabilities:					
Notes and accounts payable		28,599		25,819	
Short-term debt	5	8,115		7,754	
Accrued income taxes		3,956		4,813	
Accrued expenses		13,623		13,410	
Other current liabilities		13,085		12,732	
Total current liabilities		67,380	18.1	64,530	16.1
II Non-current liabilities:					
Long-term debt	5	1,680		1,609	
Deferred tax liabilities		13,014		21,708	
Allowance for employees' retirement benefits		14,928		12,614	
Allowance for directors' retirement benefits		1,192		314	
Allowance for repairs		893		842	
Guaranteed deposits received		5,701		5,568	
Consolidation adjustments account		134		90	
Other non-current liabilities		—		587	
Total non-current liabilities		37,545	10.0	43,334	10.8
Total liabilities		104,925	28.1	107,865	26.9
Minority interests:					
Minority interests		26,760	7.2	27,498	6.9
Shareholders' Equity:					
I Common stock	7	17,117	4.6	17,117	4.3
II Capital surplus		9,452	2.5	9,483	2.4
II. Retained earnings		190,699	51.1	200,487	50.2
IV Unrealized holding gain (loss) on securities		26,688	7.2	40,835	10.2
V Foreign currency translation adjustments		(1,216)	(0.3)	(212)	(0.1)
VI Treasury common stock	8	(1,459)	(0.4)	(3,176)	(0.8)
Total shareholders' equity		241,282	64.7	264,535	66.2
Total Liabilities, Minority Interests and Shareholders' Equity		372,968	100.0	399,899	100.0

(2) Consolidated Statements of Income—For the years ended March 31, 2006 and 2005

		Fiscal year ended March 31, 2005			Fiscal year ended March 31, 2006		
Item	See Note	Amount (¥ million)		Proportion of total (%)	Amount (¥ million)		Proportion of total (%)
I Net sales			416,222	100.0		421,359	100.0
II Cost of sales	1, 2		283,455	68.1		285,910	67.9
Gross profit			132,766	31.9		135,449	32.1
II Selling, general and administrative expenses:	2						
Selling and transportation expenses		24,662			25,161		
Sales incentives		35,370			36,722		
Salaries and wages		12,759			12,644		
Bonuses and allowances		8,823			9,258		
Retirement benefit expense		1,669			1,397		
Other		26,583	109,870	26.4	28,093	113,279	26.8
Operating income			22,896	5.5		22,169	5.3
IV Non-operating income:							
Interest income		58			99		
Dividend income		705			853		
Equity in earnings of subsidiaries and affiliated companies		1,011			1,505		
Rent income		375			357		
Other income		1,207	3,358	0.8	621	3,437	0.8
V Non-operating expenses:							
Interest expenses		197			160		
Loss on disposal of fixed assets		344			248		
Other expenses	3	592	1,134	0.3	424	833	0.2
Ordinary income			25,120	6.0		24,774	5.9
VI Extraordinary income:							
Gain on sale of fixed assets	4	120			448		
Gain on sale of investments in securities		1,277			568		
Other	5	—	1,397	0.3	207	1,224	0.3

Item	See Note	Fiscal year ended March 31, 2005 Amount (¥ million)		Proportion of total (%)	Fiscal year ended March 31, 2006 Amount (¥ million)		Proportion of total (%)
VII Extraordinary losses:							
Loss on disposal of fixed assets	6	1,185			306		
Expenses related to merger of the feed business		—			478		
Loss on disposal of inventories		194			—		
Other	7	75	1,455	0.3	113	898	0.2
Income before income taxes and minority interests			25,062	6.0		25,101	6.0
Income taxes – current		8,525			8,869		
Income taxes – deferred		890	9,416	2.2	676	9,545	2.3
Minority interests			2,048	0.5		2,014	0.5
Net income			13,597	3.3		13,541	3.2

(3) Consolidated Statements of Retained Earnings—for the years ended March 31, 2006 and 2005

(¥ million)

Item	See Note	Fiscal year ended March 31, 2005 Amount (¥ million)		Fiscal year ended March 31, 2006 Amount (¥ million)	
Capital surplus:					
I Capital surplus at beginning of the year			9,446		9,452
II Increase in capital surplus					
Proceeds from sale of treasury common stock		5	5	31	31
III Capital surplus at end of the year			9,452		9,483
Retained earnings:					
I Retained earnings at beginning of the year			179,241		190,699
II Increase in retained earnings					
Net income		13,597		13,541	
Increase in retained earnings due to merger of consolidated subsidiaries		778	14,376	—	13,541
III Decrease in retained earnings					
Cash dividends paid		2,780		3,580	
Bonuses to directors		138	2,918	172	3,753
IV Retained earnings at end of the year			190,699		200,487

(4) Consolidated Statements of Cash Flows—for the years ended March 31, 2006 and 2005

(¥ million)

Item	See Note	Fiscal year ended March 31, 2005 Amount (¥ million)	Fiscal year ended March 31, 2006 Amount (¥ million)
I Cash flows from operating activities:			
Income before income taxes and minority interests		25,062	25,101
Depreciation and amortization		11,682	11,993
Decrease in allowance for retirement benefits		(1,067)	(2,317)
Interest and dividend income		(764)	(953)
Interest expenses		197	160
Equity in earnings of subsidiaries and affiliated companies		(1,011)	(1,505)
Gain on sales of marketable securities		(1,542)	(570)
Increase in accounts receivable		(4,201)	2,469
(Increase) decrease in inventories		(4,740)	(668)
Increase (decrease) in accounts payable		5,765	(3,323)
Other		2,181	(2,483)
Subtotal		31,563	27,902
Interest and dividends received		839	1,257
Interest paid		(195)	(164)
Income taxes paid		(10,638)	(7,939)
Net cash provided by operating activities		21,567	21,054
II Cash flows from investing activities:			
Payments for time deposits		0	(8,290)
Proceeds from repayment of time deposits		0	18
Payments for purchase of marketable securities		(7,507)	(13,505)
Proceeds from sales of marketable securities		4,299	7,196
Payments for purchases of fixed assets		(16,052)	(12,362)
Proceeds from sales of fixed assets		44	535
Payments for purchases of investments in marketable securities		(411)	(847)
Proceeds from sales of investments in marketable securities		1,712	1,671
Payments for long-term loans		(65)	(3)
Proceeds from collections of long-term loans		189	133
Other		199	156
Net cash used in investing activities		(17,590)	(25,297)
III Cash flows from financing activities:			
Proceeds from short-term debt		248	10
Repayments of short-term debt		(713)	(660)
Proceeds from long-term debt		—	95
Repayments of long-term debt		(419)	(29)
Proceeds from sale of treasury common stock		94	184
Purchase of treasury common stock		(133)	(2,430)
Cash dividends paid		(2,780)	(3,580)
Other		(613)	(863)
Net cash used in financing activities		(4,317)	(7,274)
IV Effect of exchange rate changes on cash and cash equivalents		21	272
V Increase (decrease) in cash and cash equivalents		(317)	(11,244)
VI Cash and cash equivalents at beginning of the year		54,154	54,047
VII Increase in cash and cash equivalents due to merger of consolidated subsidiaries		210	—
IX Cash and cash equivalents at end of the year		54,047	42,803

2. Notes to the Consolidated Financial Statements

(1) Basis of presentation of Consolidated Financial Statements

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
1. Scope of consolidation (1) Consolidated subsidiaries: 37 • Names of principal subsidiaries: Nisshin Flour Milling Inc., Nisshin Foods Inc, Ma·Ma-Macaroni Co., Ltd., SANKO Co., Ltd., Initio Foods Inc., Oriental Yeast Co., Ltd., Nisshin Pharma Inc., Nisshin Petfood Inc., Nisshin Engineering Inc., NBC Inc. • Of the remaining subsidiaries, Nisshin Managerial Technology Center Co., Ltd. and 10 other companies are not consolidated. The assets, net sales, net income, and retained earnings of each non-consolidated subsidiary are small, and the aggregate effect on the consolidated financial statements is immaterial. (2) Changes in scope of consolidation ---------------	1. Scope of consolidation (1) Consolidated subsidiaries: 39 • Names of principal subsidiaries: Nisshin Flour Milling Inc., Nisshin Foods Inc, Ma·Ma-Macaroni Co., Ltd., Initio Foods Inc., Oriental Yeast Co., Ltd., Nisshin Pharma Inc., Nisshin Petfood Inc., Nisshin Engineering Inc., NBC Inc. • Of the remaining subsidiaries, Nisshin Managerial Technology Center Co., Ltd. and 8 other companies are not consolidated. The assets, net sales, net income, and retained earnings of each non-consolidated subsidiary are small, and the aggregate effect on the consolidated financial statements is immaterial. (2) Changes in scope of consolidation Newly consolidated subsidiaries: 3 companies Shin Nisshin Seifun Foods (Qingdao) Co., Ltd. and NBC (Shanghai) Mesh Co., Ltd. were established in the fiscal year ended March 31, 2006, and have been included as consolidated subsidiaries. Moreover, SK Foods Co., Ltd., which was a non-consolidated equity-method affiliate until the previous fiscal year, has been included as a consolidated subsidiary from the fiscal year ended March 31, 2006 due to an increase in materiality. Newly excluded subsidiary: 1 company SANKO Co., Ltd., which was a consolidated subsidiary until the fiscal year ended March 31, 2005, was taken over in a merger by Initio Foods Inc. in October 2005. The statements of income, retained earnings and cash flows for SANKO in the period prior to the merger have been consolidated.
2. Scope of the equity method (1) Equity-method subsidiaries and affiliates: 10 (two non-consolidated subsidiaries and eight affiliates) • Names of principal equity-method subsidiaries and affiliates: Marubeni Nisshin Feed Co., Ltd., Japan Logistic Systems Corp. • The contributions to consolidated net income and consolidated retained earnings of each of the nine non-consolidated subsidiaries and seven affiliates not accounted for by the equity method are negligible and immaterial in the aggregate.	2. Scope of the equity method (1) Equity-method subsidiaries and affiliates: 10 (one non-consolidated subsidiary and nine affiliates) • Names of principal equity-method subsidiaries and affiliates: Marubeni Nisshin Feed Co., Ltd., Japan Logistic Systems Corp. • The contributions to consolidated net income and consolidated retained earnings of each of the eight non-consolidated subsidiaries and six affiliates not accounted for by the equity method are negligible and immaterial in the aggregate.

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
(2) Changes in scope of equity method ---------------	(2) Changes in scope of equity method Affiliate newly included in scope of equity method: 1 company Jinzhu (Yantai) Food Research and Development Co., Ltd. was newly established in the year ended March 31, 2006, and has therefore been included in the scope of the equity method. Newly excluded affiliate: 1 company SK Foods Co., Ltd. became a consolidated subsidiary, and has therefore been excluded from the scope of the equity method from the fiscal year ended March 31, 2006.
(3) The financial statements for the accounting period of the company concerned are used in the cases of those equity-method affiliates whose accounting period differs from the consolidated accounting period.	(3) Same as the left column.

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
3. Accounting periods of consolidated subsidiaries The consolidated subsidiaries listed below have accounting periods that differ from the consolidated accounting period. Since the year-end of each of these companies is within three months of the consolidated year-end, the current financial statements at the year-end of each consolidated subsidiary are used. However, necessary adjustments are made for material transactions that occurred during the period between the subsidiary's year-end and the consolidated year-end. Company name / Year-end Rogers Foods Ltd. / January 31 Thai Nisshin Seifun Co., Ltd. and 9 others / December 31	3. Accounting periods of consolidated subsidiaries The consolidated subsidiaries listed below have accounting periods that differ from the consolidated accounting period. Since the year-end of each of these companies is within three months of the consolidated year-end, the current financial statements at the year-end of each consolidated subsidiary are used. However, necessary adjustments are made for material transactions that occurred during the period between the subsidiary's year-end and the consolidated year-end. Company name / Year-end Rogers Foods Ltd. / January 31 Thai Nisshin Seifun Co., Ltd. and 11 others / December 31
4. Significant accounting policies	4. Significant accounting policies
(1) Valuation standards and methodology for material assets a. Securities: Held-to-maturity debt securities are stated at amortized cost. Other securities: Securities with a readily determinable market value are stated at fair market value based on the quoted market price at the fiscal year-end (with any unrealized gains or losses being reported directly as a component of shareholders' equity and the cost of any securities sold being computed by the moving average method). Securities with no readily determinable market value are stated at cost, with cost being determined by the moving average method. b. Derivatives: Derivative financial instruments are stated at fair market value. c. Inventories: Flour and bran are stated at the lower of cost or market, cost being determined by the retail cost method; other products are stated at the lower of cost or market, cost being determined by the periodic average method. Raw materials are stated at cost, with cost being determined by the moving average method.	(1) Valuation standards and methodology for material assets a. Securities: Held-to-maturity debt securities are same as the left column. Other securities: Securities with a readily determinable market value are same as the left column. Securities with no readily determinable market value are same as the left column. b. Derivatives: Same as the left column. c. Inventories: Same as the left column. Raw materials are same as the left column.
(2) Depreciation methods for material depreciable assets a. Tangible fixed assets: Depreciation on tangible fixed assets owned by the parent company and domestic consolidated subsidiaries is computed principally by the declining balance method. However, the straight-line method is applied for buildings (excluding building fixtures) acquired on or after April 1, 1998. Foreign consolidated subsidiaries generally use the straight-line method. b. Intangible fixed assets: Depreciation is computed by the straight-line method. Software used in-house is depreciated over its estimated useful life (five years) based on the straight-line method.	(2) Depreciation methods for material depreciable assets a. Tangible fixed assets: Same as the left column. b. Intangible fixed assets: Same as the left column.
(3) Basis of material allowances a. Allowance for doubtful accounts: The parent company and domestic consolidated subsidiaries provide for possible credit losses stemming from trade notes and accounts receivable. Estimates of irrecoverable amounts are based on historical loan-loss ratios for general receivables, and on a consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific dubious accounts. Specific claims are generally deemed irrecoverable in the case of foreign consolidated subsidiaries.	(3) Basis of material allowances a. Allowance for doubtful accounts: Same as the left column.

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
b. Allowance for employees' retirement benefits: The parent company and domestic consolidated subsidiaries provide for employees' retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the pension plan assets at the consolidated fiscal year-end. Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end. Actuarial differences are amortized on a straight-line basis from the following fiscal year over a period equaling the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end.	b. Allowance for employees' retirement benefits: Same as the left column.
c. Allowance for directors' retirement benefits: The parent company and 15 domestic consolidated subsidiaries provide for the payment of retirement benefits to directors (including executive officers) in accordance with internal regulations, based on projected benefits at the fiscal year-end.	c. Allowance for directors' retirement benefits: 8 domestic consolidated subsidiaries provide for the payment of retirement benefits to directors in accordance with internal regulations, based on projected benefits at the fiscal year-end. (Additional Information) During the fiscal year ended March 31, 2006, the parent company and 7 consolidated subsidiaries abolished the directors' retirement benefit system. With regard to reappointed directors, it was determined that retirement benefits applicable to the period in office up to the end of the Ordinary General Meeting of Shareholders held in June 2005, would be paid upon retirement. These unpaid retirement benefits have been reclassified under other non-current liabilities in the consolidated balance sheet.
(4) Significant lease transactions Finance leases other than those that transfer ownership of the leased assets to the lessee are accounted for using the same methods as those used for ordinary lease transactions.	(4) Significant lease transactions Same as the left column.
(5) Significant hedging transactions a. Basis of accounting: Hedging transactions are accounted for on a deferred basis. However, the contracted exchange rates are applied in the case of any financial claims denominated in foreign currencies with assigned foreign currency forwards or other hedging instruments. b. Hedging methods: The Company uses derivative transactions (including forward exchange contracts and currency purchase call options) to hedge currency risk exposure for all planned trading transactions that are denominated in foreign currencies. c. Hedging policy: The Company employs derivative financial instruments purely to manage fluctuations in foreign currency exchange rates. Company policy prohibits the use of derivative financial instruments for trading purposes. d. Hedging evaluation: Since hedging methods and the target of each hedging transaction share the same conditions that apply at the start of hedging activities and throughout subsequent periods, the Company's hedging approach enables exchange rate fluctuations to be offset completely. Hence, the Company considers its hedging method to be highly effective.	(5) Significant hedging transactions Same as the left column.
(6) Consumption tax All accounting transactions are booked exclusive of any national or local consumption taxes.	(6) Consumption tax Same as the left column.

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
5. Valuation of assets and liabilities of consolidated subsidiaries Assets and liabilities of consolidated subsidiaries are stated at fair value using the partial fair value method.	5. Valuation of assets and liabilities of consolidated subsidiaries Same as the left column.
6. Amortization of consolidated adjustment account Consolidated account adjustments are amortized in equal amounts over five years from the date of accrual. However, small sums are amortized on a lump-sum basis in the fiscal year in which the adjustment arises.	6. Amortization of consolidated adjustment account Same as the left column.
7. Appropriation of retained earnings The Consolidated Statements of Retained Earnings are prepared based on the distribution of profits as determined by consolidated subsidiaries during the fiscal year in question.	7. Appropriation of retained earnings Same as the left column.
8. Cash and cash equivalents Cash and cash equivalents as stated in the Consolidated Statements of Cash Flows consist of cash in hand, readily available deposits, and any short-term liquid investments with a maturity not exceeding three months at the time of purchase whose value is not subject to significant fluctuation risk.	8. Cash and cash equivalents Same as the left column.

(2) Change in accounting policy

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
---------------	(Accounting standards relating to impairment of fixed assets) From the fiscal year ended March 31, 2006, the Company adopted the following accounting standards for impairment of fixed assets: "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," (Business Accounting Council, August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (Accounting Standards Board of Japan, October 31, 2003, Financial Accounting Standard Implementation Guidance No. 6). The adoption of these standards had no impact on operating results.

(3) Additional information

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
(Turnover tax) In line with the report (No. 12) published by the Accounting Standards Board of Japan on February 13, 2004 on practical accounting treatments for presentation of that portion of enterprise tax that is based on business size as judged by estimates of total turnover, the Company expensed within selling, general and administrative expenses those parts of the enterprise tax for added value and capital accruing to the fiscal year ended March 31, 2005, which totaled ¥449 million. The effect of this change was to lower operating income, ordinary income and income before income taxes and minority interests by ¥449 million in each case.	---------------

(4) Notes to the Consolidated Financial Statements

(Notes to the Consolidated Balance Sheets)

<table>
<tr><th>Fiscal year ended March 31, 2005</th><th>Fiscal year ended March 31, 2006</th></tr>
<tr><td>1. Accumulated depreciation of tangible fixed assets ¥184,991 million</td><td>1. Accumulated depreciation of tangible fixed assets ¥192,618 million</td></tr>
<tr><td>2. Value of land acquired through exchange during consolidated accounting period, less accelerated depreciation ¥1,156 million</td><td>2.
---------------------</td></tr>
<tr><td>3. Accumulated accelerated depreciation of tangible fixed assets purchased with government subsidy
Accelerated depreciation of tangible fixed assets acquired during the consolidated accounting period ¥103 million
Accumulated accelerated depreciation of tangible fixed assets ¥264 million</td><td>3. Accumulated accelerated depreciation of tangible fixed assets purchased with government subsidy
¥264 million</td></tr>
<tr><td>4. Amounts corresponding to non-consolidated subsidiaries and affiliates are as follows.
Investments in securities ¥17,864 million</td><td>4. Amounts corresponding to non-consolidated subsidiaries and affiliates are as follows.
Investments in securities ¥18,153 million
Others ¥120 million</td></tr>
<tr><td>5. Assets pledged as collateral
The Company has pledged buildings (book value of ¥1,320 million), machinery and equipment (book value of ¥828 million) and land (book value of ¥92 million) as collateral against short-term debt totaling ¥436 million and long-term debt totaling ¥873 million.</td><td>5. Assets pledged as collateral
The Company has pledged buildings (book value of ¥1,381 million), machinery and equipment (book value of ¥784 million) and land (book value of ¥92 million) as collateral against short-term debt totaling ¥372 million and long-term debt totaling ¥795 million.</td></tr>
<tr><td>6. Warranty liabilities
<table>
<tr><th>Target of warranty</th><th>Type of liability</th><th>Amount (¥ million)</th></tr>
<tr><td>(Employee housing loans)</td><td>Borrowings from financial institution</td><td>557</td></tr>
<tr><td>(Affiliated companies)
Hanshin Silo Co., Ltd.</td><td>Borrowings from financial institution</td><td>322</td></tr>
<tr><td>Total</td><td></td><td>879</td></tr>
</table></td><td>6. Warranty liabilities
<table>
<tr><th>Target of warranty</th><th>Type of liability</th><th>Amount (¥ million)</th></tr>
<tr><td>(Employee housing loans)</td><td>Borrowings from financial institution</td><td>416</td></tr>
<tr><td>(Affiliated companies)
Hanshin Silo Co., Ltd.</td><td>Borrowings from financial institution</td><td>280</td></tr>
<tr><td>（Client-related）
Nihon-Bio Co., Ltd.</td><td>Borrowings from financial institution</td><td>311</td></tr>
<tr><td>Total</td><td></td><td>1,008</td></tr>
</table></td></tr>
<tr><td>7. Shares issued and outstanding
Common stock 233,214,044 shares</td><td>7. Shares issued and outstanding
Common stock 256,535,448 shares</td></tr>
<tr><td>8. Treasury common stock owned by consolidated subsidiaries, equity-method affiliates and non-consolidated subsidiaries accounted for by the equity method
Common stock 2,026,551 shares</td><td>8. Treasury common stock owned by consolidated subsidiaries, equity-method affiliates and non-consolidated subsidiaries accounted for by the equity method
Common stock 3,800,400 shares</td></tr>
</table>

(Notes to the Consolidated Statements of Income)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
1. A reduction in the value of inventories of ¥107 million due to the valuation of these assets using the lower of cost or market method resulted in a corresponding deduction to the value of inventories at the year-end. 2. R&D expenditure included contained in general and administrative expenses and manufacturing costs for the year ended March 2004: ¥5,293 million 3. This figure includes ¥50 million in allowance for doubtful accounts. 4. This figure mainly reflects gains on the sale of Company-owned housing accommodation. 5. --------------------- 6. This figure mainly reflects losses on the disposal of software and other items. 7. This figure mainly reflects expenses associated with the consolidation of operating sites by subsidiaries and related costs.	1. A reduction in the value of inventories of ¥114 million due to the valuation of these assets using the lower of cost or market method resulted in a corresponding deduction to the value of inventories at the year-end. 2. R&D expenditure included in general and administrative expenses and manufacturing costs for the year ended March 2005: ¥5,043 million 3. --------------------- 4. This figure mainly reflects gains on the sale of Company-owned housing accommodation. 5. This figure mainly reflects gain on reversal of allowance for doubtful accounts. 6. This figure mainly reflects losses on the disposal of machinery and equipment. 7. This figure mainly reflects expenses associated with the merger of subsidiaries.

(Notes to the Consolidated Statements of Cash Flows)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in Consolidated Balance Sheets is as follows:	1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in Consolidated Statements of Cash Flows is as follows:

	Fiscal year ended March 31, 2005		Fiscal year ended March 31, 2006
Cash on hand and in banks	¥54,065 million	Cash on hand and in banks	¥50,111 million
Marketable securities	¥6,783 million	Marketable securities	¥14,339 million
Total	¥60,849 million	Total	¥64,450 million
Fixed deposits with periods greater than three months	(¥18 million)	Fixed deposits with periods greater than three months	(¥8,307 million)
Bonds with redemption periods greater than three months at time of purchase	(¥6,783 million)	Bonds with redemption periods greater than three months at time of purchase	(¥13,339 million)
Cash and cash equivalents at end of year	¥54,047 million	Cash and cash equivalents at end of year	¥42,803 million

(Leases)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)

Details on finance leases other than those that transfer ownership of the leased assets to the lessee are given below.

① The acquisition cost, accumulated depreciation and net leased property values at the year-end for the leased assets on an "as if capitalized" basis were as follows:

	Acquisition cost (¥ million)	Accumulated depreciation (¥ million)	Net leased property (¥ million)
Machinery and equipment	2,745	1,454	1,291
Other	2,979	1,387	1,591
Total	5,724	2,841	2,883

② Outstanding obligations under finance leases at the year-end were as follows:

Due within one year	¥922 million
Due after one year	¥1,960 million
Total	¥2,883 million

The values of the acquisition cost of leased assets and of outstanding obligations under finance leases both include the imputed interest expense portion, since the year-end balance of finance lease obligations represented a small proportion of tangible fixed assets.

③ Lease payments and depreciation expense:

Lease payments	¥939 million
Depreciation expense	¥939 million

④ Calculation method for depreciation expense

Depreciation expense is computed by the straight-line method over the useful life of the leased asset with a residual value of zero.

2. Operating leases

Minimum rental commitments under noncancelable leases

Due within one year	¥10 million
Due after one year	¥14 million
Total	¥25 million

Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)

Details on finance leases other than those that transfer ownership of the leased assets to the lessee are given below.

① The acquisition cost, accumulated depreciation and net leased property values at the year-end for the leased assets on an "as if capitalized" basis were as follows:

	Acquisition cost (¥ million)	Accumulated depreciation (¥ million)	Net leased property (¥ million)
Machinery and equipment	3,213	1,705	1,507
Other	2,740	1,507	1,233
Total	5,953	3,212	2,741

② Outstanding obligations under finance leases at the year-end were as follows:

Due within one year	¥901 million
Due after one year	¥1,839 million
Total	¥2,741 million

The values of the acquisition cost of leased assets and of outstanding obligations under finance leases both include the imputed interest expense portion, since the year-end balance of finance lease obligations represented a small proportion of tangible fixed assets.

③ Lease payments and depreciation expense:

Lease payments	¥1,025 million
Depreciation expense	¥1,025 million

④ Calculation method for depreciation expense

Same as the left column.

2. Operating leases

Minimum rental commitments under noncancelable leases

Due within one year	¥10 million
Due after one year	¥5 million
Total	¥16 million

(Securities)

1. Held-to-maturity debt securities with readily determinable market value

(¥ million)

	As of March 31, 2005			As of March 31, 2006		
	Carrying amount	Fair market value	Difference	Carrying amount	Fair market value	Difference
Securities carrying unrealized gains on consolidated balance sheets:						
1. Government and municipal bonds	—	—	—	—	—	—
2. Corporate bonds	700	704	4	400	400	0
3. Other	—	—	—	—	—	—
Subtotal	700	704	4	400	400	0
Securities carrying unrealized losses on consolidated balance sheets:						
1. Government and municipal bonds	—	—	—	—	—	—
2. Corporate bonds	—	—	—	—	—	—
3. Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	700	704	4	400	400	0

2. Other securities with readily determinable market value

(¥ million)

	As of March 31, 2005			As of March 31, 2006		
	Acquisition cost	Carrying amount	Difference	Acquisition cost	Carrying amount	Difference
Securities carrying unrealized gains on consolidated balance sheets:						
1. Equity securities	8,044	53,567	45,522	8,138	77,633	69,494
2. Debt securities:						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
3. Other	—	—	—	—	—	—
Subtotal	8,044	53,567	45,522	8,138	77,633	69,494
Securities carrying unrealized losses on consolidated balance sheets:						
1. Equity securities	297	220	(77)	251	210	(41)
2. Debt securities:						
Government and municipal bonds	—	—	—	6,004	6,000	(3)
Corporate bonds	7,496	7,491	(5)	7,942	7,938	(4)
Other	—	—	—	—	—	—
3. Other	—	—	—	—	—	—
Subtotal	7,794	7,711	(83)	14,198	14,149	(48)
Total	15,839	61,278	45,439	22,336	91,783	69,446

3. Other securities sold during fiscal year

(¥ million)

Fiscal year ended March 31, 2005			Fiscal year ended March 31, 2006		
Sales amount	Total gain on sales	Total loss on sale	Sales amount	Total gain on sales	Total loss on sale
1,525	1,387	—	1,005	472	—

4. Principal securities not carried at market value

(¥ million)

	As of March 31, 2005	As of March 31, 2006
	Carrying amount	Carrying amount
Other securities: Non-listed equity securities (except JASDAQ-listed shares)	5,210	5,372

5. Projected redemption value of held-to-maturity debt securities within other securities

(¥ million)

	As of March 31, 2005		As of March 31, 2006	
	Within 1 year	Within 1-5 years	Within 1 year	Within 1-5 years
Debt securities:				
Government and municipal bonds	—	—	6,000	—
Corporate bonds	7,713	400	8,300	—
Other	—	—	—	—
Total	7,713	400	14,300	—

(Derivatives)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)

1. Derivatives policies and usage status

(1) Derivative types and usage purposes

The Nisshin Seifun Group uses currency forwards and options as hedging instruments to avoid exchange rate fluctuation risk for specific assets and liabilities denominated in foreign currencies. The Company also conducts interest-rate swaps to hedge interest rate exposures associated with specific financial liabilities.

(2) Derivative usage policies

The Nisshin Seifun Group uses derivatives purely for mitigating the risks of fluctuations in market prices or interest rates, insofar as such risks affect the scope of actual future business transactions. The Company policy forbids the use of derivatives for short-term trading or speculative purposes.

(3) Transactional risk for derivatives

The currency forwards, currency options, and interest-rate swaps used by the Nisshin Seifun Group are subject to normal market risks associated with movements in foreign exchange and other financial markets.

The Company does not anticipate any credit losses associated with its derivatives exposure because all the counterparties in such transactions are financial institutions with high credit ratings.

(4) Risk management measures

The Finance and Accounting Division conducts the various derivative transactions outlined above, predominantly based on instructions from operating divisions exposed to foreign exchange risks. Finance-related personnel in certain consolidated subsidiaries also enter into derivatives contracts, based on internal instructions. Internal Company rules forbid the scale of derivative transactions to exceed that of the underlying business transactions. Measures to disperse risk include limits on the size of individual derivative transactions, based on the proportion of total contract value. Internal rules also restrict currency option trading to purchases of U.S. dollar call options.

To aid in the management of derivative-related risks, the Finance and Accounting Division and finance-related personnel in certain consolidated subsidiaries receive reports from banks and other parties on a monthly basis on the status of outstanding derivative contracts. Checks are made that this data accords with market movements, and reports are submitted to all directors overseeing financial and other related operations.

2. Market prices of transactions

(1) The Nisshin Seifun Group uses currency forwards and options, but since the Company employs hedge transaction accounting, details are omitted.

(2) The Nisshin Seifun Group employs interest-rate swaps, but as of March 31, 2005, there were no such instruments outstanding.

Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)

1. Derivatives policies and usage status

(1) Derivative types and usage purposes

The Nisshin Seifun Group uses currency forwards and options as hedging instruments to avoid exchange rate fluctuation risk for specific assets and liabilities denominated in foreign currencies. The Company also conducts interest-rate swaps to hedge interest rate exposures associated with specific financial liabilities.

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2. Market prices of transactions

The Nisshin Seifun Group uses currency forwards and options, but since the Company employs hedge transaction accounting, details are omitted.

(Retirement benefits)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)

1. Outline of retirement benefit plans

The parent company and domestic consolidated subsidiaries primarily provide a tax-qualified pension plan together with a lump-sum retirement benefit plan. The parent company and some domestic consolidated subsidiaries have also established a retirement benefit trust. In some cases, employees leaving the Company may receive an additional severance payment beyond that computed based on the actuarial retirement benefit calculated using the relevant accounting standard.

2. Retirement benefit obligation

	As of March 31, 2005 (¥ million)
(A) Retirement benefit obligation	(50,453)
(B) Pension plan assets	32,610
(C) Unfunded retirement benefit obligation [(A) + (B)]	(17,843)
(D) Unrecognized actuarial differences	5,864
(E) Unrecognized prior service cost	(2,924)
(F) Net amount recorded on consolidated balance sheet [(C) + (D) + (E)]	(14,902)
(G) Prepaid pension costs	26
Accrued employees' retirement benefits [(F) – (G)]	(14,928)

Notes:

1. Certain subsidiaries adopt a simplified method for calculating retirement benefit obligation.
2. Following downward revisions to the expected rate of return on pension plan assets and the pension benefit ratios for the tax-qualified pension plan effective January 1, 2005, the parent company and some domestic consolidated subsidiaries recognized a decrease in prior service cost.

3. Retirement benefit expense

	Fiscal year ended March 31, 2005 (¥ million)
(A) Service cost	1,690
(B) Interest cost	1,200
(C) Expected return on pension plan assets	(727)
(D) Amortization of actuarial differences	460
(E) Amortization of prior service cost	(49)
(F) Retirement benefit expense [(A) + (B) + (C) + (D) + (E)]	2,575

Note:

Retirement benefit expense incurred by consolidated subsidiaries that adopt simplified pension accounting methodology is recorded under "(A) Service cost."

4. Assumptions used in retirement benefit obligation calculations

(A) Method adopted for periodic distribution of projected retirement benefits	Equal amounts per period
(B) Discount rate	Principally 2.5%
(C) Expected rate of return on pension plan assets	Principally 2.5%
(D) Amortization period for actuarial differences*1	Principally 15 years
(E) Amortization period for prior service cost*2	15 years

Notes:

1. Actuarial differences are amortized on a straight-line basis from the following fiscal year based on the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end.
2. Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end.

Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)

1. Outline of retirement benefit plans

The parent company and domestic consolidated subsidiaries primarily provide a tax-qualified pension plan together with a lump-sum retirement benefit plan. The parent company and some domestic consolidated subsidiaries have also established a retirement benefit trust. In some cases, employees leaving the Company may receive an additional severance payment beyond that computed based on the actuarial retirement benefit calculated using the relevant accounting standard.

2. Retirement benefit obligation

	As of March 31, 2006 (¥ million)
(A) Retirement benefit obligation	(49,868)
(B) Pension plan assets	38,834
(C) Unfunded retirement benefit obligation [(A) + (B)]	(11,033)
(D) Unrecognized actuarial differences	1,188
(E) Unrecognized prior service cost	(2,725)
(F) Net amount recorded on consolidated balance sheet [(C) + (D) + (E)]	(12,571)
(G) Prepaid pension costs	42
Accrued employees' retirement benefits [(F) – (G)]	(12,614)

Note: Certain subsidiaries adopt a simplified method for calculating retirement benefit obligation.

3. Retirement benefit expense

	Fiscal year ended March 31, 2006 (¥ million)
(A) Service cost	1,597
(B) Interest cost	1,150
(C) Expected return on pension plan assets	(774)
(D) Amortization of actuarial differences	502
(E) Amortization of prior service cost	(198)
(F) Retirement benefit expense [(A) + (B) + (C) + (D) + (E)]	2,278

Note:

Retirement benefit expense incurred by consolidated subsidiaries that adopt simplified pension accounting methodology is recorded under "(A) Service cost."

4. Assumptions used in retirement benefit obligation calculations

(A) Method adopted for periodic distribution of projected retirement benefits	Equal amounts per period
(B) Discount rate	Principally 2.5%
(C) Expected rate of return on pension plan assets	Principally 2.5%
(D) Amortization period for actuarial differences*1	Principally 15 years
(E) Amortization period for prior service cost*2	15 years

Notes:

1. Actuarial differences are amortized on a straight-line basis from the following fiscal year based on the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end.
2. Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees expected to receive pension benefits as of the consolidated fiscal year-end.

(Tax effect accounting)

Fiscal year ended March 31, 2005

1. The principal components of deferred tax assets and deferred tax liabilities are as follows:

Deferred tax assets	(¥ million)
Allowance for employees' retirement benefits	8,096
Allowance for bonuses	1,734
Investments in securities	1,082
Accrued sales incentives	967
Unrealized gains on fixed assets	888
Depreciation and amortization	565
Allowance for directors' retirement benefits	495
License fees for trademark use	383
Accrued enterprise tax	367
Allowance for repairs	361
Other	1,982
Deferred tax assets subtotal	16,927
Offsetting of deferred tax assets and deferred tax liabilities	(8,234)
Net deferred tax assets	8,692
Valuation allowance	(76)
Total deferred tax assets	8,616
Deferred tax liabilities	
Unrealized gains on other securities	(18,454)
Reserve for accelerated depreciation on fixed assets	(2,444)
Other	(349)
Deferred tax liabilities subtotal	(21,248)
Offsetting of deferred tax assets and deferred tax liabilities	8,234
Net deferred tax liabilities	(13,014)

2. The reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of tax effect (corporate tax income tax, etc.) accounting is as follows:

Statutory effective tax rate	40.6%
(Adjustments)	
Corporate income tax deductions	(3.2)
Equity in earnings of subsidiaries and affiliated companies	(1.6)
Dividend and other income not counted for tax purposes	(0.5)
Entertainment and other expenses not deductible for tax purposes	2.0
Other	0.3
Effective tax rate after application of tax effect accounting	37.6%

Fiscal year ended March 31, 2006

1. The principal components of deferred tax assets and deferred tax liabilities are as follows:

Deferred tax assets	(¥ million)
Allowance for employees' retirement benefits	7,395
Allowance for bonuses	1,771
Investments in securities	989
Accrued sales incentives	962
Unrealized gains on fixed assets	892
Depreciation and amortization	416
Allowance for directors' retirement benefits	394
License fees for trademark use	386
Accrued enterprise tax	340
Allowance for repairs	299
Other	2,247
Deferred tax assets subtotal	16,099
Offsetting of deferred tax assets and deferred tax liabilities	(9,173)
Net deferred tax assets	6,925
Valuation allowance	(59)
Total deferred tax assets	6,865
Deferred tax liabilities	
Unrealized gains on other securities	(28,198)
Reserve for accelerated depreciation on fixed assets	(2,414)
Other	(269)
Deferred tax liabilities subtotal	(30,882)
Offsetting of deferred tax assets and deferred tax liabilities	9,173
Net deferred tax liabilities	(21,708)

2. The reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of tax effect (corporate tax income tax, etc.) accounting is as follows:

Statutory effective tax rate	40.6%
(Adjustments)	
Equity in earnings of subsidiaries and affiliated companies	(2.4)
Corporate income tax deductions	(1.9)
Dividend and other income not counted for tax purposes	(0.3)
Entertainment and other expenses not deductible for tax purposes	2.0
Other	0.0
Effective tax rate after application of tax effect accounting	38.0%

(Segment information)

1. Business segment information

Fiscal Year Ended March 31, 2005

(¥ million)

	Flour milling	Processed food	Others	Total	Elimination / corporate	Consolidated
I. Net Sales and Operating Income						
Net sales						
(1) Net sales to external customers	154,888	218,529	42,804	416,222	(—)	416,222
(2) Internal sales and transfers	19,211	764	2,326	22,301	(22,301)	—
Total	174,099	219,294	45,130	438,524	(22,301)	416,222
Cost and Expenses	163,127	211,311	40,096	414,535	(21,209)	393,326
Operating Income	10,972	7,982	5,034	23,988	(1,092)	22,896
II. Assets, Depreciation and Amortization, and Capital Expenditures:						
Assets	112,774	132,595	53,821	299,190	73,778	372,968
Depreciation and amortization	5,601	5,377	903	11,883	(200)	11,682
Capital expenditures	7,077	6,138	1,991	15,207	(146)	15,061

Fiscal Year Ended March 31, 2006

(¥ million)

	Flour milling	Processed food	Others	Total	Eliminations / corporate	Consolidated
I. Net Sales and Operating Income						
Net sales						
(1) Net sales to external customers	153,850	221,571	45,938	421,359	—	421,359
(2) Internal sales and transfers	17,984	908	2,514	21,407	(21,407)	—
Total	171,834	222,479	48,452	442,767	(21,407)	421,359
Cost and Expenses	161,073	215,127	43,545	419,746	(20,556)	399,189
Operating Income	10,760	7,352	4,907	23,020	(850)	22,169
II. Assets, Depreciation and Amortization, and Capital Expenditures:						
Assets	112,187	140,451	52,228	304,868	95,031	399,899
Depreciation and amortization	5,646	5,528	1,022	12,197	(204)	11,993
Capital expenditures	6,236	5,680	2,454	14,371	(213)	14,158

Notes:

1. Business segments are determined by considering similarities between product types.
2. Primary products for each business segment:
   - Flour milling: Flour, bran
   - Processed food: Prepared mix, flour for consumer use, pasta, pasta sauce, frozen food, chilled food, cake and bread ingredients, biochemical products, life science business, healthcare foods
   - Others: Pet food, engineering, mesh cloths, transport, and storage
3. Corporate assets included in the eliminations/corporate category totaled ¥81,869 million and ¥104,580 million for the fiscal years ended on March 31, 2005 and 2006, respectively. The majority of the assets are held by the parent company as surplus funds (cash and marketable securities) and investments in securities.

2. Geographical segment information

(Fiscal years ended March 31, 2005 and 2006)

Geographical segment information is omitted since the domestic business (Japan) accounts for more than 90% of total sales and total assets across all segments.

3. Overseas sales

(Fiscal years ended March 31, 2005 and 2006)

Overseas sales are omitted since the ratio of overseas sales to consolidated net sales is less than 10%.

(Business transactions with related parties)

Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)

Directors, auditors, and individual leading shareholders

Position	Name	Address	Capital invested (¥ million)	Type of business or job role	Voting rights (Company stake) (%)	Relationship		Nature of business transaction	Transaction value (¥ million)	Item	Year-end balance (¥ million)
						Other directorships	Commercial links				
Auditor	Morio Hatakeyama	—	—	Corporate auditor of the Company	(Company stake) Direct: 0.0	—	—	Fee payment for legal advice	4	—	—

Note: No consumption tax amounts are included in the transaction value.

Transaction conditions and methods used to determine conditions

Prices and other conditions related to the transaction were similar to those pertaining to equivalent transactions conducted with parties without such a relationship to the Company.

Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)

Directors, auditors, and individual leading shareholders

Position	Name	Address	Capital invested (¥ million)	Type of business or job role	Voting rights (Company stake) (%)	Relationship		Nature of business transaction	Transaction value (¥ million)	Item	Year-end balance (¥ million)
						Other directorships	Commercial links				
Auditor	Morio Hatakeyama	—	—	Corporate auditor of the Company	(Company stake) Direct: 0.0	—	—	Fee payment for legal advice	4	—	—

Note: No consumption tax amounts are included in the transaction value.

Transaction conditions, methods used to determine conditions

Prices and other conditions related to the transaction were similar to those pertaining to equivalent transactions conducted with parties without such a relationship to the Company.

(Per share information)

(Yen)

<table>
<tr><th>Fiscal year ended March 31, 2005</th><th>Fiscal year ended March 31, 2006</th></tr>
<tr><td>Net assets per share ¥1,042.92
Net income per share ¥58.06
Diluted net income per share ¥58.00
By resolution of the meeting of the Board of Directors held on May 12, 2005, the Company plans to undertake a 1.1 for 1 common stock split on November 18, 2005.
Per share information if this stock split had been conducted at the beginning of the fiscal years ended March 31, 2004 and March 31, 2005 is as follows:

<table>
<tr><th>Fiscal year ended March 31, 2004</th><th>Fiscal year ended March 31, 2005</th></tr>
<tr><td>Net assets per share ¥905.99
Net income per share ¥44.69
Diluted net income per share ¥44.69</td><td>Net assets per share ¥948.11
Net income per share ¥52.79
Diluted net income per share ¥52.73</td></tr>
</table></td>
<td>Net assets per share ¥1,046.00
Net income per share ¥52.80
Diluted net income per share ¥52.77
The Company undertook a 1.1 for 1 common stock split on November 18, 2005.
Per share information if this stock split had been conducted at the beginning of the fiscal year ended March 31, 2005 is as follows:

<table>
<tr><td>161st fiscal term
Net assets per share ¥948.11
Net income per share ¥52.79
Diluted net income per share ¥52.73</td></tr>
</table></td></tr>
</table>

Note: The basis of calculation for net income per share and diluted net income per share is as follows:

Item	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006
Net income, as stated on Statements of Income (¥ million)	13,597	13,541
Main components of amounts not attributable to owners of common stock (¥ million) Bonuses to directors	172	175
Net income associated with common stock (¥ million)	13,425	13,366
Average number of shares of common stock during fiscal year (shares)	231,210,789	253,143,692
Main components of adjustment to net income used in calculation of diluted net income per share (¥ million) Interest income (after relevant deductions of tax)	(9)	—
Adjustment to net income (¥ million)	(9)	—
Main components of increase in number of shares of common stock used in calculation of diluted net income per share (shares) New share subscription rights	86,901	137,735
Details of shares not included in calculation of diluted net income per share due to non-dilutive effect	—	One issue of convertible bonds issued by affiliate

(Subsequent events)

<table>
<tr><th>Fiscal year ended March 31, 2005</th><th>Fiscal year ended March 31, 2006</th></tr>
<tr><td>(Stock split)

By resolution of the meeting of the Board of Directors held on May 12, 2005, the Company plans to undertake a 1.1 for 1 common stock split on Friday November 18, 2005, as part of efforts to increase returns to shareholders and to boost the liquidity of the Company's shares.

(1) Increase in number of shares due to stock split
The increase shall equal 10% of the total number of shares of common stock issued and outstanding as of the close of trading on Friday September 30, 2005. Any fractional shares thus created shall be rounded off.

(2) Method of stock split
All shareholders and beneficial owners of record as of the close of trading on Friday September 30, 2005 shall receive 1.1 shares for each registered share. Shareholders shall be paid cash in lieu of any fractional shares thus created.

(3) Initial date of reckoning for dividend purposes
The initial date of reckoning for dividend purposes for new shares created through the stock split shall be Saturday October 1, 2005.

(4) Any other matters pursuant to this stock split shall be resolved at the next meeting of the Board of Directors.
Per share information if this stock split had been conducted at the beginning of the fiscal years ended March 31, 2004 and March 31, 2005 is as follows:

<table>
<tr><th>Fiscal year ended March 31, 2004</th><th>Fiscal year ended March 31, 2005</th></tr>
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Net income per share ¥52.79
Diluted net income per share ¥52.73</td></tr>
</table>
</td><td>-----------------</td></tr>
</table>

(Supplementary consolidated data)

(Borrowings)

Category	Outstanding value [Mar. 31, 2005] (¥ million)	Outstanding value [Mar. 31, 2006] (¥ million)	Average interest rate (%)	Repayment dates
Short-term debt	7,965	7,475	0.7080	—
Current portion of long-term debt	150	279	2.8921	—
Long-term debt (excluding current portion)	1,680	1,609	3.3426	2007 – 2036
Other interest-bearing liabilities	—	—	—	—
Total	9,795	9,363	—	—

Notes:

1. Components of long-term debt (excluding current portion) with repayments scheduled within five years after March 31, 2006 are detailed in the table below.

	Within 1-2 years (¥ million)	Within 2-3 years (¥ million)	Within 3-4 years (¥ million)	Within 4-5 years (¥ million)
Long-term debt	276	255	232	238

2. Average interest rates are computed as the weighted average interest rate on debt outstanding at the fiscal year-end.
3. The Nisshin Seifun Group (the holding company and consolidated subsidiaries) has negotiated specific credit facilities with its main financial institutions to ensure efficient procurement of working capital.

Total specific credit facilities	¥17,530 million	
Balance outstanding on March 31, 2006	—	
Credit facility fees for year ended March 31, 2006	¥16 million	(Amount included in “Other” category within non-operating expenses)

(2) Other borrowings

The Company has no debts other than those detailed above.

(2) Non-consolidated Financial Statements

1. Non-consolidated financial statements

(1) Non-consolidated Balance Sheets

Item	See Note	Fiscal year ended March 31, 2005 (161st fiscal term) Amount (¥ million)		Proportion of total (%)	Fiscal year ended March 31, 2006 (162nd fiscal term) Amount (¥ million)		Proportion of total (%)
Assets:							
I Current assets							
Cash on hand and in banks			25,705			21,910	
Accounts receivable			99			120	
Marketable securities			6,483			13,939	
Prepaid expenses			18			22	
Deferred tax assets			504			513	
Advances to affiliated companies			658			—	
Other			2,219			2,498	
Total current assets			35,689	16.9		39,004	16.6
II Fixed assets							
(1) Tangible fixed assets	1						
Buildings			6,495			6,045	
Structures			314			290	
Machinery			522			539	
Vehicles and equipment			5			4	
Tools, fixtures and furnishings			693			572	
Land	2		10,755			10,756	
Construction in progress			132			1,860	
Total tangible fixed assets			18,920	9.0		20,070	8.5
(2) Intangible fixed assets							
Leasehold tenant rights			395			402	
Software			1,409			1,281	
Software in development			223			—	
Other			70			68	
Total intangible fixed assets			2,099	1.0		1,753	0.7

Item	See Note	Fiscal year ended March 31, 2005 (161st fiscal term) Amount (¥ million)		Proportion of total (%)	Fiscal year ended March 31, 2006 (162nd fiscal term) Amount (¥ million)		Proportion of total (%)
(3) Investments and other assets							
Investments in securities			41,702			61,233	
Equity in affiliated companies			88,077			89,224	
Bonds issued by affiliated companies			199			—	
Capital investments			593			456	
Investments in affiliated companies			50			307	
Long-term loans to employees			139			100	
Long-term loans to affiliated companies			23,012			23,046	
Long-term prepaid expenses			9			8	
Other			484			474	
Allowance for doubtful accounts			(238)			(130)	
Total investments and other assets			154,031	73.1		174,720	74.2
Total fixed assets			175,051	83.1		196,543	83.4
Total assets			210,741	100.0		235,548	100.0

Item	See Note	Fiscal year ended March 31, 2005 (161st fiscal term) Amount (¥ million)		Proportion of total (%)	Fiscal year ended March 31, 2006 (162nd fiscal term) Amount (¥ million)		Proportion of total (%)
Liabilities:							
I Current liabilities							
Current portion of long-term debt			8			7	
Other payables			187			427	
Accrued expenses			1,930			1,674	
Deposits received			1,461			1,507	
Other			50			49	
Total current liabilities			3,638	1.7		3,666	1.6
II Non-current liabilities							
Long-term debt			129			92	
Deferred tax liabilities			11,067			19,364	
Allowance for employees' retirement benefits			3,138			2,409	
Allowance for directors' retirement benefits			442			—	
Other			49			394	
Total non-current liabilities			14,827	7.1		22,260	9.4
Total liabilities			18,466	8.8		25,926	11.0
Shareholders' Equity:							
I Common stock	4		17,117	8.1		17,117	7.3
II Capital surplus							
Capital surplus			9,446			9,500	
Other capital reserves							
(1) Gains on sale of treasury stock		5	5		—	—	
Total capital surplus			9,452	4.5		9,500	4.0
III Retained earnings							
Retained surplus			4,379			4,379	
Voluntary reserves							
(1) Dividend reserve		2,000			2,000		
(2) Special depreciation reserve		31			17		
(3) Accelerated depreciation reserve		1,064			1,117		
(4) Special accelerated depreciation reserve		49			—		
(5) General reserves		106,770	109,915		112,770	115,904	
Appropriated earnings at year-end			32,135			33,563	
Total retained earnings			146,430	69.5		153,847	65.3
IV Unrealized holding gain on securities	6		20,680	9.8		32,277	13.7
V Treasury common stock	5		(1,406)	(0.7)		(3,122)	(1.3)
Total shareholders' equity			192,274	91.2		209,621	89.0
Total liabilities and shareholders' equity			210,741	100.0		235,548	100.0

(2) Non-consolidated Statements of Income

Item	See Note	Fiscal year ended March 31, 2005 (161st fiscal term) Amount (¥ million)		Proportion of total (%)	Fiscal year ended March 31, 2006 (162nd fiscal term) Amount (¥ million)		Proportion of total (%)
I Operating revenues	1		19,138	100.0		20,940	100.0
II Operating expenses	2						
Salaries and wages		1,142			1,067		
Bonuses and allowances		1,576			1,619		
Retirement benefit expense		498			422		
Marketing and research costs		2,089			1,903		
Advertising and promotional costs		1,835			1,791		
Rental costs		1,024			954		
Depreciation expense		852			927		
Other		2,144	11,164	58.3	2,306	10,993	52.5
Operating income			7,973	41.7		9,947	47.5
III Non-operating income							
Interest income	1	273			340		
Interest income from securities		4			10		
Dividend income		422			529		
Gain on sale of securities		250			—		
Gain on exchange rate differences		—			133		
Other		101	1,052	5.4	37	1,051	5.0
IV Non-operating expenses							
Interest expenses	1	9			6		
Loss on disposal of fixed assets		30			48		
Loss on valuation of membership rights	3	27			—		
Credit facility set-up fees		8			10		
Other		2	79	0.4	52	117	0.5
Ordinary income			8,946	46.7		10,881	52.0

		Fiscal year ended March 31, 2005 (161st fiscal term)			Fiscal year ended March 31, 2006 (162nd fiscal term)		
Item	See Note	Amount (¥ million)		Proportion of total (%)	Amount (¥ million)		Proportion of total (%)
V Extraordinary income							
Gain on sale of fixed assets	4	92			382		
Gain on sale of investments in securities		1,112			—		
Gain on sale of shares in affiliated companies		—			76		
Gain on reversal of allowance for doubtful accounts		—	1,204	6.3	107	566	2.7
VI Extraordinary losses							
Loss on disposal of feed business	5	195	195	1.0	—	—	—
Income before income taxes			9,955	52.0		11,448	54.7
Income taxes — current		28			17		
Income taxes — deferred		534	563	2.9	362	379	1.8
Net income			9,392	49.1		11,068	52.9
Unappropriated retained earnings brought forward			24,017			24,122	
Earnings allocated to retirement of treasury common stock			—			16	
Interim dividend			1,274			1,611	
Unappropriated retained earnings			32,135			33,563	

(3) Non-consolidated Statements of Retained Earnings—for the years ended March 31, 2006 and 2005

Fiscal year [Date of approval by general meeting of shareholders]		Fiscal year ended March 31, 2005 (161st fiscal term) [June 28, 2005]		Fiscal year ended March 31, 2006 (162nd fiscal term) [June 28, 2006]	
Item	See Note	Amount (¥ million)		Amount (¥ million)	
I Unappropriated retained earnings			32,135		33,563
II Reversal of voluntary reserves					
Reversal of special depreciation provision		14		9	
Reversal of reserve for advanced depreciation of fixed assets		40		63	
Reversal of special reserve for advanced depreciation of fixed assets		49	104	—	73
Total			32,240		33,636
III Appropriations of retained earnings					
Dividends		¥8.50 per share	1,968	¥11.00 per share	2,785
Directors' bonuses			55		55
Additions to voluntary reserves					
Reserve for advanced depreciation depreciation of fixed assets		93		66	
Reserve		6,000	6,093	6,000	6,066
Total			8,117		8,906
IV Earnings carried forward to the following year			24,122		24,729

Notes:

1. 161st fiscal term: On December 10, 2004, an interim dividend of ¥1,274 million (5.5 yen per share) was distributed. 162nd fiscal term: On December 15, 2005, an interim dividend of ¥1,611 million (7 yen per share) was distributed.
2 The special depreciation provision, special account for advanced depreciation of fixed assets, and reserve for special account for advanced depreciation of fixed assets are based on the Special Taxation Measures Law and other pertinent laws and ordinances.

(Significant accounting policies)

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
1. Valuation standards and methodology for securities Held-to-maturity debt securities are stated at amortized cost. Equity in subsidiaries and affiliated companies is stated at cost, with cost being determined by the moving average method. Other securities: Securities with a readily determinable market value are stated at fair market value based on the quoted market price at the fiscal year-end (with any unrealized gains or losses being reported directly as a component of shareholders' equity and the cost of any securities sold being computed by the moving average method). Securities with no readily determinable market value are stated at cost, with cost being determined by the moving average method.	1. Valuation standards and methodology for securities Held-to-maturity debt securities are same as the left column. Equity in subsidiaries and affiliated companies is same as the left column. Other securities: Securities with a readily determinable market value are same as the left column. Securities with no readily determinable market value are same as the left column.
2. Valuation standards and methodology for derivatives Derivative financial instruments are stated at fair market value.	2. Valuation standards and methodology for derivatives Derivative financial instruments are same as the left column.
3. Depreciation methods for fixed assets Depreciation on tangible fixed assets is computed principally by the declining balance method. However, the straight-line method is applied for buildings (excluding building fixtures) acquired on or after April 1, 1998. Depreciation on intangible fixed assets is computed by the straight-line method. Software used in-house is depreciated over its estimated useful life (five years) based on the straight-line method. Depreciation on long-term prepaid expenses is computed in equal amounts over the course of the useful life.	3. Depreciation methods for fixed assets Depreciation on tangible fixed assets same as the left column. Depreciation on intangible fixed assets is same as the left column. Depreciation on long-term prepaid expenses is same as the left column.
4. Basis of material allowances a. Allowance for doubtful accounts: Provision is made for possible credit losses stemming from trade notes and accounts receivable. Estimates of irrecoverable amounts are based on historical loan-loss ratios for general receivables, and on a consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific dubious accounts. b. Allowance for employees' retirement benefits: Provision is made for employees' retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the pension plan assets at the fiscal year-end. Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees expected to receive pension benefits as of the fiscal year-end. Actuarial differences are amortized on a straight-line basis from the following fiscal year over a period equaling the average remaining service period of employees expected to receive pension benefits as of the fiscal year-end.	4. Basis of material allowances a. Allowance for doubtful accounts: Same as the left column. b. Allowance for employees' retirement benefits: Same as the left column.

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
c. Allowance for directors' retirement benefits: Provision is made for the payment of retirement benefits to directors (including executive officers) in accordance with internal regulations, based on projected fiscal year-end benefits.	c. Allowance for directors' retirement benefits: (Additional Information) During the fiscal year ended March 31, 2006, the Company abolished the directors' retirement benefit system. With regard to reappointed directors, it was determined that retirement benefits applicable to the period in office up to the end of the Ordinary General Meeting of Shareholders held in June 2005, would be paid upon retirement. These unpaid retirement benefits have been reclassified under other non-current liabilities in the consolidated balance sheet.
5. Significant lease transactions Finance leases other than those that are deemed to transfer ownership of the leased assets to the lessee are accounted for using the same methods as those used for ordinary operating lease transactions.	5. Significant lease transactions Same as the left column.
6. Significant hedging transactions (1) Basis of accounting: Hedging transactions are accounted for on a deferred basis. However, the contracted exchange rates are applied in the case of any financial claims denominated in foreign currencies with assigned foreign currency forwards or other hedging instruments. (2) Hedging methods: The Company uses derivative transactions (including forward exchange contracts and currency purchase call options) to hedge currency risk exposure for all planned trading transactions that are denominated in foreign currencies. (3) Hedging policy: The Company employs derivative financial instruments purely to manage fluctuations in foreign currency exchange rates. The Company policy prohibits the use of derivative financial instruments for trading purposes. (4) Hedging evaluation: Since hedging methods and the target of each hedging transaction share the same conditions that apply at the start of hedging activities and throughout subsequent periods, the Company's hedging approach enables exchange rate fluctuations to be offset completely. Hence, the Company considers its hedging method to be highly effective.	6. Significant hedging transactions Same as the left column.
7. Consumption tax All accounting transactions are booked exclusive of any national or local consumption taxes.	7. Consumption tax Same as the left column.

(Changes in accounting policy)

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
---------------	(Accounting standards relating to impairment of fixed assets) From the fiscal year ended March 31, 2006, the Company adopted the following accounting standards for impairment of fixed assets: "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," (Business Accounting Council, August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (Accounting Standards Board of Japan, October 31, 2003, Financial Accounting Standard Implementation Guidance No. 6). The adoption of these standards had no impact on operating results.

(Changes in presentation)

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
The item "Credit facility set-up fees" was listed as a separate component in the accounts for the year ended March 31, 2005 because it exceeded 10% of total non-operating expenses for that year. In the year ended March 2004, when it equaled ¥8 million, it was included within the "Other" category.	The item "Gain on exchange rate differences" was listed as a separate component in the accounts for the year ended March 31, 2006 because it exceeded 10% of total non-operating expenses for that year. In the year ended March 2005, when it equaled ¥75 million, it was included within the "Other" category.

(Additional information)

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
(Turnover tax) In line with the report (No. 12) published by the Accounting Standards Board of Japan on February 13, 2004 on practical accounting treatments for presentation of the portion of enterprise tax that is based on business size as judged by estimates of total turnover, the Company expensed within operating expenses those parts of the enterprise tax for added value and capital accruing to the fiscal year ended March 31, 2005. The effect of this change on operating income, ordinary income and income before income taxes and minority interests was immaterial in each case.	---------------------

(Notes to the non-consolidated financial statements)

(Notes to the Non-consolidated Balance Sheets)

161st fiscal term March 31, 2005	162nd fiscal term March 31, 2006
1. Accumulated depreciation of tangible fixed assets ¥13,903 million	1. Accumulated depreciation of tangible fixed assets ¥14,257 million
2. Value of land acquired through exchange during year, less accelerated depreciation ¥1,156 million	2. ------------------
3. Guaranteed liabilities	3. Guaranteed liabilities

161st fiscal term (March 31, 2005):

Target of guarantee	Type of liability	Amount (¥ million)
(Employee housing loans)	Borrowings from financial institution	552
(Other)		1
Total		553

162nd fiscal term (March 31, 2006):

Target of guarantee	Type of liability	Amount (¥ million)
(Employee housing loans)	Borrowings from financial institution	412

161st fiscal term March 31, 2005	162nd fiscal term March 31, 2006
4. Number of authorized shares of common stock 461,672,000 Note: The total number of shares authorized for issue was reduced by an equivalent number in the event of any cancellation of shares in accordance with the provisions of the Company's articles of association. Total number of shares issued and outstanding 233,214,044	4. Number of authorized shares of common stock 932,856,000 Note: The total number of shares authorized for issue was reduced by an equivalent number in the event of any cancellation of shares in accordance with the provisions of the Company's articles of association. Total number of shares issued and outstanding 256,535,448
5. Number of shares of treasury common stock 1,584,821	5. Number of shares of treasury common stock 3,299,143
6. Limitations on dividends In accordance with the provisions of Part 3 of Article 124 of the Commercial Code of Japan, the application of mark-to-market valuation resulted in an increase in net assets of ¥20,680 million.	6. Limitations on dividends In accordance with the provisions of Part 3 of Article 124 of the Commercial Code of Japan, the application of mark-to-market valuation resulted in an increase in net assets of ¥32,277 million.

(Notes to the Non-consolidated Statements of Income)

161st fiscal term (April 1, 2004 to March 31, 2005)	162nd fiscal term (April 1, 2005 to March 31, 2006)
1. Principal transactions with affiliated companies were as follows: Operating income ¥19,045 million Interest income ¥261 million Interest expenses ¥2 million	1. Principal transactions with affiliated companies were as follows: Operating income ¥20,827 million Interest income ¥328 million Interest expenses ¥1 million
2. Total R&D expenditures: R&D spending contained in operating expenses ¥1,811 million	2. Total R&D expenditures: R&D spending contained in operating expenses ¥1,644 million
3. Other non-operating expenses include an addition to the allowance for doubtful accounts of ¥27 million.	3. --------------
4. This figure mainly reflects gains on the sale of Company-owned housing accommodation.	4. This figure mainly reflects gains on the sale of Company-owned housing accommodation.
5. This figure principally reflects losses on the sale of software and other items.	5. ----------------

(Leases)

161st fiscal term
(April 1, 2004 to March 31, 2005)

Details on finance leases other than those that transfer ownership of the leased assets to the lessee are given below.

1. The acquisition cost, accumulated depreciation and net leased property values at the year-end for the leased assets on an "as if capitalized" basis were as follows:

	Acquisition cost (¥ million)	Accumulated depreciation (¥ million)	Net leased property (¥ million)
Vehicles and equipment	26	9	16
Tools, fixtures and furnishings	275	181	94
Other	5	3	2
Total	307	194	112

2. Outstanding obligations under finance leases at the year-end were as follows:

Due within one year	¥40 million
Due after one year	¥72 million
Total	¥112 million

Note: The values of the acquisition cost of leased assets and outstanding obligations under finance leases both include the imputed interest expense portion, since the year-end balance of finance lease obligations represented a small proportion of tangible fixed assets.

3. Lease payments and depreciation expense:

Lease payments	¥50 million
Depreciation expense	¥50 million

4. Calculation method for depreciation expense:

Depreciation expense is computed by the straight-line method over the useful life of the leased asset with a residual value of zero.

162nd fiscal term
(April 1, 2005 to March 31, 2006)

Details on finance leases other than those that transfer ownership of the leased assets to the lessee are given below.

1. The acquisition cost, accumulated depreciation and net leased property values at the year-end for the leased assets on an "as if capitalized" basis were as follows:

	Acquisition cost (¥ million)	Accumulated depreciation (¥ million)	Net leased property (¥ million)
Vehicles and equipment	19	7	11
Tools, fixtures and furnishings	207	127	79
Other	10	7	2
Total	236	143	93

2. Outstanding obligations under finance leases at the year-end were as follows:

Due within one year	¥36 million
Due after one year	¥57 million
Total	¥93 million

Note: The values of the acquisition cost of leased assets and outstanding obligations under finance leases both include the imputed interest expense portion, since the year-end balance of finance lease obligations represented a small proportion of tangible fixed assets.

3. Lease payments and depreciation expense:

Lease payments	¥44 million
Depreciation expense	¥44 million

4. Calculation method for depreciation expense:

Same as the left column.

(Securities)

161st fiscal term (fiscal year ended March 31, 2005)

Equity securities in subsidiaries and affiliated companies with readily determinable market value

Type	Carrying amount (¥ million)	Fair market value (¥ million)	Difference (¥ million)
Equity securities in subsidiaries	2,036	17,893	15,857
Equity securities in affiliated companies	200	215	14
Total	2,236	18,108	15,871

162nd fiscal term (fiscal year ended March 31, 2006)

Equity securities in subsidiaries and affiliated companies with readily determinable market value

Type	Carrying amount (¥ million)	Fair market value (¥ million)	Difference (¥ million)
Equity securities in subsidiaries	2,635	18,873	16,238
Equity securities in affiliated companies	200	343	142
Total	2,836	19,216	16,380

(Tax effect accounting)

161st fiscal term (March 31, 2005)		162nd fiscal term (March 31, 2006)	
1. The principal components of deferred tax assets and deferred tax liabilities are as follows:		1. The principal components of deferred tax assets and deferred tax liabilities are as follows:	
Deferred tax assets	(¥ million)	Deferred tax assets	(¥ million)
Allowance for employees' retirement benefits	2,518	Allowance for employees' retirement benefits	2,309
License fees for trademark use	383	Investments in securities	225
Investments in securities	327	Allowance for bonuses	207
Allowance for bonuses	200	License fees for trademark use	191
Allowance for directors' retirement benefits	179	Accrued directors' retirement benefits	139
Marketing and research expenses	123	Marketing and research expenses	121
Other	615	Other	786
Deferred tax assets subtotal	4,348	Deferred tax assets subtotal	3,981
Offsetting of deferred tax assets and deferred tax liabilities	(3,844)	Offsetting of deferred tax assets and deferred tax liabilities	(3,468)
Net deferred tax assets	504	Net deferred tax assets	513
Deferred tax liabilities		Deferred tax liabilities	
Unrealized gains on other securities	(14,135)	Unrealized gains on other securities	(22,061)
Reserve for accelerated depreciation on fixed assets	(763)	Reserve for accelerated depreciation on fixed assets	(765)
Other	(11)	Other	(5)
Deferred tax liabilities subtotal	(14,911)	Deferred tax liabilities subtotal	(22,832)
Offsetting of deferred tax assets and deferred tax liabilities	3,844	Offsetting of deferred tax assets and deferred tax liabilities	3,468
Net deferred tax liabilities	(11,067)	Net deferred tax liabilities	(19,364)
2. The reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of tax effect accounting is as follows:		2. The reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of tax effect accounting is as follows:	
Statutory effective tax rate	40.6%	Statutory effective tax rate	40.6%
(Adjustments)		(Adjustments)	
Dividend and other income not counted for tax purposes	(36.0)	Dividend and other income not counted for tax purposes	(37.7)
Entertainment and other expenses not deductible for tax purposes	0.4	Entertainment and other expenses not deductible for tax purposes	0.4
Other	0.7	Other	0.0
Effective tax rate after application of tax effect accounting	5.7%	Effective tax rate after application of tax effect accounting	3.3%

(Per share information)

<table>
<tr><th>161st fiscal term
(April 1, 2004 to March 31, 2005)</th><th>162nd fiscal term
(April 1, 2005 to March 31, 2006)</th></tr>
<tr><td>Net assets per share ¥829.86
Net income per share ¥40.31
Diluted net income per share ¥40.29</td><td>Net assets per share ¥827.55
Net income per share ¥43.42
Diluted net income per share ¥43.40</td></tr>
<tr><td>By resolution of the meeting of the Board of Directors held on May 12, 2005, the Company plans to undertake a 1.1-for-1 common stock split on November 18, 2005.
Per share information if this stock split had been conducted at the beginning of the fiscal years ended March 31, 2004 and March 31, 2005 is as follows:
<table><tr><th>160th fiscal term</th><th>161st fiscal term</th></tr><tr><td>Net assets per share
¥734.00
Net income per share
¥31.68
Diluted net income per share
¥31.68</td><td>Net assets per share
¥754.42
Net income per share
¥36.64
Diluted net income per share
¥36.63</td></tr></table></td><td>The Company undertook a 1.1 for 1 common stock split on November 18, 2005.
Per share information if this stock split had been conducted at the beginning of the fiscal year ended March 31, 2005 is as follows:
<table><tr><th>161st fiscal term</th></tr><tr><td>Net assets per share
¥754.42
Net income per share
¥36.64
Diluted net income per share
¥36.63</td></tr></table></td></tr>
</table>

Note: The basis of calculation for net income per share and diluted net income per share is as follows:

Item	161st fiscal term Fiscal year ended March 31, 2005 (April 1, 2004 to March 31, 2005)	162nd fiscal term Fiscal year ended March 31, 2006 (April 1, 2005 to March 31, 2006)
Net income, as stated on Statements of Income (¥ million)	9,392	11,068
Main components of amounts not attributable to owners of common stock (¥ million) Bonuses to directors	55	55
Net income associated with common stock (¥ million)	9,337	11,013
Average number of shares of common stock during fiscal year (shares)	231,652,519	253,637,447
Adjustment to net income (¥ million)	—	—
Main components of increase in number of shares of common stock used in calculation of diluted net income per share (shares) Stock options	86,901	137,735
Details of shares not included in calculation of diluted net income per share due to non-dilutive effect	—	—

(Subsequent events)

<table>
<tr><th>161st fiscal term
(April 1, 2004 to March 31, 2005)</th><th>162nd fiscal term
(April 1, 2005 to March 31, 2006)</th></tr>
<tr><td>(Stock split)
By resolution of the meeting of the Board of Directors held on May 12, 2005, the Company plans to undertake a 1.1-for-1 common stock split on Friday November 18, 2005, as part of efforts to increase returns to shareholders and to boost the liquidity of the Company’s shares.
(1) Increase in number of shares due to stock split
The increase shall equal 10% of the total number of shares of common stock issued and outstanding as of the close of trading on Friday, September 30, 2005. Any fractional shares thus created shall be rounded off.
(2) Method of stock split
All shareholders and beneficial owners of record as of the close of trading on Friday, September 30, 2005 shall receive 1.1 shares for each registered share. Shareholders shall be paid cash in lieu of any fractional shares thus created.
(3) Initial date of reckoning for dividend purposes
The initial date of reckoning for dividend purposes for new shares created through the stock split shall be Saturday, October 1, 2005.
(4) Any other matters pursuant to this stock split shall be resolved at the next meeting of the Board of Directors.
Per share information if this stock split had been conducted at the beginning of the fiscal years ended March 31, 2004 and March 31, 2005 is as follows:
<table>
<tr><th>160th fiscal term</th><th>161st fiscal term</th></tr>
<tr><td>Net assets per share
¥734.00
Net income per share
¥31.68
Diluted net income per share
¥31.68</td><td>Net assets per share
¥754.42
Net income per share
¥36.64
Diluted net income per share
¥36.63</td></tr>
</table>
</td><td>------------------</td></tr>
</table>

(Supplementary data)

1. Securities-related data

(1) Equity securities holdings

Issue (name of company stock)			Number of shares owned	Carrying amount (¥ million)
Investments in securities	Other securities	Mitsubishi UFJ Financial Group	5,680	10,224
		Sumitomo Mitsui Financial Group, Inc.	7,756	10,084
		Sumitomo Trust & Banking Co., Ltd.	1,288,817	1,755
		The Gunma Bank, Ltd.	1,507,620	1,341
		Suruga Bank, Ltd.	833,910	1,326
		The Hyakugo Bank, Ltd.	1,360,013	1,077
		Mizuho Financial Group, Inc.	1,000	1,000
		Mizuho Preferred Capital (Cayman) 2 Limited	10	1,000
		The Awa Bank, Ltd.	371,865	281
		77 Bank Ltd.	212,608	192
		The Hyakujushi Bank, Ltd.	220,496	181
		Nomura Holdings, Inc.	948,404	2,489
		Sompo Japan Insurance Inc.	173,250	295
		Millea Holdings, Inc.	119	278
		Yamazaki Baking Co., Ltd.	9,962,343	9,175
		Sumitomo Corporation	4,180,244	7,006
		Nissin Food Products Co., Ltd.	1,264,982	4,604
		Mitsubishi Corporation	1,538,474	4,123
		Nosan Corporation	3,650,000	1,569
		Marubeni Corporation	1,835,511	1,130
		Kikkoman Corporation	375,486	497
		Nisshinbo Industries, Inc.	349,800	461
		The Nisshin OilliO Group, Ltd.	254,100	231
		Oriental Land Co., Ltd.	30,000	204
		Nichirei Corporation	346,500	197
		Other 27 companies	969,241	501
Total			31,688,231	61,233

(2) Debt securities holdings

Issue (name of corporate bond)			Total par value (¥ million)	Carrying amount (¥ million)
Marketable securities	Other securities	Deposit Insurance Corporation No. 55 (government guarantees)	1,000	999
		Treasury Bills No. 396	1,000	999
		Financing Bills No. 378	1,000	999
		Treasury Bills No. 395	1,000	997
		Japan Finance Corporation for Small and Medium Enterprise No. 149 (government guarantees)	800	805
		Deposit Insurance Corporation No. 132 (government guarantees)	700	698
		Asahi Glass No. 4 (unsecured)	500	505
		Mitsui & Co. No. 1 (unsecured)	500	502
		Matsushita Electric Industrial No. 4 (unsecured)	500	502
		Oriental Land No. 2 (unsecured)	500	501
		Sony No. 11 (unsecured)	500	501
		Kirin Brewery No. 5 (unsecured)	500	501
		Mitsubishi Electric No. 33 (unsecured)	500	501
		TEPCO No. 490	500	501
		Honda Finance No. 2 (unsecured)	500	501
		Chugoku Electric Power No. 318	500	500
		SECOM No. 1 (unsecured)	500	500
		TOYOTA FINANCE No. 3 (unsecured)	500	500
		Deposit Insurance Corporation No. 53 (government guarantees)	500	500
		Hokuriku Electric Power No. 252	400	401
		Kyushu Electric Power No. 328	300	311
		Chubu Electric Power No. 436	300	303
		Tohoku Electric Power No. 396	300	301
		RICOH LEASING No. 7 (unsecured)	200	200
		Kyushu Electric Power No. 362	200	200
		Toyota Industries No. 6 (unsecured)	200	200
Total			13,900	13,939

2. Tangible fixed assets

Asset type	Balance on March 31, 2005 (¥ million)	Value gains in year ended March 31, 2006 (¥ million)	Value losses in year ended March 31, 2006 (¥ million)	Balance on March 31, 2006 (¥ million)	Accumulated depreciation on March 31, 2006 (¥ million)	Depreciation in year ended March 31, 2006 (¥ million)	Value on March 31, 2006, net of depreciation (¥ million)
Tangible fixed assets							
Buildings	15,476	62	299	15,239	9,193	421	6,045
Structures	948	3	22	929	639	24	290
Machinery	1,784	120	57	1,847	1,307	92	539
Vehicles and equipment	13	—	—	13	9	1	4
Tools, fixtures and furnishings	3,713	103	136	3,680	3,107	202	572
Land	10,755	9	8	10,756	—	—	10,756
Construction in progress	132	2,037	309	1,860	—	—	1,860
Total tangible fixed assets	32,824	2,337	834	34,327	14,257	742	20,070
Intangible fixed assets							
Leasehold tenant rights	395	9	2	402	—	—	402
Software	1,816	299	100	2,015	733	399	1,281
Software in development	223	75	299	—	—	—	—
Other	81	—	0	80	12	1	68
Total intangible fixed assets	2,517	384	402	2,499	746	401	1,753
Long-term prepaid expenses	23	5	4	23	15	5	8
Deferred assets							
—	—	—	—	—	—	—	—
Total deferred assets	—	—	—	—	—	—	—

Note:

Depreciation expense of ¥217 million related to the Research Center for Basic Science Research and Development, QE Center and Research Center for Production and Technology is included in marketing and research costs.

3. Capital reserves

Category			Balance on March 31, 2005	Value gains in year ended March 31, 2006	Value losses in year ended March 31, 2006	Balance on March 31, 2006
Common stock (¥ million)			17,117	—	—	17,117
Shares issued and outstanding	Common stock	(shares)	(233,214,044)	(23,321,404)	—	(256,535,448)
	Common stock	(¥ million)	17,117	—	—	17,117
	Total	(shares)	(233,214,044)	(23,321,404)	—	(256,535,448)
	Total	(¥ million)	17,117		—	17,117
Capital surplus and other capital reserves	Capital surplus					
	Additional paid-in capital	(¥ million)	9,418	—	—	9,418
	Capital gains on merger	(¥ million)	20	—	—	20
	Revaluation reserve	(¥ million)	7	—	—	7
	Gain on exchange of shares (Note 2)	(¥ million)	—	53	—	53
	Other capital reserves					
	Gains on disposal of treasury stock (Note 3)	(¥ million)	5	—	5	—
	Total	(¥ million)	9,452	53	5	9,500
Retained earnings and voluntary reserves	Retained earnings	(¥ million)	4,379	—	—	4,379
	Voluntary reserves					
	Dividend reserve	(¥ million)	2,000	—	—	2,000
	Special depreciation reserve (Note 5)	(¥ million)	31	—	14	17
	Accelerated depreciation reserve (Notes 4, 5)	(¥ million)	1,064	93	40	1,117
	Special accelerated depreciation reserve (Note 5)	(¥ million)	49	—	49	—
	General reserves (Note 4)	(¥ million)	106,770	6,000	—	112,770
	Total	(¥ million)	114,295	6,093	104	120,284

Notes: 1. The increase in the number of shares is due to the 1.1 for 1 common stock split undertaken on November 18, 2005.
2. The gain in value in the year ended March 31, 2006 was due to the straight share exchange on August 3, 2005, by which SANKO Co., Ltd. became a wholly owned subsidiary.
3. The decline in value in the year ended March 31, 2006 was due to the offsetting effect of losses on disposal of treasury stock
4. The gain in value in the year ended March 31, 2006 was due to the appropriation of earnings from the previous year.
5. The decline in value in the year ended March 31, 2006 was due to the reversal of the appropriation of earnings from the previous year.
6. Treasury stock holdings on March 31, 2006 amounted to 3,299,143 shares.

4. Other reserves

Category	Balance on March 31, 2005 (¥ million)	Value gains in year ended March 31, 2006 (¥ million)	Value losses in year ended March 31, 2006 (target use) (¥ million)	Value losses in year ended March 31, 2006 (other) (¥ million)	Balance on March 31, 2006 (¥ million)
Allowance for doubtful accounts (Note 1)	238	—	—	107	130
Allowance for directors' retirement benefits (Note 2)	442	60	158	344	—

Notes:

1. "Value losses in year ended March 31, 2006 (other)" correspond to the reversal amount due to collection of suspected bad debts.
2. Details regarding "Value losses in year ended March 31, 2006 (other)" are provided in the supplementary information to"4. Basis of Material Allowances" in the Significant Accounting Policies section.

5. Principal assets and liabilities

(1) Assets

a. Cash and deposits

Classification		Amount (¥ million)
Cash		—
Deposits	Current account deposits	502
	Ordinary bank deposits	2,607
	Time deposits	18,800
	Subtotal	21,910
Total		21,910

b. Receivables

Counterparty	Amount (¥ million)	Summary
Nisshin Flour Milling Inc.	48	Fees for contracted services, etc.
Nisshin Foods Inc.	42	Fees for contracted services, etc.
Nisshin Engineering Inc.	10	Fees for contracted services, etc.
Other	19	Fees for contracted services, etc.
Total	120	

The table below summarizes various data on the generation and recovery of receivables.

Carried forward from year ended March 31, 2005 (¥ million) [A]	Generated in year ended March 31, 2006 (¥ million) [B]	Recovered in year ended March 31, 2006 (¥ million) [C]	Balance on March 31, 2006 (¥ million) [D]	Recovery rate (%) [C]/([A] + [B])	Period of outstanding receivables (days) $\frac{([A] + [D]) \times 0.5}{[B] / 365}$
99	10,813	10,792	120	98.9	3.7

Note:

Although consumption taxes are excluded from other figures in the Company's accounts, the figure above for receivables generated in the year ended March 31, 2006 includes consumption taxes.

c. Equity in subsidiaries and affiliated companies

Company name	Amount (¥ million)
Nisshin Flour Milling Inc.	35,276
Nisshin Foods Inc.	22,516
Nisshin Real Estate Inc.	12,686
Marubeni Nisshin Feed Co., Ltd.	5,786
Nisshin Pharma Inc.	5,000
Other	7,958
Total	89,224

d. Long-term loans to subsidiaries and affiliated companies

Counterparty	Amount (¥ million)
Nisshin Flour Milling Inc.	15,306
Initio Foods, Inc.	3,850
Nisshin Pharma Inc.	2,470
Other	1,420
Total	23,046

(2) Liabilities

a. Deferred tax liabilities

Please refer to the notes on non-consolidated tax effect accounting for details (see page 86).

(3) Others

None

[6] Stock-Related Administration

Fiscal year-end	March 31
Ordinary General Meeting of Shareholders	June
Date of record (final dividend)	March 31
Stock denominations	Share certificates are issued in lots of 1, 5, 10, 50, 100, 500, 1,000, and 10,000. Share certificates for specific numbers of shares other than those listed above are only available for lots of less than 100 shares.
Date of record (interim dividend)	September 30
Minimum trading unit (MTU)	500 shares
Transfer agent and registrar	
Handling office (main)	The Chuo Mitsui Trust & Banking Company, Ltd. (Head Office) 33-1, Shiba 3-chome, Minato-ku, Tokyo JAPAN
Custodian of shareholder register	The Chuo Mitsui Trust & Banking Company, Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo JAPAN
Transfer agent's handling office	The Chuo Mitsui Trust & Banking Company, Ltd. (branches throughout Japan) Japan Securities Agents, Ltd. (head office, branches throughout Japan)
Share transfer commission	Free of charge
Fee for issuance of new share certificates	¥250 per certificate (free of charge in cases of stock splits or merger-related issuance)
Purchases of sub-MTU holdings	
Handling office (main)	The Chuo Mitsui Trust & Banking Company, Ltd. (Head Office) 33-1, Shiba 3-chome, Minato-ku, Tokyo JAPAN
Custodian of shareholder register	The Chuo Mitsui Trust & Banking Company, Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo JAPAN
Transfer agent's handling office	The Chuo Mitsui Trust & Banking Company, Ltd. (branches throughout Japan) Japan Securities Agents, Ltd. (head office, branches throughout Japan)
Share purchase commissions	Commission rates for sub-MTU share purchases vary depending on the value per MTU (see below). For MTU values of ¥1,000,000 or less 1.150% For MTU values above ¥1,000,000 up to ¥5,000,000 0.900% For MTU values above ¥5,000,000 up to ¥10,000,000 0.700% For MTU values above ¥10,000,000 up to ¥30,000,000 0.575% For MTU values above ¥30,000,000 up to ¥50,000,000 0.375% (Commissions are rounded down to the nearest ¥1). The minimum value per MTU is set at ¥2,500.
Newspaper for public notices	*The Nihon Keizai Shimbun* issued in Tokyo
Shareholder privileges	All shareholders and beneficial owners of record as of March 31 with holdings of at least 500 shares are entitled to receive complimentary supplies of Nisshin Seifun Group products.

Notes:

1. Following a resolution of the 162nd Ordinary General Meeting of Shareholders held on June 28, 2006, the Company will adopt an electronic public notice system. Future public notices will be published on the Company's web site. In cases where publication on the web site is not possible, notices will be published in *The Nihon Keizai Shimbun* issued in Tokyo.

2. The Company introduced a system to enable shareholders to make top-up purchases of shares. The details of this scheme are outlined in the table below.

Handling office and locations	Please refer to the details above for sub-MTU share purchases.
Share top-up purchase commissions	Commission rates for top-up share purchases vary depending on the value per MTU (see below). For MTU values of ¥1,000,000 or less — 1.150% For MTU values above ¥1,000,000 up to ¥5,000,000 — 0.900% For MTU values above ¥5,000,000 up to ¥10,000,000 — 0.700% For MTU values above ¥10,000,000 up to ¥30,000,000 — 0.575% For MTU values above ¥30,000,000 up to ¥50,000,000 — 0.375% (Commissions are rounded down to the nearest ¥1). The minimum value per MTU is set at ¥2,500.
Application deadlines	Shareholders may apply to make top-up share purchases up to 12 working days before March 31 or September 30 of each year, with the deadline for applications being March 31 and September 30, respectively. The Company may also specify alternative application periods as necessary.

3. System for lapsed shares

Handling office and locations	Please refer to details above for sub-MTU share purchases.	
Registration fee	Per application	¥8,600
	Per share certificate	¥500

4. The number of shares per MTU was reduced from 1,000 to 500, effective October 3, 2005.

[7] Corporate Reference Data

(1) Information on the Parent Company of Nisshin Seifun Group Inc.

Nisshin Seifun Group Inc. has no parent company.

(2) Other Reference Data

The following publications were issued by the Company (in Japanese) between the start of the fiscal year under review and the submittal of the Japanese version of this Securities Report.

(1)	Special report	Disclosure of details in accordance with provisions of Part 6.2 of Section 2 of Article 19 of Cabinet Office ordinance pertaining to exchanges of shares that involve wholly owning parent companies		Submitted to Director, Kanto Local Finance Bureau: May 12, 2005
(2)	Securities Report (including supplementary documentation)	For the 161st fiscal term	Covering the period: April 1, 2004 to March 31, 2005	Submitted to Director, Kanto Local Finance Bureau: June 28, 2005.
(3)	Semi-annual Report	For the 162nd fiscal term (interim)	Covering the period: April 1 – September 30, 2005	Submitted to Director, Kanto Local Finance Bureau: December 16, 2005.
(4)	Reports on status of treasury stock purchases			Submitted to Director, Kanto Local Finance Bureau: July 14, 2005 August 12, 2005 September 15, 2005 October 13, 2005 November 15, 2005 December 14, 2005 January 12, 2006 February 10, 2006 March 10, 2006 April 13, 2006 May 12, 2006 June 12, 2006
(5)	Reports on status of treasury stock purchases (errata)			Submitted to Director, Kanto Local Finance Bureau: December 27, 2005 May 29, 2006
(6)	Registration statement (including supplementary documentation)			Submitted to Director, Kanto Local Finance Bureau: August 9, 2005.
(7)	Registration statement (errata)			Submitted to Director, Kanto Local Finance Bureau: August 17, 2005.

Part B: Information on Corporate Guarantor for Nisshin Seifun Group Inc.

There are no significant matters to be reported under this heading.