Financial Review

STATUS OF SUBSIDIARIES AND AFFILIATES

The Nisshin OilliO Group comprises 26 subsidiaries, 17 of which are included in the scope of consolidation. The principal consolidated subsidiaries are Settsu Oil Mill Co., Ltd., Nisshin Shoji Co., Ltd., Nisshin Logistics Co., Ltd., Daito Cacao Co., Ltd., and Intercontinental Specialty Fats Sdn. Bhd. Companies removed from the scope of consolidation were Nisshin Marine Tech Co., Ltd., included in the scope of consolidation in the previous fiscal year, as a result of a transfer of shares, and Nisshin Plant Engineering Co., Ltd., because it was liquidated. The status of Nisshin Shokai Co., Ltd. was changed from equity-method affiliate to consolidated subsidiary through an additional acquisition of shares.

The Group also includes nine unconsolidated subsidiaries and 11 affiliates, five of which are equity-method affiliates. The principal equity-method affiliates are PIETRO Co., Ltd., Wakou Shokuhin Co., Ltd. and Saiwai Shoji Co., Ltd. Ten Corporation Co., Ltd. was excluded after an exchange of shares with its parent company, Royal Holdings Co., Ltd.

BUSINESS RESULTS FOR FISCAL 2010

Operating Environment

The Japanese economy remained at a standstill during the fiscal year under review. Signs of improvement in corporate earnings and capital investment were undercut by persistent deflation and a harsh employment environment, along with weakening exports as overseas economies slowed and the yen appreciated. Economic activity declined sharply at the end of the fiscal year as a result of the Great East Japan Earthquake that occurred in March 2011.

In the oils and meal industry, though the yen continued to be relatively strong throughout the year, market prices for grain remained high as a result of strong global demand for food, and appreciated further from the second half of the year as a result of inclement weather in grain-producing countries, and an inflow of speculative capital. As a result, the increase in raw material costs exceeded the appreciation of the yen. The operating environment remained harsh, as while the value of oil in international markets rose sharply on solid demand for vegetable oils, deflation in Japan made it difficult to raise retail prices as planned.

In this environment, the Group took steps to strengthen its earnings base in line with the initial four-year Phase I period of Growth 10, its 10-year management vision through fiscal 2016.

Net Sales

Net sales increased 1.3% to ¥305,298 million, from ¥301,299 million in the previous fiscal year. We steadily developed the processed oils and fats business, which we have designated as a growth business, but were unable to implement revisions to selling prices for oils and fats in Japan as initially planned, which was the main reason for the mild increase.

Cost of Sales and Gross Profit

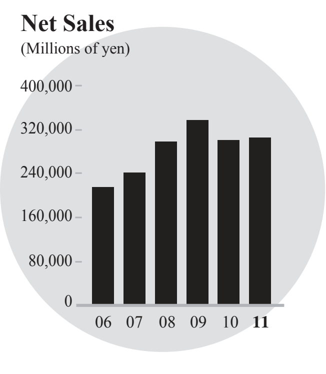
The cost of sales rose 4.4% to ¥254,807 million, from ¥244,044 million in the previous fiscal year. As a result, gross profit declined 11.8% to ¥50,491 million, from ¥57,255 million a year earlier, and the gross profit margin dropped 2.5 percentage points to 16.5%, from 19.0% in the previous fiscal year.

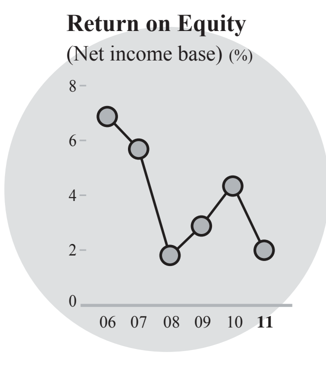
Operating Income

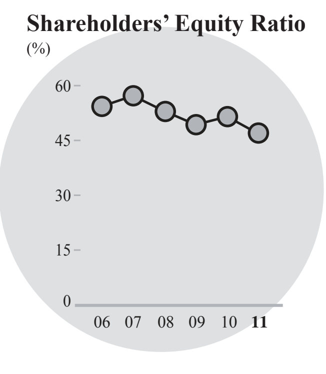
Selling, general and administrative expenses declined 7.0% to ¥43,525 million, from ¥46,820 million in the previous fiscal year. However, due in part to the impact of the Great East Japan Earthquake, operating income decreased 33.2% to ¥6,966 million, from ¥10,435 million in the previous fiscal year.

Net Income

Net income declined sharply, down 58.4% from the previous fiscal year to ¥2,123 million. The main reason the rate of decline was so much bigger than that for operating income was the recording of extraordinary losses, including a loss on valuation of investment securities stemming from the stock market slowdown, and loss on disaster. Net income per share amounted to ¥12.32, a decrease of ¥17.30 from the previous fiscal year. ROE fell 2.7 percentage points to 2.0%.







BUSINESS SEGMENT OVERVIEW

Net Sales and Operating Income (Loss) by Segment

(Millions of yen)

	FY3/11	FY3/10	Change (%)
Oils and Meal	280,324	276,079	1.5%
	5,275	9,144	−42.3%
Healthy Foods & Soy Protein	9,377	9,686	−3.2%
	(288)	(541)	–
Fine Chemicals	5,864	5,742	2.1%
	428	166	158.2%
Other	9,733	9,792	−0.6%
	1,552	1,684	−7.9%

-Note: Top figures are sales to external customers, and bottom figures show operating income (loss).

Oils and Meal Business

■ Japan

In the domestic market for home-use edible oils, the Group focused on continuing efforts to expand sales of high-value-added products, including Nisshin Healthy Resetta and Nisshin Healthy Choleste. As a result, we achieved sales volumes that were on a par with the previous year. The Group also made efforts to set appropriate selling prices, but the tough consumer environment made price revisions more difficult than initially thought, so sales prices were lower year on year. In March 2011, The Nisshin OilliO Group, Ltd., also introduced new products such as Nisshin Karadani Daizu Yasashii Abura, and Nisshin Olive & Grape Seed Oil, as part of efforts to strengthen its lineup of high-value-added products and to stimulate demand for edible oils and invigorate the market.

Gift package sets faced a tough business environment, as the overall gift market contracted as a result of the prolonged slump in consumption. Sales volume and selling prices were on a par with the previous fiscal year.

In edible oils for food services, although sales volumes increased, particularly for premium oil and other high-value-added products, the increase was offset by a decline in general-use products following the Great East Japan Earthquake. Accordingly, overall sales volumes were flat year on year. Meanwhile, a strong effort to set appropriate prices resulted in steady price revisions through the second half of the fiscal year, but amid a tough consumer environment, the revisions did not permeate the market as expected.

In edible oils for processed food manufacturers, sales volumes decreased year on year as a result of persistent weakness in the economy, competition in Japan and overseas, and our focus on price revisions. Meanwhile, selling prices increased only slightly in the first half of the fiscal year, but rose steadily in the second.

In processed oils and fats, although sales volume grew steadily, notably in oils and fats for chocolate, selling prices fell slightly year on year due to a higher proportion of low-priced products in the sales mix.

■ Overseas

Dalian Nisshin Oil Mills, Ltd. secured earnings by expanding sales to Japan, despite soft domestic markets in China during the first half of the fiscal year. The company recorded significantly higher earnings in the second half compared to the first half due to efforts to improve profitability, and profits finished higher year on year as a result.

Intercontinental Specialty Fats Sdn. Bhd. managed to increase its sales volume and net sales year on year due to the benefits of capital expenditures and strong exports. Earnings were down, however, due to a time lag in the impact of changes in the market price of palm oil.

As a result, net sales in the Oils and Meal Business segment amounted to ¥280,324 million, up 1.5% from the previous fiscal year, with operating income of ¥5,275 million, down 42.3% year on year.

Healthy Foods & Soy Protein Business

In foods for preventing lifestyle-related diseases, retail sales were strong for foods for specified health uses (FOSHU), such as Fiber-Enriched Green Tea.

In nursing care foods, the Toromi Up and Toromi Perfect range for people with difficulty swallowing fared well, particularly large-quantity types. Also, sales grew for the nutrient-fortified Procure series for the elderly.

In dressings and mayonnaise-type dressings, products catering to health-related needs sold well, notably Healthy Resetta Dressing Sauces, Dressing Diet and Mayodore. Overall, however, both sales volume and net sales declined year on year as a result of higher vegetable prices caused by an extremely hot summer in 2010, and the impact of the Great East Japan Earthquake in March 2011.

In soy protein products, both sales volume and net sales increased year on year despite continued consumer preference for lower priced products. This was the result of achieving appropriate selling prices in line with raw material and other costs, and a combined effort in production, sales and technical support to develop the business.

As a result, net sales in the Healthy Foods & Soy Protein Business segment declined 3.2% year on year to ¥9,377 million, due in part to a change in sales format for products sold via mail-order. However, the segment improved its operating loss by ¥253 million year on year to ¥288 million.

Fine Chemicals Business

In raw materials for cosmetics, both sales volume and net sales increased year on year. This was due mainly to rising exports to Europe, the U.S. and Asia following aggressive sales activities targeting overseas users to expand sales channels.

In chemical products, the Group secured sales volumes on a par with the previous fiscal year, but net sales fell as the ratio of low-priced products in the sales mix increased.

In medium-chain triacylglycerols, both sales volume and net sales increased as the unusually hot summer in 2010 led to greater demand and a recovery in exports to Asia, reversing a slump from the previous year.

As a result, net sales in the Fine Chemicals Business segment increased 2.1% year on year to ¥5,864 million, with operating income up 158.2% to ¥428 million.

Financial Review

Other Businesses

Net sales for the Other Business, which includes consolidated subsidiaries in the information systems business and engineering business, decreased 0.6% year on year to ¥9,733 million. Operating income for this segment decreased 7.9% to ¥1,552 million.

Overseas Sales

Net sales to China, Malaysia and other parts of Asia increased 9.4% year on year to ¥54,361 million, due mainly to fluctuation in international prices for primary raw materials. Net sales to Europe, the U.S. and other regions rose 15.0% year on year to ¥24,833 million.

GEOGRAPHIC SEGMENT OVERVIEW

Net Sales
(Millions of yen)

	Japan	Asia	Other	Total
FY 3/11	226,104	54,361	24,833	305,298
FY 3/10	230,023	49,674	21,602	301,299

Property, Plant and Equipment
(Millions of yen)

	Japan	Asia	Other	Total
FY 3/11	62,036	11,825	—	73,861

FINANCIAL POSITION

Total assets at the end of the subject fiscal year (March 31, 2011) amounted to ¥232,311 million, an increase of ¥9,953 million compared to the end of the previous fiscal year (March 31, 2010).

Current assets increased ¥12,744 million from the previous fiscal year to ¥135,357 million. This was due mainly to increases of ¥348 million in trade notes, ¥10,814 million in trade accounts, ¥3,044 million in finished goods, and ¥2,950 million in raw materials, offset by a decrease of ¥6,672 million in cash and cash equivalents.

Noncurrent assets decreased ¥2,790 million from the previous fiscal year to ¥96,954 million. Net property, plant and equipment decreased ¥1,668 million, while total investments and other assets decreased ¥1,123 million, stemming mainly from a ¥1,546 million decrease in investment securities.

Total liabilities amounted to ¥114,889 million, an increase of ¥7,347 million from the end of the previous fiscal year. Total current liabilities increased ¥12,686 million to ¥77,049 million, due mainly to increases of ¥6,912 million in trade accounts, and ¥11,247 million in short-term bank loans. Total long-term liabilities, however, decreased ¥5,339 million to ¥37,840 million, due mainly to decreases of ¥5,010 million in bonds payable, and ¥1,163 million in collateralized loans.

Total equity amounted to ¥117,422 million, a year-on-year increase of ¥2,606 million. This was due mainly to an increase in accumulated other comprehensive income.

Cash Flows

Cash used in operating activities and investing activities during the subject fiscal year amounted to ¥1,293 million and ¥5,086 million, respectively, while cash provided by financing activities totaled ¥509 million. As a result, cash and cash equivalents at the end of the subject fiscal year (March 31, 2011) amounted to ¥15,993 million, a decrease of ¥6,672 million from the end of the previous fiscal year.

■ Cash flow from operating activities
Cash used in operating activities amounted to ¥1,293 million during the subject fiscal year. This was due mainly to ¥3,087 million in income before income taxes and minority interests, ¥6,268 million in depreciation and amortization, and ¥7,076 million in an increase in trade payables, against increases of ¥9,269 million in trade receivables and ¥5,489 million in inventories, and ¥2,805 million in income taxes paid.

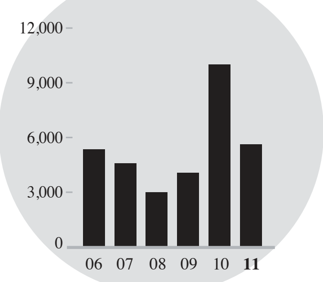
■ Cash flow from investing activities
Cash used in investing activities amounted to ¥5,086 million, due mainly to a ¥4,849 million increase in purchases of property, plant and equipment stemming from facilities investment.

■ Cash flow from financing activities
Cash provided by financing activities amounted to ¥509 million. This was due mainly to decreases of ¥1,723 million in cash dividends paid, ¥2,074 million in repayments of long-term debt, and ¥5,220 million in redemption of bonds, against a net increase of ¥10,068 million in short-term loans payable.

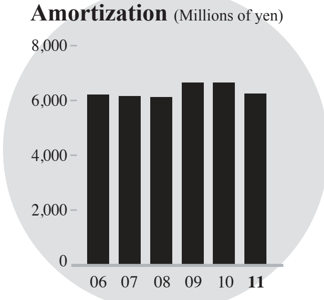
OUTLOOK FOR FISCAL 2011 (ENDING MARCH 2012)

Prices for primary raw materials continue to move in a high range due to global growth in demand for grain and inflows of speculative capital. Meanwhile, the Japanese economy, which had showed signs of recovery, has begun to slow again as a result of the impact of the low birthrate and the aging society, stronger consumer preference for lower priced products, and the impact of the Great East Japan

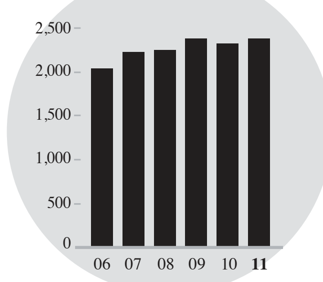
Capital Expenditures
(Millions of yen)



Depreciation and Amortization (Millions of yen)



R&D Expenses
(Millions of yen)



Earthquake that occurred in March 2011. The business environment of the Group is therefore extremely difficult.

Considering this environment, for the fiscal year ending March 31, 2012, the Group projects consolidated net sales of ¥343,000 million, operating income of ¥8,000 million, ordinary income of ¥7,000 million and net income of ¥3,400 million.

Business Risks

The operating results, share price and financial position of the Group may be impacted by the risks outlined below. Forward-looking statements in this section are based on management's judgment as of March 31, 2011.

■ Exchange Rates

As part of its Oils and Meal Business, the Group imports all of the soybean, rapeseed and other raw materials it uses from overseas. The Group also conducts business overseas, including in China and other parts of East Asia. Consequently, the Group is exposed to exchange rate risks associated with raw material costs and debt denominated in foreign currencies. As such, any fluctuation in exchange rates could impact the operating results and financial position of the Group. In response, the Group uses risk hedge instruments such as forward exchange contracts as necessary to mitigate exchange rate risks.

■ International Prices for Raw Materials

In addition to exchange rate risks, the purchase of soybean, rapeseed and other raw materials is subject to the risk of fluctuation in international prices for raw materials. This includes fluctuations in transportation costs due to rising prices for crude oil. Because prices for raw materials constitute a significant portion of the Group's costs, any fluctuation in prices could have an impact on the Group's operating results. The Group seeks to hedge this risk by purchasing a portion of its raw materials on the futures market.

■ Domestic and International Product Markets

The sales climate for the Oils and Meal Business is affected by changes in domestic and international product markets. On the whole, domestic selling prices for meal and oils for food manufacturers are linked to prices in the international market. In addition, trends in prices of overseas imports could have an impact on domestic selling prices. These and other changes in domestic and international product markets could affect the Group's operating results.

In response, the Group is working to expand sales of high-value-added products, which are more resilient to changes in market conditions, and maintain appropriate prices for its products that reflect their inherent quality and costs.

■ Business Operations

In addition to Japan, the Group conducts its operations in other countries and regions such as East Asia. Group companies are subject to the following risks, with overseas operations particularly exposed to these so-called country risks.

- Unforeseen enactment, revision to, or abolishment of laws and other regulations
- Unexpected political or economic factors
- Social instability arising from terrorist incidents, conflict, natural disasters, the spread of infectious disease or other factors
- Issues related to the digitization of information such as computer viruses and the leak of confidential data

In order to minimize the impact of the above risks, the Group works to gather information, which it uses as the basis for responding accurately and rapidly to any situations in its crisis management system.

■ Earthquakes, Typhoons and other Natural Disasters, and Outbreaks of Infectious Disease

If a large earthquake, typhoon or other natural disaster, or an outbreak of a new infectious disease were to occur in the vicinity of the Group's manufacturing and logistics sites in Japan, it could lead to suspension of business operations, or damage to facilities or inventories may ensue. This could have an impact on the Group's operating results and financial position.

To prepare for such a situation, the Group is implementing measures to mitigate risks by formulating the following emergency management systems: BCP (Business Continuity Plan) for large earthquakes in June 2009 and BCP for countering the new influenza epidemic in November 2009.

■ Laws and Other Regulations

The Group is subject to a range of laws and regulations, including the Food Sanitation Act, the Japan Agricultural Standards (JAS) Law, Pharmaceutical Affairs Act, environmental and recycling regulations, and customs and import/export rules, as well as the Foreign Exchange Control Act and the Personal Information Protection Act. In this context, the Group places the highest emphasis on the spirit of legal compliance, and takes all measures necessary to ensure the maintenance of rights. Should unforeseen new laws be established in the future, this could have an impact on the Group's operating results.

■ Food Safety

Public interest in food quality and safety has risen in recent years. Food companies are being required to establish more stringent quality control structures.

The Group has established a rigorous quality assurance system, including acquiring international ISO quality standards.

The Group will further enhance its quality assurance system going forward to ensure even higher levels of safety. However, the occurrence of any quality issues that exceed the scope of these initiatives could have an impact on the Group's operating results.