2006
ANNUAL REPORT

The Nisshin OilliO Group, Ltd.

For the year ended March 31, 2006

NISSHIN OilliO

OILS AND MEAL

The Oils and Meal Business maximizes the power of nature found in raw materials for oils and fats to support the dietary demands of everyday life. By applying distinctive and creative technology, this business consistently proposes products with exceptional added value.

HEALTHY FOODS

Health is the keyword behind the Healthy Foods Business, leveraging the diverse resources and expertise of The Nisshin OilliO Group, Ltd. to generate new value. After all, proposing upbeat, healthy lifestyles is what The Nisshin OilliO Group is all about.

FINE CHEMICALS

Uncovering plant-based oils suitable for cosmetics, pharmaceuticals and even industrial goods is a prime example of these operations.

With sights set on the global market, The Nisshin OilliO Group's distinctive fine chemicals technology is useful to many familiar areas of daily life.

GROUP BUSINESS

CONTENTS

FIVE-YEAR SUMMARY

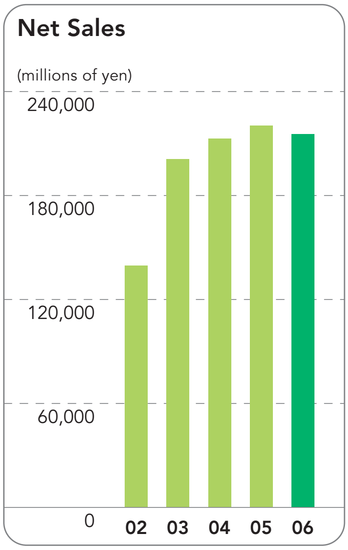
The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
Five Years Ended March 31

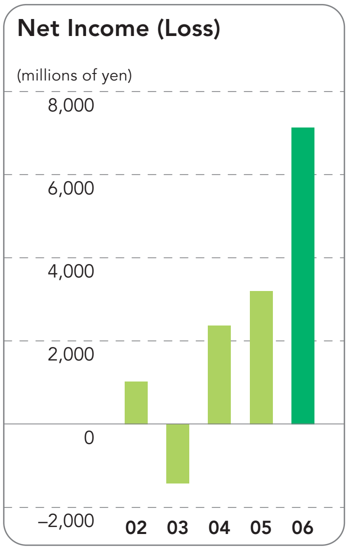
	Millions of Yen					Thousands of U.S. Dollars
	2006	2005	2004	2003	2002	2006
FOR THE YEAR:						
Net sales	¥215,479	¥220,204	¥212,820	¥200,908	¥139,554	$1,841,701
Net income (loss)	7,138	3,202	2,374	(1,423)	1,027	61,009
AT YEAR-END:						
Total assets	¥190,829	¥180,866	¥179,752	¥183,643	¥146,047	$1,631,017
Shareholders' equity	103,785	94,282	92,149	89,187	81,815	887,051
	Yen					U.S. Dollars
PER SHARE DATA:						
Net income (loss)	¥ 41.00	¥ 18.20	¥ 13.66	¥ (8.22)	¥ 7.07	$ 0.35
Cash dividends, applicable to the year	7.50	7.00	7.00	7.00	7.00	0.06

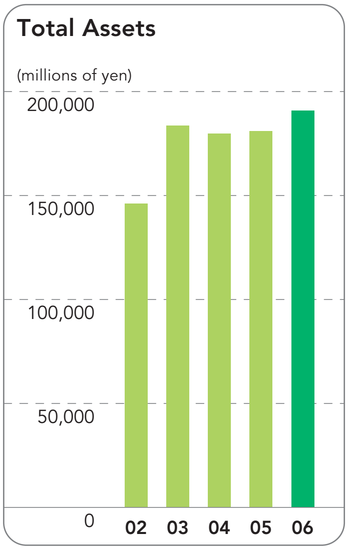
Notes: 1. U.S. dollar amounts represent translations of Japanese yen amounts, for convenience only, at the rate of ¥117 to U.S.$1, the approximate rate of exchange at March 31, 2006.

2. Net income (loss) per share is computed based on the weighted-average number of outstanding shares of common stock.

3. Diluted net income per share data is not disclosed in 2006, 2005, 2004, 2003 and 2002 because it was antidilutive.







MESSAGE FROM THE MANAGEMENT

Operating Environment

In fiscal 2005, the year ended March 31, 2006, the recovery in the Japanese economy continued on the back of stronger corporate earnings, increased capital expenditures and a gentle pick-up in consumer spending. There were also signs that Japan was emerging from its period of deflation. In the oils and meal industry, although average raw material costs declined compared to the previous fiscal year, the operating environment remained harsh as domestic oils production volume declined and imports of low-priced oils and meal increased.

Fiscal 2005 Results and Progress With the *AHEAD* Plan

In fiscal 2005, the second year of our three-year medium-term management plan *AHEAD*, we steadily worked on three key issues: expanding technology-driven oils and meal operations, rebuilding processed oils and fats operations, and growing the Healthy Foods and Fine Chemicals businesses. Despite these efforts, net sales declined 2.1% to ¥215,479 million, reflecting changes in the scope of consolidation and declines in product prices. However, the Company posted operating income of ¥6,386 million, an increase of 45.9% compared to a year earlier, ordinary income of ¥9,004 million, up 46.3%, and net income of ¥7,138 million, 122.9% higher than fiscal 2004. Factors behind the substantial improvement in earnings included a lower cost of sales ratio and gains on sales of shares in affiliates.

The achievement rates, measured against targets for the final year of the *AHEAD* plan, were 86.2% for net sales and 90.0% for ordinary income. ROA was 4.7% and ROE was 6.9% at the fiscal year-end, against targets of a minimum of 5.5% and 6.0%, respectively.

The Final Year of *AHEAD*

In April 2006, Nisshin OilliO moved into the final year of the *AHEAD* plan. Building on the steady progress we have made to date, we will now drive forward our business to achieve the plan's final-year objectives. Specifically, we will focus on launching and boosting sales of high-value-added products grounded on outstanding technology, reduce costs, and strengthen our overseas business centered on East Asia. We will also work to further expand the scale of our Healthy Foods and Fine Chemicals businesses.

Left: **Kazuo Ogome** *President* Right: **Jokei Akitani** *Chairman*

Working Together With Stakeholders

At Nisshin OilliO, we believe it is vital to meet the expectations of all our stakeholders in order to realize sustainable growth and raise corporate value. Based on this thinking, we will naturally strive to meet our legal responsibilities as a corporation, including enhancing compliance, and in parallel, work Company-wide to fulfill our corporate social responsibilities. This will entail ensuring the reliable supply of safe products and services that have the confidence of customers, taking steps to protect the environment, contributing to communities, and disclosing appropriate information to stakeholders.

Moreover, as one of the most important responsibilities of management, we will endeavor to satisfy the expectations of shareholders and other investors through the return of profits.

To close, The Nisshin OilliO Group will celebrate its centenary in March 2007. Motivated by reaching this milestone, the whole Group will work as one to maximize corporate value, aiming to further reinforce the trust we have gradually built up among stakeholders since our establishment.

September 2006

J. Akitani

Jokei Akitani
Chairman

K. Ogome

Kazuo Ogome
President

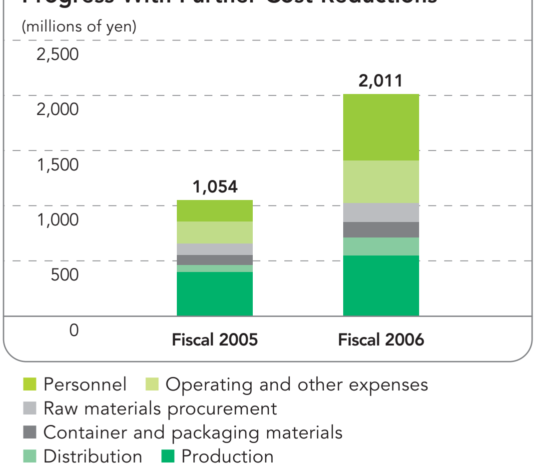
AHEAD–PROGRESS REPORT

The Nisshin OilliO Group launched its current three-year medium-term management plan *AHEAD* in April 2004. In the subsequent two years, we have performed better than expected, and are now accelerating efforts to bring the plan to a successful close.

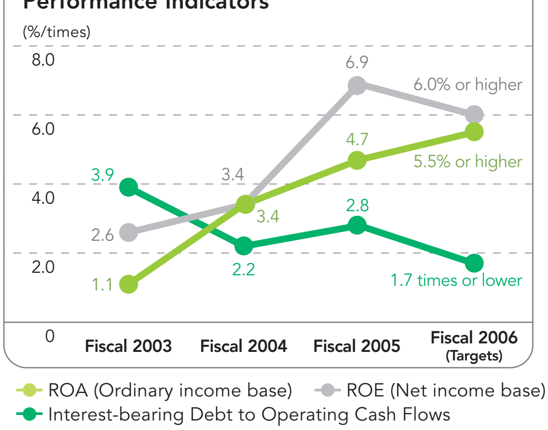
(millions of yen)

	Fiscal 2004	Fiscal 2005	*AHEAD* Targets
Net Sales	220,204	215,479	250,000
Ordinary Income	6,155	9,004	10,000
ROA (Ordinary income base)	3.4%	4.7%	5.5% or higher
ROE (Net income base)	3.4%	6.9%	6.0% or higher
Interest-bearing Debt to Operating Cash Flows	2.2 times	2.8 times	1.7 times or lower

Progress With Further Cost Reductions



Performance Indicators



Overview of *AHEAD*

Aiming to maximize corporate value, our management approach emphasizes cash flows and the optimal allocation of management resources. This policy is the foundation of the *AHEAD* plan, which concludes in fiscal 2006, ending March 31, 2007. *AHEAD*, an acronym of five key words, "Ambitious," "Health," "Efficiency," "Asia," and "Development," embodies five conceptual areas where the Group strives to stay ahead.

The tables on the left show the Group's performance against the plan's targets.

AHEAD–The First Two Years

In the two years since we launched *AHEAD*, we have created an operating structure that has realized merger benefits of ¥5.0 billion, and built a new oils and meal business model. In each of our businesses, we have boosted cost-competitiveness by optimally employing our five manufacturing sites, including our plant in Dalian, China. We have also established brands in the field of healthy oils, boosted sales of high-value-added products developed with partners, reinforced the processed oils and fats business, and made a full-scale move into the palm oil business. Moreover, we have accelerated efforts to build our presence in the East Asia market, strengthened our Healthy Foods and Fine Chemicals businesses, and taken a variety of other steps to fundamentally reform our operating and earnings structures.

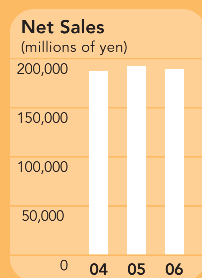
These efforts have helped us to report a year-on-year increase in earnings for two consecutive years, and we are now within range of attaining the final-year targets for net sales and ordinary income in the *AHEAD* plan. Although our earnings in the year under review benefited from one-off factors such as gains on sales of shares in affiliates, we will work concertedly to drive a sustained improvement in performance to attain the plan's final-year targets.

In terms of management benchmarks, we will continue to pare back assets and reduce interest-bearing debt, and at the same time, enhance levels of profitability to reach our goals. We also intend to further enhance our efforts in the final year of *AHEAD* to compensate for factors such as the impact of new consolidations to the Group, fluctuations in raw materials costs, and increases in shareholders' equity that could affect the ROE target.

Progress by Business Segment

OILS AND MEAL BUSINESS

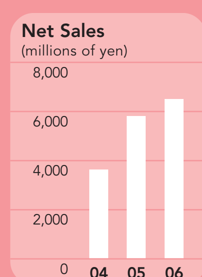
- Home-use edible oils
- Edible oils for food services
- Edible oils for processed food manufacturers
- Margarines and shortenings
- Processed oils and fats
- Meals and grains
- Industrial-use oils and fatty acids, others



In this business, we have focused on boosting sales of high-value-added products grounded on technology, and establishing the *Nisshin Healthy Resetta* and *Nisshin Healthy Choleste* brands of healthy oil. We have also been working to boost sales of edible oils for processed food manufacturers, edible oils for food services and processed oils and fats through collaborations with other companies to develop high-value-added products. Steps to expand our presence in East Asia, meanwhile, have included full-scale entry into the palm oil business through the consolidation of Intercontinental Specialty Fats Sdn. Bhd. (ISF), a Malaysia-based company, and the start of operations at a new plant in Dalian, China.

HEALTHY FOODS BUSINESS

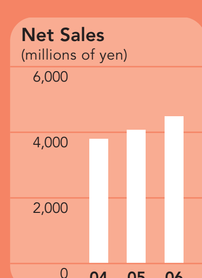
- Foods for coping with lifestyle-related diseases
- Foods for the elderly
- Therapeutic foods, foods for specific dietary needs
- Liquefied foods
- Dressings
- Soy protein foods, others



Seeking to capitalize on growing consumer interest in food products authorized for specified health uses and healthy eating in general, we have reinforced the business' presence in the growing market for products that fuse food and medicine. In addition to offering healthy dressings, soymilk and fiber-enriched green tea, we have worked to expand our lineup in the therapeutic foods field with products for people with difficulty swallowing and patients with kidney complaints. As a result, we now offer more functional health products that are also tasty.

FINE CHEMICALS BUSINESS

- Raw materials for cosmetics
- Additives for foods and pharmaceuticals
- Medium-chain triglycerides (MCT)
- Chemical products, others



We have recorded significant increases in sales in Europe, the U.S. and other overseas markets due to a big contribution of the highly functional, unique products developed from vegetable resources.

In the cosmetic raw materials sector, one of our core businesses, we have steadily increased sales to domestic customers, promoted the use of the manufacturing site in Taiwan and the logistics site in Shanghai, and expanded sales to the U.S. and European cosmetic markets. In all its operating fields, the Fine Chemicals Department is also promoting collaborative developments with public research organizations and universities, as part of efforts to accelerate its activities in potential markets for the future.

OTHER BUSINESSES

- Distribution
- Information technology
- Pharmaceuticals
- Restaurants
- Marine products
- Sales promotion
- Engineering
- Insurance and real estate management

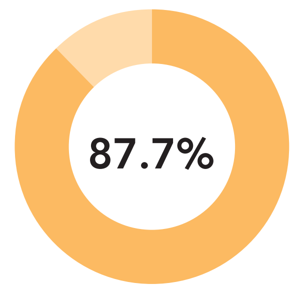
Other Businesses, mainly comprising logistics and engineering businesses, have posted a solid performance over the last two years. We have actively implemented a range of initiatives to reinforce management of the Group, including selling some shares in former consolidated subsidiary Kobayashi Pharmaceutical Industry Co., Ltd. (now I'rom Pharmaceutical Co., Ltd.), which is now an equity-method affiliate, and dissolving Evagros Co., Ltd. As a result, all the subsidiaries in Other Businesses are making positive contributions to Group earnings.

OILS AND MEAL BUSINESS

Since Nisshin OilliO was established in 1907, the Oils and Meal Business has maximized the natural power of plants to create products that have supported Japan's daily diet. Today, the business is focused on developing high-value-added products grounded on highly innovative technologies, and global business expansion centered on East Asia.

Healthy Resetta

Percentage of Net Sales



Healthy Choleste

Fat Spread Resetta Soft

Nisshin Canola Oil Healthy Light

Profile

The Oils and Meal Business accounts for roughly 90% of consolidated net sales and around 70% of consolidated operating income. Since launching Japan's first salad oil in 1924, we have sought to supply pioneering new products and services tailored to the needs of the day, helping to improve the quality of Japan's diet in the process. The main products in the Oils and Meal Business are home-use edible oils, edible oils for food services, edible oils for processed food manufacturers and processed oils and fats, as well as the meal and grains used to make these products.

In home-use edible oils, we offer a comprehensive range of premium oils such as *Nisshin Canola Oil*, *Nisshin Canola Oil Healthy Light* and *BOSCO Olive Oil*, and oils that have been certified as foods for specified health use (FOSHU*) by Japan's Ministry of Health, Labour and Welfare, such as *Healthy Resetta*, which inhibits fat uptake in the body, and *Healthy Choleste*, recognized for its ability to lower cholesterol. Sales of these healthy oils are rising on the back of rising health consciousness among consumers.

In edible oils for food services and edible oils for processed food manufacturers, we are leveraging our highly visible brands cultivated in the home-use market to supply products to a range of sectors—the processed food sector, the food-service industry, and supermarkets and convenience store operators for their prepared dishes and lunch boxes in the ready-to-eat market.

We are also actively rolling out a global business expansion strategy centered on East Asia. Since establishing Dalian Nisshin Oil Mills, Ltd. in 1988, we have set up a number of overseas operating companies involved in vegetable oil manufacturing, processed oils and fats production, soybean grading and other activities. In 2003, we established The Nisshin OilliO (China) Investment Co., Ltd. in Shanghai to oversee all our operating companies in China. This company is currently making strategic investments, procuring raw materials and building an efficient sales network in the country. With the completion of the new plant at the Dalian Nisshin Oil Mills site in 2005, we have increased oils production capacity. We are leveraging these and other strengths of the whole Nisshin OilliO Group to further develop our presence in East Asia.

* Food products with active constituents that have an affect on the physiological functions and biological activities of the body. They are evaluated and approved by the Ministry of Health, Labour and Welfare.

Intercontinental Specialty Fats Sdn. Bhd.

Fiscal 2005 Operating Environment and Results

During the year under review, prices for raw materials stabilized after a year of major increases in fiscal 2004. Against this backdrop, in home-use edible oils, we pushed forward with our full product line strategy in an effort to satisfy the increasingly diverse and wide-ranging needs of consumers. Additionally, we worked to boost sales of our two healthy oil brands and our premium oils. In the gift set market, which continues to contract overall, we posted a substantial increase in sales volumes of gift packages, particularly those containing our two healthy oil brands. This was one of the reasons behind our decision to raise consolidated earnings forecasts during the period.

In edible oils for food services, one of the challenges we faced was transferring some of the substantial increase in raw materials costs to sales prices. We also had to tackle intensifying competition from rising imports of edible oils for processed food manufacturers. On a more positive note, *Healthy Resetta Fry Oil* and Fat Spread *Resetta Soft* were increasingly adopted by companies in the prepared dishes, bakery and confectionary sectors, illustrating the emerging benefits of collaboration with users in the food services and processed food manufacturing fields.

In overseas businesses, we achieved substantial year-on-year increases in sales in both volume and monetary terms as the new plant operated by Dalian Nisshin Oil Mills came onstream. Aiming to reinforce the palm oil business, we made Malaysia-based Intercontinental Specialty Fats Sdn. Bhd. (ISF), a consolidated subsidiary in November 2005. With this acquisition, we have gained the capability to make a full-scale move into the palm oil sector, projected to expand worldwide going forward, by securing a supply of high-quality palm oil in Malaysia and combining our interesterification technologies with ISF's fractionation technology. Because ISF was deemed to have been acquired on March 31, 2006, the company's balance sheet has been included in the consolidated balance sheet as of this date, and its earnings will be included in the consolidated statements of income from fiscal 2006.

BOSCO Extra Virgin Olive Oil

Healthy Resetta for the food service sector

Nisshin Canola Oil for the food service sector

Mainstay Nisshin OilliO oil products sold in China

Dalian Nisshin Oil Mills, New Plant
The new plant operated by Dalian Nisshin Oil Mills, Ltd. came onstream in March 2005

Nisshin Canola Margarine

Oil-saver Fryer
(produces less waste oil)

Soybean fatty acid, flaxseed oil

Future Strategy and Outlook

Working toward the completion of the *AHEAD* plan in fiscal 2006, we will continue our efforts to build the leading brands in the healthy oils market—an area where technology is vital—and promote our full product line strategy to satisfy diverse customer needs. We will also continue rebuilding our gift set business and accelerate our strategy of expanding our presence in the edible oils for food services and edible oils for processed food manufacturers markets by developing more high-value-added products.

In fiscal 2006, we will also pursue a policy of enhancing cost-competitiveness by flexibly selecting the optimum production site in response to conditions in raw materials markets, exchange rates and demand-supply trends. To achieve this, we will leverage our entire Group manufacturing framework comprising four domestic sites: the Yokohama Isogo Plant, Nagoya Plant and Mizushima Plant, which all boast an integrated operational flow from the offloading of raw materials to pressing, refining and packaging, and the Sakai Plant, with its dedicated refining and packaging facilities, as well as our overseas site in Dalian, China. Overseas, Dalian Nisshin Oil Mills has integrated operations at its new plant in Beiliang, which is similar in scale to the Yokohama Isogo Plant. With an integrated operating framework at a single site, Dalian Nisshin Oil Mills will work to further expand its business in China.

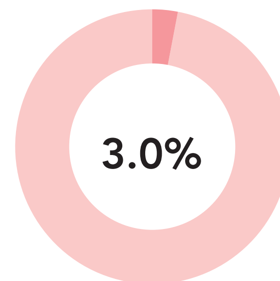
By implementing the above initiatives, the Oils and Meal Business will demonstrate its leadership as the top player in the industry in Japan, aiming to boost sales by 17.4% to ¥224,000 million (including intersegment sales) in the final year of the *AHEAD* plan.

HEALTHY FOODS BUSINESS

Since establishing the Healthy Foods Business in 1998, we have tapped the Group's reservoir of resources and expertise to create new value. Going forward, from the perspective of using food to support consumer health, we will supply authorized foods for specified health use (FOSHU) and other health food products that fuse food and medicine.

Mealtime Digestive Aid
fiber-enriched green tea

Percentage of Net Sales



Pucera relaxing supplement

Soymilk made from germinated soybeans

Mayodore
(egg-free mayonnaise-type dressing)

Profile

The main products in this business segment are dressings, authorized foods for specified health uses aimed at lifestyle-related diseases, food products specifically for female consumers, therapeutic foods, and soybean products. In addition to using food retailing channels such as supermarkets, the Healthy Foods Business distributes these products through prescription pharmacies and drug stores, hospitals and nursing care facilities, and mail-order and web-based channels. By monitoring trends in health and beauty, this business segment will strive to contribute to consumer health and beauty by creating products that utilize highly innovative technologies.

Fiscal 2005 Operating Environment and Results

In the food field, including dressings and other food products, we posted significant increases in sales of *Resetta Dressing Sauces*, *BOSCO Olive Dressing* and *Mayodore*, on the back of growing interest in healthy lifestyles. Soymilk sales were also firm, particularly soymilk made from germinated soybeans, which was launched through the mail-order channel in conjunction with an aggressive promotional campaign of newspaper advertisements. As a result, sales of soymilk products grew markedly compared to a year earlier.

Regarding nursing care and therapeutic foods, sales grew mainly due to efforts to widen sales channels and the addition of new products to our *Toromi Up* range, which thickens liquids for people with difficulty swallowing. Sales of foods for patients with kidney complaints and products for elderly consumers were also favorable.

Reflecting growing awareness of the superior health benefits of soybeans, we decided to transfer the processed soybean product business, which includes soybean protein foods, to the Healthy Foods Business from the year under review. As a result, Nisshin Cosmo Foods Co., Ltd., which manufactures and sells soybean protein products, was transferred to this segment from the Oils and Meal Business.

Future Strategy and Outlook

Kale green juice

Our objective in the final year of *AHEAD* will be to maintain high levels of growth in this segment. To achieve this, we will continue efforts to build businesses capable of offering value in the health foods market, the female consumer segment and the therapeutic foods market, by tapping the natural power of plants. At the same time, we will develop and launch new products for highly targeted themes and markets, and focus on creating a sales network as a new element of this segment's operations. Taking into account factors such as operational speed, we also intend to actively develop operations in East Asia, including China, and the soybean processed product business in Japan.

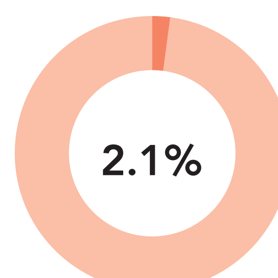
Based on these and other initiatives, we are targeting fiscal 2006 sales in the Healthy Foods Business of ¥12,000 million (including intersegment sales), an increase of about 1.6 times compared to a year earlier.

FINE CHEMICALS BUSINESS

Since the Nisshin OilliO Group made a full-scale entry into the Fine Chemicals field in the 1970s, we have used our distinctive fine chemicals technology based on vegetable resources to provide a wide range of specialized base materials and additives for use in cosmetics, pharmaceuticals, industrial products, foods and other sectors around the world.

The Nisshin OilliO Group supplies ingredients for a variety of cosmetics.

Percentage of Net Sales



Profile

COSMOL 222
Cosmetics ingredient

In the Fine Chemicals Business, the cosmetic raw materials sector is one of our core businesses and its sales are nearly 50% of our total segment sales. In this sector, we have developed liquid and paste esters as our main product, as well as a water-holding emollient polymer, which increases the affinity for water—vital for the skin—a new type of gelling agent for oils, highly functional water-soluble polymers extracted from vegetables, ultraviolet absorbing agents that can be used in a wide range of cosmetic products, germinated sesame seed extract and other functional ingredients. Our products based on these technologies are sold domestically and internationally. The sector is also involved in OEM cosmetics manufacturing and the development of formulations and their applications.

In the industrial sector, including the IT-related field, we supply functional materials, such as specialty esters.

In the food ingredient sector, we provide medium chain triglyceride, lecithin and tocopherol (vitamin E), which are key ingredients in margarine, noodles and nutritional supplements. Specialty oils are also provided for use in pharmaceutical products.

TOCOPHEROL 80
Natural Vitamin E

O.D.O
Middle chain triglyceride

T.I.O
Cosmetics ingredient

Fiscal 2005 Operating Environment and Results

In the cosmetic raw materials sector, we have been placing importance on the development of markets in Europe and the rapidly expanding China, and we have been building a new framework for the development and production in each area for local cosmetic companies. As for our products, we boosted the competitiveness of our distinctive, highly functional products and other unique products. As a result, our products are increasingly being adopted by leading cosmetic companies for their branded products all over the world. These moves, together with a strong domestic demand in Japan, have lifted sales higher year by year.

Sales of chemical products also rose on the back of strong demand for lubrication oils for use in manufacturing equipment, as well as strong conditions in IT-related and other fields.

Moreover, sales of medium chain triglyceride were buoyant in Japan and abroad as ingredients of pharmaceutical and liquid food products; furthermore, lecithin, tocopherol (vitamin E) and other products also performed well.

Future Strategy and Outlook

As we aim to bring the *AHEAD* plan to a successful conclusion in fiscal 2006, the two main issues for the Fine Chemicals Business will be building up and improving overseas manufacturing sites to support global business development, and expanding overseas sales volume. In particular, in the core cosmetic raw materials sector, we will use The Nisshin OilliO (China) Investment Co., Ltd. in Shanghai to build a stronger manufacturing and sales framework in China. In Europe, we plan to manufacture our products in Italy, as well as establish our sales company in the region, while building stronger ties with specialist trading companies to establish a European sales network. In the food ingredient sector, we plan to boost exports by focusing on the expanding sales of medium chain triglyceride and other functional materials, particularly to China.

Through these initiatives, we are aiming for an increase in sales in fiscal 2006 of around 6% to ¥5,330 million (including intersegment sales).

CORPORATE SOCIAL RESPONSIBILITY

The Nisshin OilliO Group's Six Principles of Corporate Social Responsibility (CSR)

● Uphold business ethics

Whatever its activities, Nisshin OilliO will comply with all laws, regulations and business ethics as a responsible member of society, and strive to maintain and strengthen corporate structures that support CSR.

● Reliably supply safe products and services that win customer confidence

Putting the highest priority on the safety of products and services, Nisshin OilliO will work to further improve its supply and management systems to win higher levels of customer satisfaction and trust.

● Disclose appropriate information (investor relations activities)

Nisshin OilliO will enhance management transparency by regularly disclosing information on a timely basis about the Group's activities, organizations, financial position and operating results, as well as its growth strategies and CSR initiatives.

● Respect and effectively utilize human resources

Nisshin OilliO respects the individuality and skills of every one of its employees. The Company will build a dynamic corporate structure by ensuring personnel are always fairly evaluated and compensated, and by creating an environment where each employee can demonstrate their skills.

● Support social and environmental activities

As a responsible corporate citizen, Nisshin OilliO will work to contribute widely to society by supporting local communities, providing help and support in the event of natural disasters, and through other activities. Aiming to help realize a sustainable society, Nisshin OilliO will also implement initiatives to reduce the environmental impact of its activities, and actively disclose related information.

● Ensure safe and accident-free operations

Constantly striving to maintain and improve the level of health and safety, Nisshin OilliO will work to ensure the mental and physical well-being of its employees by creating a better, safer working environment. At the same time, Nisshin OilliO will aim to maintain and raise public trust in the Company by ensuring safe operations and taking steps to enhance the safety and peace of mind of local communities.

Initiatives During Fiscal 2005

At Nisshin OilliO, CSR means living up to the expectations of all stakeholders. Emphasizing our relationships with customers, shareholders, employees, communities and other stakeholder groups, we meet all our legal obligations and ensure the reliable supply of safe products and services that win customer confidence. At the same time, we take initiatives to help protect the environment, contribute to communities and release information on our activities.

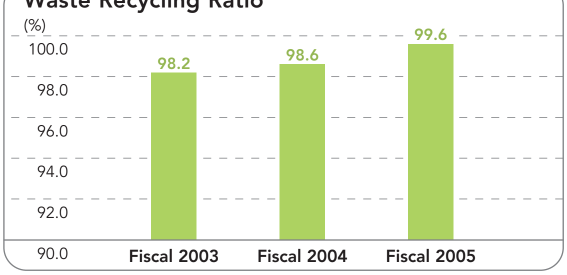
In the year under review, we formulated our fundamental policy on CSR and selected the above six items as our core principles. We also established a CSR Committee to implement the policy across the Group and rapidly raise awareness among employees about CSR. By practicing the above six principles, we are aiming to meet the expectations of all our stakeholders as well as promote trust and mutual understanding, with the ultimate aim of realizing sustainable growth and raising corporate value.

Environmental Initiatives

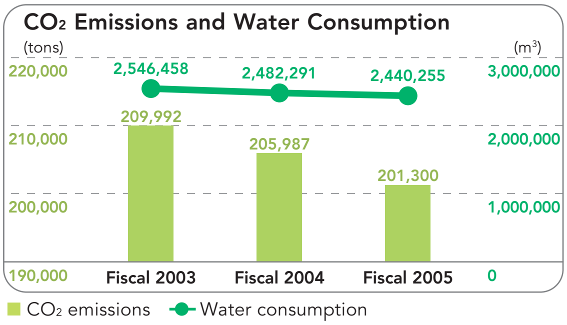
In 2005, the Nisshin OilliO Group established environmental goals covering the whole Group based on four areas: production, logistics, containers and packaging, and the office. All Nisshin OilliO employees are working to achieve these goals by participating in environmental protection activities.

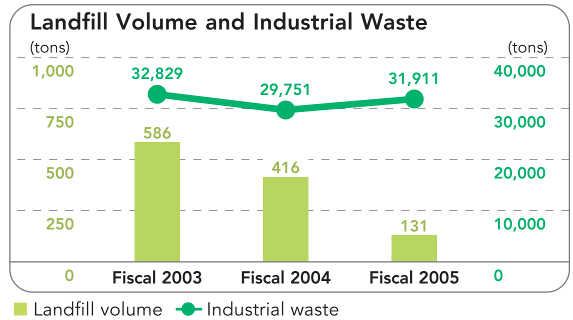
One example is preventing global warming. Here, we have achieved real success in reducing the volume of CO_2 emitted from our production sites. In logistics divisions, we are

Waste Recycling Ratio



Totals for the Four Plants





promoting modal shift and joint delivery activities. In terms of numerical targets, we are aiming to reduce the volume of CO_2 emissions per unit of energy consumption in manufacturing processes to 88% of their 1990 level by 2010. We are also taking steps to cut the amount of materials we use by reducing the weight and volume of containers and packaging. Another goal of our environmental program is to achieve zero emissions of industrial waste through 3R activities—reduce, reuse and recycle. In the year under review, we achieved a recycling rate for industrial waste of 99.6%.

Going forward, we will continue to lower the environmental impact of our operations by actively reducing and effectively utilizing waste.

Communicating With Society

Cooking Classes

Nisshin OilliO runs cooking classes to showcase the flavor of its edible oils and promote the fun of cooking. We also run seminars to explain the benefits of olive oil and show the kind of food that can be made with this ingredient to make even tastier meals.


Cooking Classes

Factory Visits

We conduct factory visits at our Yokohama Isogo Plant in Kanagawa Prefecture for consumers and school pupils. In the plant's "Wellness Gallery," visitors can learn about the history of edible oil, its ingredients and manufacturing processes, all explained in an easy-to-understand manner. We have also introduced an environmentally friendly visitors' bus powered by compressed natural gas (CNG).


Wellness Gallery

Isogo Spring Festival

Every year, the Yokohama Isogo Plant holds the Isogo Spring Festival on its premises. Launched in 1982, the event has now been held 25 times and is designed to improve communication with local residents. About 15,000 people take part in the festival every year.


Isogo Spring Festival

Initiatives to Support Healthy Lifestyles

Nisshin OilliO supports the Kanagawa Marathon, a sports event open to the public, by opening up the Yokohama Isogo Plant grounds to participants. We also hold swimming classes every year run by swimming advisor Michiko Kihara to promote health and fitness.


Kanagawa Marathon

FINANCIAL REVIEW

Overview of the Nisshin OilliO Group

As of March 31, 2006, the Nisshin OilliO Group comprised the parent company, 18 consolidated subsidiaries, eight unconsolidated subsidiaries, and 12 affiliates, including eight equity-method affiliates.

In July 2004, in order to succeed in the face of intensifying global competition, The Nisshin OilliO Group, Ltd. was established as a pure holding company with three operating companies: The Nisshin OilliO, Ltd., Rinoru Oil Mills Co., Ltd., and Nikko Oil Mills Co., Ltd. The Group's main businesses are Oils and Meal, Healthy Foods, and Fine Chemicals, as well as related services and other operations.

CONSOLIDATED RESULTS

Operating Environment and Initiatives

In fiscal 2005, the year ended March 31, 2006, the Japanese economy moved onto a recovery track, supported by stronger corporate earnings, increased capital expenditures and a gentle pick-up in consumer spending.

In the oils and meal industry, although average raw material costs were at low levels during the year, the Group's operating environment remained challenging as domestic oils production volume declined and imports of low-priced oils and meal increased.

In this trading environment, the Group continued to implement its three-year management plan *AHEAD*. In the second year of the plan, Nisshin OilliO focused on securing and growing earnings by developing new products, boosting sales of high-value-added products, establishing appropriate sales prices, and paring back costs. In parallel, the Group took a number of steps to support future business development, including consolidating Malaysia-based Intercontinental Specialty Fats Sdn. Bhd. to make it the core company in the Group's palm oil business.

Net Sales

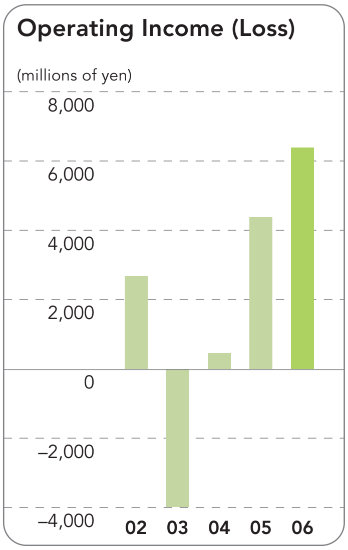
In the year under review, net sales declined 2.1% from the previous fiscal year to ¥215,479 million (US$1,842 million). In addition to the reclassification of former consolidated subsidiary Kobayashi Pharmaceutical Industry Co., Ltd. (now I'rom Pharmaceutical Co., Ltd.) as an equity-method affiliate, following a partial sale of shares in this company, this sales decline reflected a drop in prices for raw materials on international markets, and an increase in imports to Japan of low-priced oils and meal, which led to a drop in product prices compared to a year earlier.

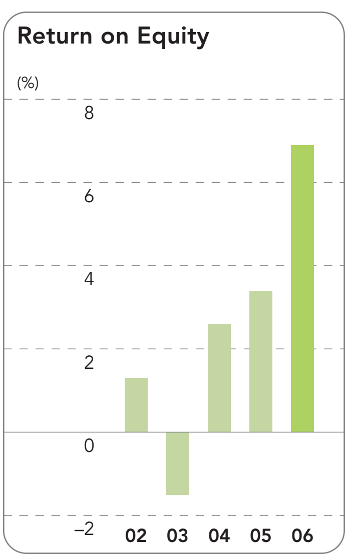
Cost of Sales and Gross Profit

Cost of sales decreased 4.6% to ¥166,959 million (US$1,427 million) due to the aforementioned drop in raw materials prices. As a result, gross profit rose 7.4% to ¥48,520 million (US$415 million).

Operating Income

Although selling, general and administrative (SG&A) expenses increased 3.3% to ¥42,134 million (US$360 million) due to higher logistics costs and advertising expenses, operating





income jumped 45.9% year on year to ¥6,386 million (US$55 million) due to improvement in the cost of sales ratio.

Net income

Net income increased 123% to ¥7,138 million (US$61 million), chiefly due to the booking of gains on sales of property, plant and equipment and gains on sales of shares in affiliates in other income (expenses).

SEGMENT INFORMATION

Sales and Operating Income (Loss) by Segment

(reflecting changes in segment classification)

(¥ millions)

	FY2005	FY2004	Change (%)
Oils and Meal	188,979 5,804	192,787 3,377	–2.0 71.9
Healthy Foods	6,500 (729)	5,814 (485)	11.8 –
Fine Chemicals	4,483 240	4,077 339	10.0 –29.2
Other	15,517 1,032	17,526 1,404	–11.5 –26.5

* Top figures are sales to external customers and bottom figures show operating income (loss).

Oils and Meal Business

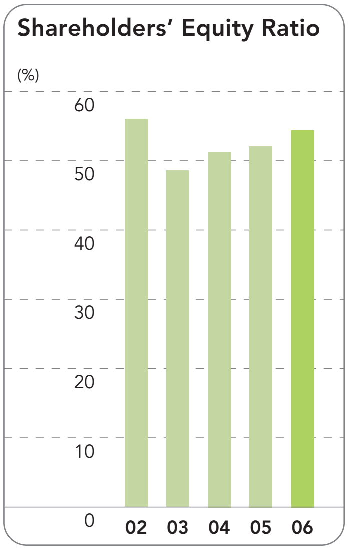
The Oils and Meal Business is the core business of the Nisshin OilliO Group, accounting for 87.7% of consolidated net sales.

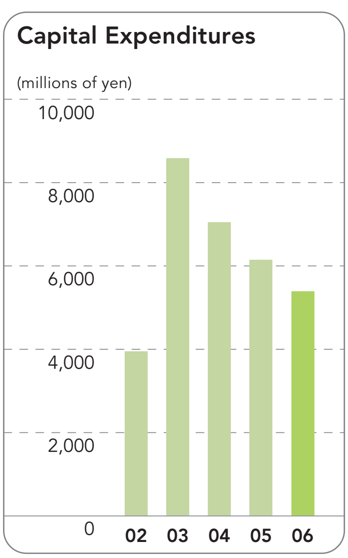
Japan

In home-use edible oils, the Group focused on boosting sales of *Healthy Resetta* and *Healthy Choleste*, as well as *Nisshin Canola Oil* and *Nisshin Canola Oil Healthy Light*. This resulted in higher sales volumes, particularly of canola oil products. As part of its involvement in sponsoring sports, Nisshin OilliO signed an official partner contract with the Japanese Olympic Committee (JOC). This agreement paved the way for a related sales promotion campaign called "Beautiful Energy" to coincide with the Torino 2006 Winter Olympics in Italy. Meanwhile, sales volumes for gift packages, centered on healthy oil sets, recorded a marked increase compared to a year earlier. As a result, sales of home-use edible oils expanded overall.

In edible oils for food services, sales declined compared to a year earlier as raw material prices fell. In edible processed oils, rising imports of oil and other factors led to a decline in sales volume and selling prices. Although imports also pushed sales volumes of industrial-use oils down, sales in monetary terms grew thanks to higher prices for linseed oil and some other products.

Demand for soybean meal grew in fiscal 2005, but lower domestic oils production volume and rising imports of soybean meal meant there was a slight drop in sales volume. Sales in





monetary terms also fell as sales prices declined below levels in the previous fiscal year in line with trends on international markets. Rapeseed meal saw lower sales volumes year on year as blending rates decreased due to higher prices at the end of the previous fiscal year. However, higher sales prices led to an increase in sales in monetary terms.

Overseas

Sales in both volume and monetary terms at Dalian Nisshin Oil Mills, Ltd. rose sharply compared to a year earlier, reflecting generally smooth operations at the new plant in Beiliang, China, after its completion in March 2005. Shanghai Nisshin Oil & Fats, Ltd. worked to boost sales after the start of operations at a new plant in February 2005. However, sales declined year on year in a sluggish Chinese market caused by oversupply. Meanwhile, because ISF was deemed to have been acquired on March 31, 2006, this company's balance sheet only was reflected in the consolidated balance sheet as of this date; its earnings will be included in the consolidated statements of income from fiscal 2006.

The above factors resulted in segment sales of ¥188,979 million (US$1,615 million), down 2.0% from the previous fiscal year.

Healthy Foods Business

This business accounted for 3.0% of consolidated net sales, up from 2.6% in the previous fiscal year.

In health foods, sales of soymilk were strong, particularly mail-order soymilk made from germinated soybeans, which recorded a marked sales increase compared to a year earlier.

Sales of nursing care foods grew substantially year on year thanks to wider sales channels through volume retailers and other routes, and the addition of new products to the *Toromi Up* range, which thickens liquids for people with difficulty swallowing. Therapeutic food sales also grew steadily on the back of strong demand for products for elderly consumers and patients suffering from kidney complaints. Sales of dressings and other products increased year on year, supported by growing consumer interest in healthy eating.

In the year under review, the Company reviewed its business segment classifications, resulting in the transfer of the processed soybean product business, which includes soybean protein foods, to this business segment from the Oils and Meal Business.

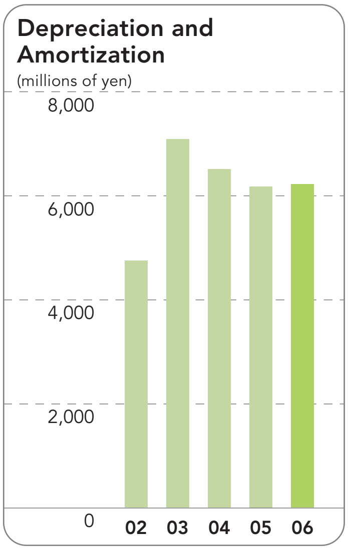
As a result of the above, the segment reported an increase in sales of 11.8% to ¥6,500 million (US$56 million).

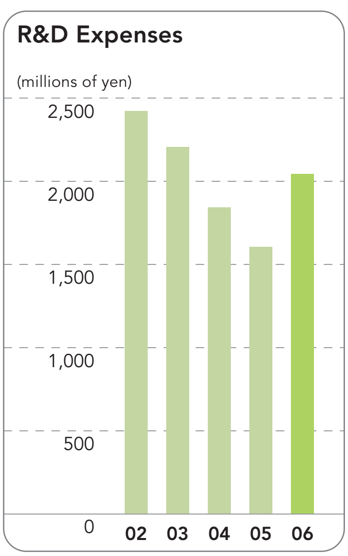
Fine Chemicals Business

This business accounted for 2.1% of consolidated net sales, up from 1.9% in the previous fiscal year.

In the mainstay field of raw materials for cosmetics, sales grew year on year on the back of firm demand from domestic users. Sales of chemical products also increased, primarily supported by rising sales to the IT-related sector. Domestic and export sales volumes for medium-chain triglycerides rose, driving an increase in sales in monetary terms.

As a result, segment sales grew 10.0% to ¥4,483 million (US$38 million).





Other Businesses

The logistics and engineering businesses both performed strongly. However, segment sales dropped 11.5% to ¥15,517 million (US$133 million), reflecting the reclassification of former consolidated subsidiary Kobayashi Pharmaceutical Industry (now I'rom Pharmaceutical) as an equity-method affiliate, following a partial sale of shares in this company, and the dissolution of Evagros Co., Ltd.

FINANCIAL POSITION

Total Assets

As of March 31, 2006, total assets were ¥190,829 million (US$1,631 million), an increase of ¥9,963 million compared to a year earlier. This mainly reflected the consolidation of ISF.

Current Liabilities

Total current liabilities declined ¥7,055 million from the previous fiscal year-end to ¥49,021 million (US$419 million), mainly as a result of a significant drop in trade payables associated with a decrease in raw material costs in the Oils and Meal Business and other factors.

Long-term Liabilities

Long-term liabilities increased ¥5,459 million to ¥33,793 million (US$289 million), mainly reflecting an increase in long-term debt of ¥7,778 million due to the issue of ¥10,000 million in bonds.

Shareholders' Equity

Shareholders' equity rose ¥9,503 million to ¥103,785 million (US$887 million) due to an increase in retained earnings.

Cash Flows

Net cash provided by operating activities was ¥8,928 million (US$76 million), reflecting a ¥5,264 million rise in income before income taxes and minority interests. The other main changes were a cash inflow from decrease in inventories of ¥5,452 million and a cash outflow for decrease in trade payables of ¥9,429 million.

Net cash used in investing activities was ¥6,726 million (US$57 million). This was attributable to ¥6,341 million for purchases of shares in subsidiaries and affiliates, primarily ISF, and proceeds from sales of property, plant and equipment of ¥3,107 million and other items.

Net cash provided by financing activities was ¥1,273 million (US$11 million). This mainly reflected the redemption of bonds of ¥5,000 million, proceeds from the issue of new bonds of ¥10,000 million, and a decline in debt procured from financial institutions of ¥1,625 million.

As a result of the above, cash and cash equivalents as of March 31, 2006 totaled ¥12,401 million (US$106 million), an increase of ¥3,932 million compared to the end of the previous fiscal year.

BUSINESS RISKS

The operating results, share price and financial position of the Nisshin OilliO Group may be impacted by the risks explained below. Any forward-looking statements in the following section have been made based on management's judgment as of March 31, 2006.

Exchange Rates

As part of its Oils and Meal Business, the Group imports all its soybean, rapeseed and other raw materials from overseas. The Group also conducts business overseas, including in China and other parts of East Asia. Consequently, Nisshin OilliO 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, Nisshin OilliO uses risk hedge instruments such as forward exchange contracts as necessary to mitigate exchange rate risks.

International Prices for Grain

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 grain. This includes surging prices for crude oil and other raw materials. 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. Nisshin OilliO seeks to hedge this risk by purchasing some 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 sales prices for meal and processed oils are linked to prices in the international market. In addition, the trend of rising imports of low-priced meal and oils imported from China and other countries could have an impact on domestic sales prices. These and other changes in domestic and international product markets could affect the Group's operating results. In response, Nisshin OilliO 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. Although domestic manufacturing and sales sites are also subject to the risks listed below, overseas operations are particularly exposed to these so-called country risks. The Group's operating results could be affected in the event that any of these risks materialize.

- Unforeseen enactment, revision to, or abolishment of laws and other regulations
- Unexpected political or economic factors
- Social instability arising from terrorist incidents, conflict, the spread of infectious disease or other factors
- Natural disasters such as earthquakes and other events
- 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 and Other Natural Disasters

The Group has nine key manufacturing and logistics sites in Yokohama and other areas around Japan. In the event of a major earthquake, typhoon or other natural disaster, any of these sites could be affected through damage to facilities or inventories, which could have an impact on the Group's operating results and financial position. In readiness for such situations, Nisshin OilliO has established a safety management system, reinforced facilities, taken out insurance to mitigate risk, and implemented other steps.

Laws and Other Regulations

The Group is subject to a range of laws and regulations, including the Food Sanitation Law, JAS Law, Pharmaceutical Affairs Law, environmental and recycling regulations, customs and import/export rules, the Foreign Exchange Act and the Personal Information Protection Law. Consequently, as part of efforts to enhance compliance as a matter of priority, the Group is taking all conceivable steps to ensure it meets all the requirements of these laws and regulations. However, the establishment of any unforeseen new laws in the future could have an impact on the Group's operating results.

Food Safety

In recent years, companies have had to respond to increasingly stringent food regulations against a backdrop of rising public interest in food quality and safety.

The Group has established a rigorous quality assurance system, including the acquisition of international ISO certification for quality management. Nisshin OilliO plans to 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.

CONSOLIDATED BALANCE SHEETS

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 12,401	¥ 8,469	$ 105,991
Time deposits	9	523	77
Marketable securities (Note 2)	3,771	3,667	32,231
Receivables:			
Trade notes	728	1,416	6,222
Trade accounts (Note 6)	36,963	36,599	315,923
Allowance for doubtful receivables	(99)	(158)	(846)
Inventories:			
Finished goods	16,445	16,262	140,556
Raw materials	11,593	13,618	99,085
Deferred tax assets (Note 5)	1,700	1,720	14,530
Prepaid expenses and other	2,719	2,642	23,240
Total current assets	86,230	84,758	737,009
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 4):			
Land	25,084	26,695	214,393
Buildings and structures	62,824	62,608	536,957
Machinery and equipment	77,033	73,352	658,402
Construction in progress	1,354	2,892	11,573
Total	166,295	165,547	1,421,325
Accumulated depreciation	(91,778)	(89,842)	(784,428)
Net property, plant and equipment	74,517	75,705	636,897
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 2)	17,989	11,034	153,752
Investments in and advances to unconsolidated subsidiaries and associated companies	3,715	2,612	31,752
Goodwill	3,784	399	32,342
Software	2,047	2,514	17,496
Other (Note 5)	2,547	3,844	21,769
Total investments and other assets	30,082	20,403	257,111
TOTAL	¥190,829	¥180,866	$1,631,017

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1.a) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 4)	¥ 4,377	¥ 3,959	$ 37,410
Current portion of long-term debt (Note 4)	1,847	5,360	15,786
Payables:			
Trade notes	401	1,095	3,428
Trade accounts (Note 6)	31,080	35,838	265,641
Income taxes payable (Note 5)	3,399	374	29,051
Accrued expenses	4,224	5,386	36,103
Other	3,693	4,064	31,564
Total current liabilities	49,021	56,076	418,983
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	18,966	11,188	162,103
Liability for retirement benefits (Note 8)	3,069	4,668	26,231
Deferred tax liabilities (Note 5)	9,136	7,922	78,085
Negative goodwill	2,028	4,073	17,333
Other	594	483	5,077
Total long-term liabilities	33,793	28,334	288,829
MINORITY INTERESTS	4,230	2,174	36,154
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 12)			
SHAREHOLDERS' EQUITY (Note 9):			
Common stock—authorized, 388,350,000 shares; issued, 173,339,287 shares in 2006 and 2005	16,332	16,332	139,590
Capital surplus	26,055	26,054	222,692
Retained earnings	56,380	50,510	481,880
Unrealized gain on available-for-sale securities	5,246	1,931	44,838
Foreign currency translation adjustments	6	(349)	51
Treasury stock—at cost, 636,990 shares in 2006 and 584,459 shares in 2005	(234)	(196)	(2,000)
Total shareholders' equity	103,785	94,282	887,051
TOTAL	¥190,829	¥180,866	$1,631,017

CONSOLIDATED STATEMENTS OF INCOME

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2006	2005	2006
NET SALES (Note 6)	¥215,479	¥220,204	$1,841,701
COST OF SALES (Note 6)	166,959	175,036	1,427,000
Gross profit	48,520	45,168	414,701
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 7)	42,134	40,792	360,120
Operating income	6,386	4,376	54,581
OTHER INCOME (EXPENSES):			
Interest and dividend income	339	222	2,897
Interest expense	(360)	(367)	(3,077)
Gain on sales of property, plant and equipment	1,788	4	15,282
Gain on sales of investment securities	109	24	932
Gain on sales of securities of a subsidiary	1,190	16	10,171
Loss on write-down of investment securities	(16)	(178)	
Loss on disposition of property, plant and equipment	(832)	(344)	(7,111)
Foreign exchange loss		(77)	
Amortization of negative goodwill	2,027	2,032	17,325
Impairment loss on long-lived assets (Note 3)	488		4,171
Other—net	(934)	(787)	(8,120)
Other income—net	3,799	545	32,470
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	10,185	4,921	87,051
INCOME TAXES (Note 5):			
Current	3,657	805	31,256
Deferred	(1,102)	1,250	(9,419)
Total	2,555	2,055	21,837
MINORITY INTERESTS IN NET INCOME (LOSS)	492	(336)	4,205
NET INCOME	¥ 7,138	¥ 3,202	$ 61,009

	Yen		U.S. Dollars
	2006	2005	2006
PER SHARE OF COMMON STOCK (Note 1.o):			
Net income	¥41.00	¥18.20	$0.35
Cash dividends applicable to the year	7.50	7.00	0.06

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	172,820	¥16,332	¥26,052	¥48,515	¥1,660	¥(248)	¥(162)
Net income				3,202			
Cash dividends, ¥7.00 per share				(1,210)			
Bonuses to directors				(17)			
Adjustment of retained earnings for associated company newly accounted for by the equity method				20			
Net increase in unrealized gain on available-for-sale securities					271		
Net change in foreign currency translation adjustments						(101)	
Treasury stock acquired—net	(65)		2				(34)
BALANCE, MARCH 31, 2005	172,755	16,332	26,054	50,510	1,931	(349)	(196)
Net income				7,138			
Cash dividends, ¥7.00 per share				(1,210)			
Bonuses to directors				(58)			
Net increase in unrealized gain on available-for-sale securities					3,315		
Net change in foreign currency translation adjustments						355	
Treasury stock acquired—net	(53)		1				(38)
BALANCE, MARCH 31, 2006	**172,702**	**¥16,332**	**¥26,055**	**¥56,380**	**¥5,246**	**¥ 6**	**¥(234)**

	Thousands of U.S. Dollars (Note 1.a)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$139,590	$222,684	$431,709	$16,504	$(2,983)	$(1,675)
Net income			61,009			
Cash dividends, $0.06 per share			(10,342)			
Bonuses to directors			(496)			
Net increase in unrealized gain on available-for-sale securities				28,334		
Net change in foreign currency translation adjustments					3,034	
Treasury stock acquired—net		8				(325)
BALANCE, MARCH 31, 2006	**$139,590**	**$222,692**	**$481,880**	**$44,838**	**$ 51**	**$(2,000)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1.a)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥10,185	¥ 4,921	$ 87,051
Adjustments for:			
Income taxes—paid	(909)	(1,261)	(7,769)
Depreciation and amortization	6,218	6,176	53,145
Equity in earnings of associated companies	(224)	(156)	(1,915)
Amortization of negative goodwill	(1,927)	(2,032)	(16,470)
Loss (gain) on sales and disposition of property, plant and equipment	(904)	371	(7,726)
Loss on write-down of investment securities	16	178	137
(Increase) decrease in trade receivables	358	(444)	3,060
(Increase) decrease in inventories	4,260	(1,192)	36,410
Increase (decrease) in trade payables	(8,294)	1,135	(70,889)
Increase (decrease) in liability for retirement benefits	(172)	23	(1,470)
Other—net	321	1,696	2,744
Total adjustments	(1,257)	4,494	(10,743)
Net cash provided by operating activities	8,928	9,415	76,308
INVESTING ACTIVITIES:			
Proceeds from sale of investment securities	545	359	4,658
Purchases of investment securities	(2,158)	(389)	(18,444)
Proceeds from sale of property, plant and equipment	3,107	35	26,555
Purchases of property, plant and equipment	(4,335)	(5,482)	(37,051)
(Increase) decrease in marketable securities—net	235	(369)	2,008
Proceeds from sales of securities of a subsidiary	1,915	44	16,367
Payment for purchase of newly consolidated subsidiary	(5,760)		(49,230)
Other—net	(275)	(1,626)	(2,351)
Net cash used in investing activities	(6,726)	(7,428)	(57,488)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(1,917)	(808)	(16,385)
Proceeds from long-term debt	130	209	1,111
Repayments of long-term debt	(1,107)	(669)	(9,462)
Proceeds from bond issuance	9,926		84,838
Redemption of bonds	(5,000)		(42,735)
Dividends paid	(1,210)	(1,210)	(10,342)
Dividends paid for minority interests	(43)	(43)	(367)
Proceeds from issuance of common stock to minority shareholder	531		4,538
Purchases of treasury stock	(37)	(30)	(316)
Net cash provided by (used in) financing activities	1,273	(2,551)	10,880
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	457	(117)	3,906
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	3,932	(681)	33,606
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,469	9,150	72,385
CASH AND CASH EQUIVALENTS, END OF YEAR	¥12,401	¥ 8,469	$105,991

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The following is a summary of the significant accounting and reporting policies adopted by The Nisshin OilliO Group, Ltd. (the "Company") and consolidated subsidiaries in the preparation of its consolidated financial statements.

a. Basis of Presenting Financial Statements—The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

b. Principles of Consolidation—The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 18 (21 in 2005) significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in eight (six in 2005) associated companies are accounted for by the equity method. Investments in the remaining eight unconsolidated subsidiaries and four associated companies (ten subsidiaries and five associated companies in 2005) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill is reported in the balance sheet as other assets and/or long-term liabilities and is amortized using the straight-line method over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

c. Translation of Foreign Currency Accounts—Foreign currency transactions relate principally to the importation of raw materials through Japanese trading companies, contracted in U.S. dollars, for which the Company is obliged to bear any exchange rate risks involved in such transactions. Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the date of each transaction or at the applicable exchange rates under forward exchange contracts.

Gains or losses from foreign currency transactions are included in net income or loss.

d. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

e. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

f. Marketable Securities and Investment Securities—All securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, nonmarketable available-for-sale securities are reduced to net realizable value by a charge to income.

g. Allowance for Doubtful Receivables—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

h. Inventories—Finished goods are stated at cost substantially determined by the average method. Raw materials are stated at the lower of cost, determined by the first-in, first-out method, or market.

i. Property, Plant and Equipment—Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation of plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is applied to the plant and equipment of consolidated foreign subsidiaries.

The straight-line method is applied to buildings. Equipment held for lease is depreciated by the straight-line method over the lease periods.

The range of useful lives is from 5 to 50 years for buildings and structures and from 4 to 16 years for machinery and equipment.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

k. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Retirement and Pension Plans—The Company and its domestic consolidated subsidiaries have an unfunded retirement benefit plan for all eligible employees. The amounts of the retirement benefits are, in general, determined on the basis of length of service and conditions under which the termination occurs. In addition to the unfunded plan, the Company has noncontributory and contributory funded pension plan.

The liability for retirement benefits is based on the projected benefit obligations and plan assets at the balance sheet date. The net periodic benefit costs, based on an actuarial computation of current and future employee benefits, are charged to income.

The transitional obligation determined as of April 1, 2000 amounted to ¥3,621 million. The full amount of the transitional obligation except for that of one domestic subsidiary, amounted to ¥3,423 million and was charged to income for the year ended March 31, 2001. The transitional obligation of one domestic subsidiary of ¥198 million is being amortized over 10 years using the straight-line method and annual amortization is presented as other expense in the consolidated statements of income.

Retirement allowances for directors and corporate auditors are recorded to state the liability for retirement benefits at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

m. Research and Development—Costs relating to research and development activities are charged to income as incurred.

n. Derivatives and Hedging Activities—The Group uses a variety of derivative financial instruments, including foreign currency forward contracts, commodity futures and interest rate swaps as a means of hedging exposure to foreign currency, price and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statements of income.

If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in importation of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Commodity futures are utilized to hedge transactions in inventories and trading commitments. These futures which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps, which qualify for hedge accounting, are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets.

o. Per Share Data—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Company does not issue dilutive securities.

Cash dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31, but applicable to the year then ended.

p. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year on shareholders' approval.

q. New Accounting Pronouncements

Business combination and business separation

In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting treatment for bonuses to directors and corporate auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year-end to which such bonuses are attributable.

2. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current—Government and corporate bond	¥ 3,771	¥ 3,667	$ 32,231
Total	¥ 3,771	¥ 3,667	$ 34,271
Noncurrent:			
Marketable equity securities	¥16,014	¥ 9,992	$136,872
Government and corporate bonds	1,922	367	16,427
Trust fund investments and other	53	675	453
Total	¥17,989	¥11,034	$153,752

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥5,146	¥9,646	¥ 24	¥14,768
Debt securities	5,568	14	291	5,291
Other	549		98	451

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥4,967	¥4,360	¥ 59	¥9,268
Debt securities	4,061	6	552	3,515
Other	712		44	668

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$43,983	$82,444	$ 205	$126,222
Debt securities	47,590	119	2,487	45,222
Other	4,692		837	3,855

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥1,247	¥1,242	$10,658
Other	1,005	8	8,590
Total	¥2,252	¥1,250	$19,248

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥1,009 million ($8,624 thousand) and ¥338 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥155 million ($1,325 thousand) and ¥0 million ($2 thousand), respectively, for the year ended March 31, 2006 and ¥23 million and ¥12 million, respectively, for the year ended March 31, 2005.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥4,771	$40,778
Due after one year through five years	395	3,376
Due after five years through ten years	555	4,744
Due after ten years	1,021	8,726
Total	¥6,742	$57,624

As of March 31, 2006, the following assets were pledged as collateral to secure trade accounts of ¥30 million ($256 thousand):

	Millions of Yen	Thousands of U.S. Dollars
Equity securities	¥94	$803

3. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2006 and, as a result, recognized an impairment loss of ¥488 million ($4,171 thousand) as other expense for certain warehouses due to a continuous operating loss and the carrying amount of the relevant assets was written down to the recoverable amount. The recoverable amount of that assets group was measured at its value in use and the discount rate used for computation of present value of future cash flows was 5.5%.

4. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of bank overdrafts, loans on deed and notes to banks. The average interest rates applicable to the short-term bank loans as of March 31, 2006 and 2005 were 3.0% and 1.9%, respectively.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
1.6% unsecured bonds due 2005		¥ 5,000	
2.1% unsecured bonds due 2007	¥ 5,000	5,000	$ 42,735
1.0% unsecured bonds due 2010	5,000		42,735
1.4% unsecured bonds due 2012	5,000		42,735
Loans from banks, due through 2016 with interest rates ranging from 1.1% to 3.1% (2006) and from 0.8% to 4.4% (2005):			
Collateralized		406	
Unsecured	5,813	6,142	49,684
Total	20,813	16,548	177,889
Less current portion	(1,847)	(5,360)	(15,786)
Long-term debt, less current portion	¥18,966	¥11,188	$162,103

The aggregate annual maturities of long-term debt as of March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 1,847	$ 15,786
2008	5,144	43,966
2009	3,390	28,975
2010	136	1,162
2011	5,066	43,299
2012 and thereafter	5,230	44,701
Total	¥20,813	$177,889

5. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Liability for retirement benefits	¥ 3,162	¥ 3,039	$ 27,025
Tax loss carryforwards	1,506	274	12,872
Accrued expenses	1,517	1,341	12,966
Unrealized profits on sales of fixed assets	179	192	1,530
Inventories	38	118	325
Impairment loss on long-lived assets	370		3,162
Other	711	202	6,077
Less valuation allowance	(2,349)		(20,077)
Total	5,134	5,166	43,880
Deferred tax liabilities:			
Gain on securities transferred of the retirement benefit trust fund	1,324	1,325	11,316
Property, plant and equipment	5,923	6,289	50,624
Unrealized gain on available-for-sale securities	3,652	2,166	31,213
Other	1,226	938	10,479
Total	12,125	10,718	103,632
Net deferred tax liabilities	¥ (6,991)	¥ (5,552)	$ (59,752)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	2.4	3.2
Per capita levy of corporate tax	0.5	1.4
Elimination of intercompany dividends	0.8	1.6
Amortization of consolidation goodwill	(7.7)	(15.7)
Difference from effective statutory tax rate of consolidated subsidiaries	(4.2)	7.1
Equity in earnings of associated companies	(0.9)	(1.3)
Temporary difference due to unrecognized deferred tax	(3.4)	5.0
Unrealized profits on sales of fixed assets	(0.2)	0.2
R&D expenses deductible from income taxes	(1.3)	
Other—net	(1.5)	(0.3)
Actual effective tax rate	25.1%	41.8%

6. RELATED PARTY TRANSACTIONS

Transactions of the Company with affiliated companies for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales	¥51,077	¥40,146	$436,556
Purchases	53,782	44,178	459,675

The balances due to or from these affiliated companies at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Trade accounts receivable	¥10,057	¥7,857	$85,957
Trade accounts payable	5,595	8,984	47,821

7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,044 million ($17,470 thousand) and ¥1,603 million for the years ended March 31, 2006 and 2005, respectively.

8. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors. The contributory funded defined benefit plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of pension obligations and related assets to the government by another subsequent application, and also applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on February 6, 2006 and recognized ¥79 million ($675 thousand) as income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2006.

The liability (assets) for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 18,228	¥ 18,964	$ 155,795
Fair value of plan assets	(17,444)	(13,728)	(149,094)
Unrecognized prior service cost	1,702	1,842	14,547
Unrecognized actuarial loss	(330)	(4,228)	(2,821)
Unrecognized transitional obligation	(79)	(99)	(675)
Prepaid pension expense	78	1,147	667
Net liability	¥ 2,155	¥ 3,898	$ 18,419

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥ 708	¥ 912	$ 6,051
Interest cost	370	318	3,162
Expected return on plan assets	(383)	(488)	(3,273)
Amortization of prior service cost	(124)	(37)	(1,060)
Recognized actuarial loss	341	320	2,915
Amortization of transitional obligation	20	20	171
Special retirements benefit		8	
Recognized income from transfer of the substitutional portion of the pension obligation and related assets	(79)		(675)
Net periodic benefit costs	¥ 853	¥1,053	$ 7,291

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.2%	2.2%
Expected rate of return on plan assets	3.2%	4.1%
Amortization period of prior service cost	14–17years	15–17years
Recognition period of actuarial gain	14–17years	15–17years
Amortization period of transitional obligation:		
The Company and the other subsidiaries	1year	1year
One subsidiary (Settsu Oil Mills Co., Ltd.)	10years	10years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders.

The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors for the years ended March 31, 2006 and 2005 were ¥914 million ($7,812 thousand) and ¥770 million, respectively.

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥43,950 million ($375,641 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends—Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus—The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights—The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

10. LEASES

The Group leases certain machinery, computer equipment and other assets.

Total lease payments under finance leases for the years ended March 31, 2006 and 2005 were ¥577 million ($4,932 thousand) and ¥1,094 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, impairment loss, obligations under finance lease, depreciation expense and interest expense of finance lease that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
Machinery and Equipment	2006	2005	2006
Acquisition cost	¥ 2,549	¥ 4,125	$ 21,786
Accumulated depreciation	(1,353)	(1,785)	(11,564)
Impairment loss	(4)	(339)	(34)
Net leased property	¥ 1,192	¥ 2,001	$ 10,188

Lease payments relating to finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 447	¥ 717	$ 3,821
Due after one year	745	1,284	6,367
Total	¥1,192	¥2,001	$10,188

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income computed by the straight-line method, was ¥577 million ($4,932 thousand) and ¥1,094 million for the years ended March 31, 2006 and 2005, respectively.

The Group also leases certain machinery, equipment and other assets to customers.

Total lease receipts under finance leases for the years ended March 31, 2006 and 2005 were ¥15 million ($124 thousand) and ¥15 million, respectively.

Total lease receipts include interest revenue of ¥2 million ($17 thousand) and ¥2 million for the years ended March 31, 2006 and 2005, respectively.

Pro forma information on leased property such as obligations under finance leases that do not transfer ownership of leased property to the lessor on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
Machinery and Equipment	2006	2005	2006
Acquisition cost	¥ 62	¥ 62	$ 530
Accumulated depreciation	(57)	(52)	(487)
Net leased property	¥ 5	¥ 10	$ 43

Future lease income relating to finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥13	¥14	$111
Due after one year	1	14	9
Total	¥14	¥28	$120

The imputed interest expense portion, which is computed using the interest method, is excluded from the above obligations under finance leases.

Depreciation expense is ¥4 million ($34 thousand) and ¥8 million for the years ended March 31, 2006 and 2005, respectively.

11. COMMITMENTS AND CONTINGENT LIABILITIES

The Group was contingently liable at March 31, 2006, for guarantees of employee's housing loans, guarantees of assigned lease liability and associated companies' bank borrowings, totaling ¥717 million ($6,128 thousand), ¥1 million ($9 thousand) and ¥14 million ($120 thousand), respectively.

The Group executed a ¥29,080 million ($248,547 thousand) committed borrowing facility with a domestic banking group during the fiscal year ended March 31, 2006.

12. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. Forward exchange contracted amounts which are assigned to associated assets and liabilities and are reflected on the balance sheet at year-end are not subject to the disclosure of market value information.

The Group has purchased currency options, as a whole, to reduce the purchase price associated with foreign currency transactions. The Group enters into commodity futures in the normal course of business to determine the cost corresponding to the selling price, which is based on the forward delivery contract. The Group enters into interest rate swap agreements as a means of managing their interest rate exposure and profit or loss on redemption of bonds.

The Group also enters into agreements for certain derivative financial instruments as a part of their trading activities.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential volatility in market conditions, including interest and foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to terms and conditions of the contract.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate limits of positions, and establishment of the opposite position to reduce risk. Derivative transactions in a loss position that exceed certain predetermined thresholds will be reversed. The execution of these transactions is reviewed by the internal audit department.

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005 are excluded from the disclosure of market value information.

13. SEGMENT INFORMATION

The Group operates in the following segments:

Oils and Meal consists of home-use food products and food service sector products, including fats, oils and meal.

Healthy foods consists of therapeutic foods, health foods and foods taken in liquid form.

Fine Chemicals consists of cosmetics and toiletries, chemical products, medium-chain triglycerides, lecithin and tocopherol (Vitamin E).

Other consists of real estate leasing, management and mediation services, pharmaceuticals, packaging services, customs-related business, warehousing, restaurant management, sports facility management, marine products, sales promotions, engineering, accident and liability insurance, computing-related services and garden supplies.

Information about industry segments of the Group for the years ended March 31, 2006 and 2005 is as follows:

(1) INDUSTRY SEGMENTS

a. Sales and Operating Income

	Millions of Yen					
	2006					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Eliminations	Consolidated
Sales to customers	¥188,979	¥6,500	¥4,483	¥15,517		¥215,479
Intersegment sales	1,831	875	557	16,184	¥(19,447)	
Total sales	190,810	7,375	5,040	31,701	(19,447)	215,479
Operating expenses	185,006	8,104	4,800	30,669	(19,486)	209,093
Operating income (losses)	¥ 5,804	¥ (729)	¥ 240	¥ 1,032	¥ 39	¥ 6,386

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2006					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Corporate Eliminations	Consolidated
Total assets	¥154,845	¥4,123	¥5,345	¥15,677	¥10,839	¥190,829
Depreciation and amortization	5,054	111	153	899		6,217
Impairment loss on fixed assets				488		488
Capital expenditures	4,263	84	119	915		5,381

a. Sales and Operating Income

	Thousands of U.S. Dollars					
	2006					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Eliminations	Consolidated
Sales to customers	$1,615,205	$55,556	$38,316	$132,624		$1,841,701
Intersegment sales	15,649	7,479	4,761	138,325	$(166,214)	
Total sales	1,630,854	63,035	43,077	270,949	(166,214)	1,841,701
Operating expenses	1,581,248	69,265	41,026	262,128	(166,547)	1,787,120
Operating income (losses)	$ 49,606	$ (6,230)	$ 2,051	$ 8,821	$ 333	$ 54,581

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. Dollars					
	2006					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Corporate Eliminations	Consolidated
Total assets	$1,323,462	$35,239	$45,684	$133,991	$92,641	$1,631,017
Depreciation and amortization	43,196	949	1,308	7,684		53,137
Impairment loss on fixed assets				4,171		4,171
Capital expenditures	36,436	718	1,017	7,820		45,991

a. Sales and Operating Income

	Millions of Yen					
	2005					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Eliminations	Consolidated
Sales to customers	¥192,787	¥5,814	¥4,077	¥17,526		¥220,204
Intersegment sales	2,120	903	551	16,636	¥(20,210)	
Total sales	194,907	6,717	4,628	34,162	(20,210)	220,204
Operating expenses	191,530	7,202	4,289	32,758	(19,951)	215,828
Operating income (losses)	¥ 3,377	¥ (485)	¥ 339	¥ 1,404	¥ (259)	¥ 4,376

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen					
	2005					
	Oils and Meal	Healthy Foods	Fine Chemicals	Other	Corporate Eliminations	Consolidated
Total assets	¥143,468	¥2,046	¥3,504	¥22,176	¥9,672	¥180,866
Depreciation and amortization	4,564	71	198	1,343		6,176
Capital expenditures	5,222	24	52	844		6,142

(2) GEOGRAPHICAL SEGMENTS

The geographical segments of the Company and its subsidiaries for the year ended March 31, 2006 are summarized as follows:

	Millions of Yen			
	2006			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	¥202,230	¥13,249		¥215,479
Interarea transfer	288	1,115	¥(1,403)	
Total sales	202,518	14,364	(1,403)	215,479
Operating expenses	195,313	15,183	(1,403)	209,093
Operating income (loss)	¥ 7,205	¥ (819)		¥ 6,386
Total assets	¥171,427	¥19,469	¥ (67)	¥190,829

	Thousands of U.S. Dollars			
	2006			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	$1,728,462	$113,239		$1,841,701
Interarea transfer	2,461	9,530	$(11,991)	
Total sales	1,730,923	122,769	(11,991)	1,841,701
Operating expenses	1,669,342	129,769	(11,991)	1,787,120
Operating income (loss)	$ 61,581	$ (7,000)		$ 54,581
Total assets	$1,465,188	$166,402	$ (573)	$1,631,017

The Company and consolidated subsidiaries operate mainly in Japan in 2005 and do not have significant export sales.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Nisshin OilliO Group, Ltd.:

We have audited the accompanying consolidated balance sheets of The Nisshin OilliO Group, Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Nisshin OilliO Group, Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1.a. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2006

Member of
Deloitte Touche Tohmatsu

CORPORATE DATA

Board of Directors and Corporate Auditors

Chairman
Jokei Akitani*

President
Kazuo Ogome*

Executive Vice-Presidents
Shunji Takase*
Hirohiko Kubo*

Senior Managing Directors
Fumio Imokawa
Takao Imamura
Tadashi Suzuki

Managing Directors
Yoshihito Tamura
Kenji Gokyu
Tsutomu Usui
Akira Seto

Directors
Takashi Fujii
Yoshiharu Ninomiya
Hidetoshi Ogami
Mitsuo Minami
Takeshi Inoue
Kazuo Ogawa

Standing Corporate Auditors
Kentarou Kurokawa
Kyouji Nishizaki

Corporate Auditors
Kiyoshi Matsuo
Masatoshi Kamijo

*Representative Director

(As of October 1, 2006)

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Date of Establishment
March 7, 1907

Paid-in Capital
¥16,332 million

Number of Shares of Common Stock Authorized
388,350,000 shares

Number of Shares of Common Stock Issued
173,339,287 shares

Number of Shareholders
11,859

Consolidated Subsidiaries
Settsu Oil Mills Co., Ltd.
Nisshin Shoji Co., Ltd.
Nisshin Logistics Co., Ltd.
NSP Co., Ltd.
Marketing Force Japan, Inc.
Nisshin Plant Engineering Co., Ltd.
The Golf Joy Co., Ltd.
Nisshin Science Co., Ltd.
Nisshin Marine Tech Co., Ltd.
Nisshin Cosmo Foods Co., Ltd.
Dalian Nisshin Oil Mills, Ltd.
Shanghai Nisshin Oil & Fats, Ltd.
Southern Nisshin Bio-Tech Sdn. Bhd.
The Nisshin OilliO (China) Investment Co., Ltd.
Intercontinental Specialty Fats Sdn. Bhd.
Nisshin Finance Co., Ltd.
Yamakiu Transport Co., Ltd.
Yoko Engineering Co., Ltd.

Equity-method Affiliates
Wakou Shokuhin Co., Ltd.
Ten Corporation Co., Ltd.
Saiwai Shoji Co., Ltd.
Nisshin Shokai Co., Ltd.
I'rom Pharmaceutical Co., Ltd.
Nikko Express Co., Ltd.
President Nisshin Corp.
Zhang Jia Gang President Nisshin Food Corp.

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