

Nippon Shikizai, Inc.
Summary of Financial Results for the Six Months Ending February, 2011
[Japanese Standard] (Consolidated)

As the Nippon Shikizai, Inc. has today announced consolidated earnings for the first half of the fiscal year ending February 2011, we will now report as follows.

Consolidated Financial Results

- Net income : 3,394 million yen (10.1% increase from the same period previous year)
- Operating income : 195 million yen (183.3% increase from the same period previous year)
- Ordinary income : 142 million yen (846.6% increase from the same period previous year)
- Net income : 134 million yen (Net loss of 24 million yen in the same period previous year)

Summary of Consolidated Operating Results

In these first half consolidated fiscal years, the Japanese economy showed signs of gradual recovery against a backdrop of both economic recovery in China and other emerging Asian countries, and incentives for stimulating consumption within Japan. However, due to a series of issues causing concern, including the effects of domestic policies coming full circle, the rise of a slowdown in foreign economies, and the yen entering a phase of sharp appreciation, this economic recovery remained less than full-scale, and for now a sense of uncertainty remains over the future in terms of the domestic employment situation and attitudes towards consumer spending.

Under such a severe economic situation, according to figures announced by the Ministry of Trade, Economy and Industry for shipments of cosmetics in the first half of 2010, the Japanese cosmetics market has been growing at a sluggish pace, and this is seen in the development of a decline in consumer confidence and price reductions in cosmetics prices.

Despite the market environment being so severe, at the Company, by globally developing proposal-based business that makes use of our strengths in product development and technology, we have endeavored to expand our markets with foreign cosmetics makers and companies involved in other industries.

In April we launched our “Business structure reforms project aimed at further growth (STEP-UP80),” to mark the 80th anniversary of our foundation, and working together as a group, we have strived to improve our earnings structure through cost reductions and improvements in production, and to expand our business area in cosmetics.

At our French consolidated subsidiary, THEPENIER PHARMA INDUSTRIE S.A.S. (hereafter, “THEPENIER”), sales have been steady for skincare cosmetics aimed at the French domestic market and medicinal toothpaste aimed at the European market, and with measures for improving earnings that have been in place since two years ago also supporting profits, we have managed to secure a net income to follow on from the one recorded in the first quarter.

The business performance in each segment
(Cosmetics)

- Sales : 3,066 million yen (12.2% increase from the same period previous year)
- Operating income : 493 million yen (43.6% increase from the same period previous year)

In Japan consumer confidence remained low, and sales of makeup cosmetics such as Eye shadow and Cheek, Lipstick and Foundation, and skincare cosmetics such as Pack, Lotion and UV cream fell below levels recorded for the same period previous year. Also, at THEPENIER, sales remained steady for skincare cosmetics aimed at the French domestic market, for which production commenced in the second fiscal quarter of last year, and this contributed towards leveling the Group’s consolidated revenue from cosmetics.

Meanwhile, in terms of costs, the measures for improving revenue that have been in place through the entire Group since two years ago were successful in enabling us to curb increases in manufacturing costs and operating costs.

(Pharmaceuticals and other products)

- Sales : 327 million yen (6.9% decrease from the same period previous year)
- Operating income : 15 million yen (Operating loss of 33 million yen in the same period previous year)

Against a backdrop of a prolonged economic recession in Europe, and with the market environment remaining severe as consumer confidence is low, we were able to compensate for a slump in sales of one of our core products, athlete's foot remedies, with an increase in sales for medicinal toothpaste. However, because of a significant slump in sales of quasi drugs, and in light of the sharp appreciation of the yen, and the low Euro, sales decreased from levels recorded in the same period previous year.

However, in terms of costs, the measures for improving revenue that have been in place since two years ago were successful in enabling us to significantly reduce manufacturing costs and operating costs.

The business performance in each country

(Japan)

- Sales : 2,852 million yen (7.9% increase from the same period previous year)
- Operating income : 488 million yen (36.8% increase from the same period previous year)

In a severe market environment, the Company focused on expanding sales to new customers such as companies engaged in other industries such as pharmaceutical companies, and on global business expansions to foreign cosmetic companies. These efforts were successful in enabling us to expand sales of skincare cosmetics and makeup cosmetics such as Lipstick and Foundation. Viewed by customer market, there was negative growth in cosmetics for door-to-door sales as compared with the same period previous year, but because general goods displayed in drugstores and mail order cosmetics both performed well, overall results exceeded those for the same period previous year. In terms of profits, company-wide efforts towards reducing costs and improving production were successful in supporting profits, and we were able to achieve profits that vastly exceeded those recorded for the same period previous year.

(France)

- Sales : 562 million yen (18.4% increase from the same period previous year)
- Operating income : 18 million yen (Operating loss of 52 million yen in the same period previous year)

Although under a severe business environment, in our cosmetics business sector, our basic skin care aimed at the Japanese market performed well, while in our pharmaceuticals and other products business, sales of medicinal toothpaste enabled us to compensate for a slump in sales of our athlete's food remedy. As a result, THEPENIER's individual sales brought in increased earnings as compared with the same period previous year. Meanwhile, in terms of profits, cost reduction efforts that have been in place since two years ago supported profits, and we were able to maintain a profit on an operating income base, to follow on from the one recorded in the first fiscal quarter.

Information Concerning Consolidated Earnings Forecasts

In light of progress with results in the first half of consolidated fiscal year, we have made upward revisions to the full-year earnings forecasts announced on April 16, 2010 for the year ending February 2011.

	Previous Forecast	Current Forecast (Increase / decrease)
Net sales	6,826 million yen	6,707 million yen (Down 1.7%)
Operating income	319 million yen	390 million yen (Up 20.4%)
Ordinary income	226 million yen	302 million yen (Up 20.3%)
Net income	129 million yen	306 million yen (Up 44.1%)
Net income per share	30.04 yen	70.92yen

【Appendix】
Consolidated Quarterly Financial Statement
(1) Consolidated Quarterly Balance Sheets

(Thousands of yen)

	At August 31, 2010	At February 28, 2010
ASSETS		
Current Assets		
Cash and deposit	935,009	569,559
Trade notes and accounts receivable	1,492,839	1,892,726
Inventories	784,120	863,099
Others	190,084	177,863
Allowance for doubtful accounts	(479)	(624)
Total Current Assets	3,401,574	3,502,624
Fixed Assets		
Tangible Fixed Assets		
Buildings and structures - net	1,206,796	1,344,999
Machinery and vehicles - net	357,084	384,147
Land	1,326,469	1,328,760
Others - net	50,140	59,473
Total Tangible Fixed Assets	2,940,491	3,117,380
Intangible Fixed Assets	199,135	202,862
Investments and Other Assets		
Investment securities	166,041	171,662
Others	409,978	435,359
Allowance for doubtful accounts	(46,376)	(56,782)
Total Investments and Other Assets	529,643	550,238
Total Fixed Assets	3,669,270	3,870,481
Total Assets	7,070,845	7,373,106

(Thousands of yen)

At August 31, 2010

At February 28, 2010

LIABILITIES		
Current Liabilities		
Trade notes and accounts payable	807,032	1,015,852
Short-term borrowings	2,140,858	2,217,792
Current portion of corporate bonds	100,000	100,000
Income tax payable	11,762	15,806
Contingent loss reserve	2,608	3,193
Others	660,822	655,896
Total Current Liabilities	3,723,083	4,008,541
Long-Term Liabilities		
Corporate bonds	300,000	350,000
Long-term borrowings	1,299,273	1,208,911
Allowance for retirement benefits	101,205	117,821
Allowance for directors' retirement benefits	172,910	172,910
Others	52,470	59,842
Total Long-Term Liabilities	1,925,860	1,909,486
Total Liabilities	5,648,943	5,918,028
NET ASSETS		
Shareholder's Equity		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	171,659	79,968
Treasury stock	(1,770)	(1,436)
Total Shareholders' Equity	1,504,493	1,413,135
Valuation and Translation Adjustments		
Unrealized holding gain (loss) on other securities	17,394	22,832
Deferred hedge gain (loss)	(5,848)	(10,410)
Foreign currency translation adjustment	(94,137)	29,520
Total Valuation and Translation Adjustments	(82,591)	41,942
Total Net Assets	1,421,901	1,455,078
Total Liabilities and Net Assets	7,070,845	7,373,106

(2) Consolidated Quarterly Statements of Income
(Six Months Ended August 31, 2010)

(Thousands of yen)

	Six Months Ended August 31, 2009	Six Months Ended August 31, 2010
Sales	3,084,448	3,394,585
Cost of sales	2,542,155	2,690,957
Gross profit	542,293	703,628
SG&A expenses	473,422	508,527
Operating income	68,870	195,100
Non-operating income:		
Interest income	468	216
Dividend income	3,770	3,915
Foreign exchange gain	3,501	—
Gain on allowance of investment securities	—	3,531
Others	10,646	4,950
Total Non-operating Income	18,386	12,612
Non-operating expenses:		
Interest expense	57,990	55,574
Corporate bond issue costs	9,500	—
Others	4,720	9,701
Total Non-operating Expenses	72,210	65,276
Ordinary Income	15,046	142,436
Extraordinary Income:		
Reversal of allowance for doubtful accounts	2,927	145
Proceed from adjustment of loss on disposal of fixed assets on prior year	2,469	—
Refund of the profession tax paid by the overseas subsidiaries in the previous year	—	10,832
Others	457	—
Total Extraordinary Income	5,855	10,977
Extraordinary Loss:		
Losses on disposal of fixed assets	10,465	3,224
Loss on valuation of inventories	38,295	—
Total Extraordinary Loss	48,760	3,224
Income (loss) before Income Taxes	(27,858)	150,189
Income Taxes	3,807	8,277
Adjustment for Corporate Tax	(7,236)	7,062
Total Corporate Income Tax	(3,429)	15,339
Net Loss	(24,429)	134,849

(3) Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	Six Months Ended August 31, 2009	Six Months Ended August 31, 2010
Cash Flows from Operating Activities:		
Income (loss) before income taxes	(27,858)	150,189
Depreciation	149,245	135,420
Increase (decrease) in contingent loss reserve	(443)	—
Increase (decrease) in allowance for retirement benefits	(539)	(3,203)
Increase (decrease) in allowance for directors' retirement benefits	(42,640)	—
Increase (decrease) in allowance for doubtful accounts	(4,473)	(145)
Interest and dividend income	(4,239)	(4,131)
Interest expenses	57,990	55,574
Corporate bond issue costs	9,500	—
Gain on allowance of investment securities	—	(3,531)
Loss on disposal of fixed assets	10,465	3,224
Decrease (increase) in trade receivable	(178,688)	334,491
Decrease (increase) in inventories	62,261	54,286
Increase (decrease) in trade payable	(7,576)	(185,309)
Increase (decrease) in accrued consumption taxes	37,969	(31,175)
Increase (decrease) in other current liabilities	30,060	61,226
Others	62,442	(7,947)
Subtotal	153,475	558,969
Interest and dividends received	4,174	4,173
Interest paid	(66,367)	(62,845)
Income taxes refund (paid)	3,012	(8,317)
Net Cash Provided by Operating Activities	94,294	491,980
Cash Flows from Investing Activities:		
Payment for time deposits	(114,500)	(144,500)
Withdrawal of time deposits	114,500	144,500
Purchases of tangible fixed assets	(32,163)	(37,887)
Purchases of intangible fixed assets	(5,793)	(1,221)
Net Cash Used in Investing Activities	—	31
Cash Flows from Financing Activities:	(37,956)	(39,077)
Net increase (decrease) in short-term borrowings		
Proceeds from long-term borrowings	430,990	(17,800)
Repayment of long-term borrowings	200,000	640,000
Proceeds from corporate bonds issue	(514,844)	(608,772)
Redemption of corporate bonds	490,500	—
Purchase of treasury stock	(270,000)	(50,000)
Repayment of lease debt	—	(333)
Cash dividends paid	(16,161)	(12,946)
Others	—	(42,542)
Net Cash Provided by Financing Activities	—	10,286
Effect of Exchange Rate Changes on Cash and Cash Equivalents	320,484	(82,108)
Increase (Decrease) in Cash and Cash Equivalents	9,005	(5,626)
Cash and Cash Equivalents at Beginning of year	385,827	365,168
Cash and Cash Equivalents at End of the Period	457,518	310,835

(5) Segment Information

Performance by Business Segment

Six Months Ended August 31, 2009 (March 1, 2009 to August 31, 2009)

(Thousands of yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss)					
Sales					
(1) Sales to outside customers	2,732,191	352,257	3,084,448	—	3,084,448
(2) Sales and transfer-Inter-segment	—	—	—	—	—
Total	2,732,191	352,257	3,084,448	—	3,084,448
Operating income (loss)	343,821	(33,237)	310,584	(241,713)	68,870

Notes: 1. Method for business segmentation: According to the kinds of products

2. Main product names in each business

(1) Cosmetics:

Foundation, eye shadow, rouge, lipsticks, lip balm, skin milk, and sunscreen, etc.

(2) Pharmaceuticals and other products:

Athlete's foot remedies, medicated toothpaste, mouthwash, ear washing agents, and hygiene products, etc.

Six Months Ended August 31, 2010 (March 1, 2010 to August 31, 2010)

(Thousands of yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss)					
Sales					
(1) Sales to outside customers	3,066,707	327,877	3,394,585	—	3,394,585
(2) Sales and transfer-Inter-segment	—	—	—	—	—
Total	3,066,707	327,877	3,394,585	—	3,394,585
Operating income (loss)	493,661	15,983	509,644	(314,544)	195,100

Notes: 1. Method for business segmentation: According to the kinds of products

2. Main product names in each business

(1) Cosmetics:

Foundation, eye shadow, rouge, lipsticks, lip balm, skin milk, and sunscreen, etc.

(2) Pharmaceuticals and other products:

Athlete's foot remedies, medicated toothpaste, mouthwash, ear washing agents, and hygiene products, etc.

Performance by Geographic Region

Six Months Ended August 31, 2009 (March 1, 2009 to August 31, 2009)

(Thousands of yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
Sales					
(1) Sales to outside customers	2,609,810	474,637	3,084,448	—	3,084,448
(2) Sales and transfer-Inter-segment	33,373	—	33,373	(33,373)	—
Total	2,643,184	474,637	3,117,822	(33,373)	3,084,448
Operating income (loss)	357,014	(52,138)	304,875	(236,005)	68,870

Note: Method of geographical segmentation: By locations of manufacturing facilities.

Six Months Ended August 31, 2010 (March 1, 2010 to August 31, 2010)

(Thousands of yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
Sales					
(1) Sales to outside customers	2,832,414	562,170	3,394,585	—	3,394,585
(2) Sales and transfer-Inter-segment	20,205	—	20,205	(20,205)	—
Total	2,852,619	562,170	3,414,790	(20,205)	3,394,585
Operating income (loss)	488,352	18,372	506,724	(311,624)	195,100

Note: Method of geographical segmentation: By locations of manufacturing facilities.

Overseas Sales

Six Months Ended August 31, 2009 (March 1, 2009 to August 31, 2009)

(Thousands of yen)

	Europe	Other Areas	Total
Overseas sales	474,637	84,814	559,452
Consolidated net sales	—	—	3,084,448
Share of overseas sales in consolidated net sales (%)	15.4	2.7	18.1

Notes: 1. Method of geographical segmentation: Geographical proximity.

2. Major countries and regions.

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal and Switzerland.

(2) Other Areas: North America, Taiwan, Korea, Hong Kong, Malaysia, Singapore and China

3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.

Six Months Ended August 31, 2010 (March 1, 2010 to August 31, 2010)

(Thousands of yen)

	Europe	Other Areas	Total
Overseas sales	602,386	155,115	757,502
Consolidated net sales	—	—	3,394,585
Share of overseas sales in consolidated net sales (%)	17.7	4.6	22.3

Notes: 1. Method of geographical segmentation: Geographical proximity.

2. Major countries and regions.

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal and Switzerland.

(2) Other Areas: North America, Taiwan, Korea, Hong Kong, Malaysia, Singapore and China

3. Overseas sales refer to sales in countries or regions outside of Japan reported by the Company and its consolidated subsidiaries.