

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 29, 2012
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. announced the consolidated financial results for the fiscal year ended February 29, 2012. The following is the report.

Consolidated Financial Results

- **Net sales:** 7,182 million yen (7.8% increase from the previous period)
- **Operating income:** 401 million yen (0.5% decrease from the previous period)
- **Ordinary income:** 322 million yen (5.4% increase from the previous period)
- **Net income:** 314 million yen (Net income of 53 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 29, 2012 showed signs of recovery from the Great East Japan Earthquake and the related nuclear power plant accident; however, due to the rapid strengthening of the yen, the worldwide recession resulting from the expansion and escalation of the European sovereign crisis, and the impact from the flooding in Thailand, concern regarding a downturn in business performance by domestic Japanese companies continues to severely affect the Japanese economy.

Under these circumstances, a statistical report issued by the Ministry of Economy, Trade and Industry on the shipment of cosmetics in the domestic cosmetics market during the period of January to December 2011 revealed that the value of shipments in cosmetic products increased by 97.4% from the previous corresponding period (an increase of 102.3% in shipments from the previous corresponding period) and the value of shipments in skincare products increased by 99.1% from the previous corresponding period (an increase of 101.5% in shipments from the previous corresponding period). For several years, although shipments have been on the rise, the value of shipment had been decreasing every year, suggesting that consumers continue to be budget-minded and prefer lower-priced products.

Under this market environment, our Group, in the framework of our midterm growth strategy for the “Business structure reforms project (STEP-UP80)”, focused on the development of new formulas and technologies and on the promotion of a proposal-based global business model especially with an expansion of the sales of foundation, eye liner, and mascara. Subsequently, we were able to produce achievements including the acquisition of orders for new products with existing customers in the domestic market and a new contract with a leading overseas cosmetics manufacturer.

Regional Business Performance

(Japan)

The domestic cosmetics OEM market continues to grow steadily due to an expansion of outsourcing by cosmetics manufacturers and new entrants from outside the cosmetics industry. Under this market environment, our cosmetics business had an increase in new product orders received from both domestic and overseas cosmetics manufacturers. There was an increase in orders from the previous year for both cosmetic products including foundation, eye liner and mascara and for skin care products including sun care products, facial masks and skin toners. Notably, the sales of foundation to customers, including overseas cosmetics manufacturers, had a sharp increase of 45.4% from the previous corresponding period. In terms of profit, earnings substantially increased due

to an improved factory operating ratio and a prevailed sense of cost reduction pushing up profitability, in addition to factors increasing sales.

(France)

The European economy continues to remain dire due to factors including a weakening of consumer spending resulting from the prolonged recession in Europe, and euro-zone nations faced negative growth after the European sovereign crisis caused by the Greek financial crisis impacted some of the core euro-zone nations.

Under this business environment, our French subsidiary, THEPENIER PHARMA INDUSTRIES.A.S (hereafter referred to as “THEPENIER”) had an increase in sales on a local currency basis from the previous period due to a sharp increase in its cosmetics business under the global business strategy of the Nippon Shikizai Group, despite its core medical-drug business being stagnant. However, in terms of profits, the operating results deteriorated from the previous period due to factors including changes in wages, an increase in social security and other expenses, and an increase in initial costs for new hygiene products.

Outlook

For the next period, we forecast continuing uncertainty in the business environment due to factors including concern for the slowing worldwide economies, rising oil prices, and the prolonged yen appreciation at the historical level. Under the fundamental policy of “Business structure reforms project (STEP-UP80)”, our Group will further promote closer ties among our sales, research, and production departments, in a concerted effort to focus on a proposal-based global business model in order to develop new customers and acquire contracts for new products while striving to increase capital investment for improving production, expanding sales, and strengthening our high-profit business operation structure.

For the consolidated fiscal year, we forecast net sales of 7,326 million yen, operating income of 460 million yen, ordinary income of 396 million yen, and net income of 238 million yen

(%: change in full year from the previous year or in 2nd quarter (cumulative) from the same period previous year)

	2nd quarter (cumulative) (increase/decrease)	Full year (increase/decrease)
Net Sales	3,569 million yen (Down 1.9%)	7,326 million yen (Up 2.0%)
Operating income	155 million yen (Down 37.9%)	460 million yen (Up 14.9%)
Ordinary income	123 million yen (Down 38.4%)	396 million yen (Up 22.8%)
Net income	67 million yen (Down 75.5%)	238 million yen (Down 24.3%)
Net income per share	15.62 yen	55.21 yen

【Appendix】
Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Thousands of yen)

	At February 28, 2011		At February 29, 2012	
ASSETS				
Current Assets				
Cash and deposits	*1	929,868	*1	817,300
Trade notes and accounts receivable	*1	1,592,685	*1	1,677,126
Merchandise and finished goods		433,852		434,554
Work in progress		48,654		78,278
Raw materials and supplies		375,147		447,715
Deferred tax assets		106,138		169,513
Others		95,904		84,463
Allowance for doubtful accounts		(543)		(569)
Total Current Assets		3,581,708		3,708,382
Fixed Assets				
Tangible Fixed Assets				
Buildings and structures		4,385,672		4,438,461
Accumulated depreciation		(3,143,264)		(3,241,416)
Buildings and structures - net	*1	1,242,408	*1	1,197,045
Machinery and vehicles		2,467,925		2,412,407
Accumulated depreciation		(2,131,982)		(2,126,113)
Machinery and vehicles - net		335,943		286,293
Tools, furniture and fixtures		533,524		533,573
Accumulated depreciation		(489,708)		(483,639)
Tools, furniture and fixtures - net		43,815		49,933
Land	*1	1,326,477	*1	1,187,580
Construction in progress		-		38,410
Total Tangible Fixed Assets		2,948,644		2,759,263
Intangible Fixed Assets		200,991		198,001
Investments and Other Assets				
Investment securities	*1	167,345	*1	166,760
Deferred tax assets		3,433		13,282
Others		145,116		144,340
Allowance for doubtful accounts		(45,363)		(51,369)
Total Investments and Other Assets		270,531		273,013
Total Fixed Assets		3,420,168		3,230,278
Total Assets		7,001,876		6,938,660

	At February 28, 2011	At February 29, 2012
LIABILITIES		
Current Liabilities		
Trade notes and accounts payable	975,721	967,380
Short-term borrowings	*1 1,885,855	*1 1,282,610
Current portion of corporate bonds	133,400	200,200
Accounts payable-other	320,903	481,696
Income tax payable	40,711	-
Directors' bonuses reserve	-	24,200
Contingent loss reserve	2,158	2,014
Others	*1 310,732	*1 355,383
Total Current Liabilities	3,669,482	3,313,485
Long-Term Liabilities		
Corporate bonds	316,600	299,700
Long-term borrowings	*1 1,339,863	*1 1,387,575
Allowance for retirement benefits	102,241	65,735
Allowance for directors' retirement benefits	172,910	172,910
Others	55,171	120,648
Total Long-Term Liabilities	1,986,786	2,046,568
Total Liabilities	5,656,268	5,360,054
NET ASSETS		
Shareholder's Equity		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	90,698	362,230
Treasury stock	(2,084)	(2,114)
Total Shareholder's Equity	1,423,218	1,694,720
Accumulated other comprehensive income		
Unrealized holding gain (loss) on other securities	18,033	19,316
Deferred hedge gain (loss)	(3,901)	(8,675)
Foreign currency translation adjustment	(91,742)	(126,755)
Total Accumulated other comprehensive income	(77,610)	(116,114)
Total Net Assets	1,345,607	1,578,606
Total Liabilities and Net Assets	7,001,876	6,938,660

(2) Consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended		Fiscal year ended	
	February 28, 2011		February 29, 2012	
Sales		6,664,354		7,182,118
Cost of sales	*2	5,310,776	*2	5,735,322
Gross profit		1,353,578		1,446,795
SG&A expenses	*1	950,517	*1	1,045,773
Operating income		403,061		401,021
Non-operating income:				
Interest income		361		137
Dividend income		5,413		5,636
House Rent income		3,031		2,861
Gain on allowance of investment securities		3,531		-
Others		9,148		13,701
Total Non-operating Income		21,485		22,337
Non-operating expenses:				
Interest expense		103,008		78,288
Corporate bond issue costs		2,159		3,369
Commission fee		2,000		1,000
Donations		-		10,448
Others		11,416		7,798
Total Non-operating Expenses		118,584		100,904
Ordinary Income		305,962		322,454
Extraordinary Income:				
Profit on disposal of fixed assets		-		5,843
Reversal of allowance for doubtful accounts		81		-
Refund of the profession tax paid by the overseas subsidiaries in the previous year		10,396		-
Total Extraordinary Income		10,477		5,843
Extraordinary Loss:				
Loss on disposal of fixed assets	*3	3,623	*3	5,461
Loss on revision of retirement benefit plan		-		69,176
Loss on devaluation of golf memberships		-		8,000
Total Extraordinary Loss		3,623		82,638
Income before income taxes		312,816		245,659
Income taxes		33,706		9,109
Refund of income taxes		-		(9,119)
Refund of income taxes for prior periods		(21,321)		-
Adjustment for corporate tax		246,543		(68,992)
Total Corporate Income Tax		258,927		(69,001)
Net income before gain and loss on minority interests		-		314,661
Net Income		53,888		314,661

(3) Statement of Changes in Consolidated Shareholders' Equity

(Thousands of yen)

	Fiscal year ended February 28, 2011	Fiscal year ended February 29, 2012
Shareholders' equity		
Capital stock		
Balance at the end of previous period	552,749	552,749
Changes during the period		
Total changes during the period	-	-
Balance at the end of current period	552,749	552,749
Capital surplus		
Balance at the end of previous period	781,854	781,854
Changes during the period		
Total changes during the period	-	-
Balance at the end of current period	781,854	781,854
Retained earnings		
Balance at the end of previous period	79,968	90,698
Changes during the period		
Dividends from surplus	(43,158)	(43,129)
Net income	53,888	314,661
Total changes during the period	10,730	271,532
Balance at the end of current period	90,698	362,230
Treasury stock		
Balance at the end of previous period	(1,436)	(2,084)
Changes during the period		
Acquisition of treasury stock	(647)	(30)
Total changes during the period	(647)	(30)
Balance at the end of current period	(2,084)	(2,114)
Total shareholders' equity		
Balance at the end of previous period	1,413,135	1,423,218
Changes during the period		
Dividends from surplus	(43,158)	(43,129)
Net income	53,888	314,661
Acquisition of treasury stock	(647)	(30)
Total changes during the period	10,082	271,501
Balance at the end of current period	1,423,218	1,694,720

	Fiscal year ended February 28, 2011	Fiscal year ended February 29, 2012
Accumulated other comprehensive income		
Valuation difference on other marketable securities		
Balance at the end of previous period	22,832	18,033
Changes during the period		
Changes in items other than shareholders equity (net)	(4,798)	1,283
Total changes during the period	(4,798)	1,283
Balance at the end of current period	18,033	19,316
Gain (loss) on deferred hedges		
Balance at the end of previous period	(10,410)	(3,901)
Changes during the period		
Changes in items other than shareholders equity (net)	6,508	(4,773)
Total changes during the period	6,508	(4,773)
Balance at the end of current period	(3,901)	(8,675)
Foreign currency translation adjustment		
Balance at the end of previous period	29,520	(91,742)
Changes during the period		
Changes in items other than shareholders equity (net)	(121,263)	(35,013)
Total changes during the period	(121,263)	(35,013)
Balance at the end of current period	(91,742)	(126,755)
Total Accumulated other comprehensive income		
Balance at the end of previous period	41,942	(77,610)
Changes during the period		
Changes in items other than shareholders equity (net)	(119,552)	(38,503)
Total changes during the period	(119,552)	(38,503)
Balance at the end of current period	(77,610)	(116,114)
Total net assets		
Balance at the end of previous period	1,455,078	1,345,607
Changes during the period		
Dividends from surplus	(43,158)	(43,129)
Net income	53,888	314,661
Acquisition of treasury stock	(647)	(30)
Changes in items other than shareholders equity (net)	(119,552)	(38,503)
Total changes during the period	(109,470)	232,998
Balance at the end of current period	1,345,607	1,578,606

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2011	Fiscal year ended February 29, 2012
Cash Flows from Operating Activities:		
Income before income taxes	312,816	245,659
Depreciation	286,000	279,926
Increase (decrease) in directors bonuses reserve	-	24,200
Increase (decrease) in contingent loss reserve	(491)	-
Increase (decrease) in allowance for retirement benefits	(1,645)	(31,803)
Increase (decrease) in allowance for doubtful accounts	(1,222)	9,948
Interest and dividend income	(5,774)	(5,773)
Interest expenses	103,008	78,288
Corporate bond issue costs	2,159	3,369
Gain on allowance of investment securities	(3,531)	-
Loss on retirement of tangible fixed assets	3,623	5,461
Loss (profit) on disposal of fixed assets	-	(5,843)
Loss on devaluation of golf memberships	-	8,000
Decrease (increase) in trade receivable	240,705	(104,156)
Decrease (increase) in inventories	(17,631)	(114,629)
Increase (decrease) in trade payable	(18,538)	(4,512)
Increase (decrease) in accrued consumption taxes	(29,626)	(6,050)
Increase (decrease) in other current liabilities	70,674	105,549
Others	26,237	54,547
Subtotal	966,764	542,183
Interest and dividends received	5,963	5,816
Interest paid	(115,909)	(83,429)
Income taxes refund (paid)	(13,375)	(29,995)
Net Cash Provided by Operating Activities	843,443	434,575
Cash Flows from Investing Activities:		
Payment for time deposits	(327,500)	(157,500)
Withdrawal of time deposits	397,500	210,000
Purchases of tangible fixed assets	(179,167)	(139,838)
Proceeds from tangible fixed assets	-	144,060
Purchases of intangible fixed assets	(5,421)	(5,681)
Others	105	-
Net Cash Used in Investment Activities	(114,483)	51,040

(Thousands of yen)

	Fiscal year ended February 28, 2011	Fiscal year ended February 29, 2012
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term borrowings	(157,800)	(470,000)
Proceeds from long-term borrowings	1,290,000	1,350,000
Repayment of long-term borrowings	(1,333,185)	(1,435,533)
Proceeds from corporate bonds issue	97,840	196,631
Redemption of corporate bonds	(100,000)	(150,100)
Purchase of treasury stock	(647)	(30)
Cash dividends paid	(42,695)	(43,024)
Repayment of lease debt	(26,391)	(16,877)
Others	(20,656)	22,867
Net Cash Provided by Financing Activities	(293,536)	(546,067)
Activities		
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4,928)	308
Increase (Decrease) in Cash and Cash Equivalents	430,494	(60,143)
Cash and Cash Equivalents at Beginning of Year	310,835	741,330
Cash and Cash Equivalents at End of Year	* 741,330	* 681,187

Year Ended February 29, 2012 (March1, 2011 to February 29, 2012)

(Thousand of yen)

	Reporting Segment			Adjustment Amount * 1&2	Consolidated Income Statement Amount *3
	Japan	France	Total		
Sales					
Sales to outside customers	6,252,704	929,414	7,182,118	-	7,182,118
Sales and transfer-Inter-segment	76,384	-	76,384	(76,384)	-
Total	6,329,089	929,414	7,258,503	(76,384)	7,182,118
Segment income (loss)	478,247	(72,946)	405,301	(42,79)	401,021
Segment asset	6,749,385	892,806	7,642,191	(703,530)	6,938,660

Notes: 1 The adjustment amount of negative 4,279 thousand yen in segment income or loss is an elimination of intra-company transactions between segments.

2 The adjustment amount of negative 703,530 thousand yen in segment asset is a reflection of consolidation goodwill between segments.

3 The segment income is adjusted with operating income on the consolidated financial statements.