

Nippon Shikizai, Inc.
Summary of Financial Results for the Six Months Ending February 28, 2014
[Japanese Standard] (Consolidated)

As the Nippon Shikizai, Inc. has today announced consolidated earnings for the first half of the fiscal year ending February 28, 2014, we will now report as follows.

Consolidated financial results

- **Net sales:** 3,517 million yen (6.4% decrease from the previous period)
- **Operating income:** 66 million yen (69.8% decrease from the previous period)
- **Ordinary income:** 51 million yen (72.7% decrease from the previous period)
- **Net income:** 24 million yen (Net income of 114 million yen in the same period previous year)

Summary of consolidated operating results

During the first half of this consolidated fiscal year, the picture brightened for the Japanese economy, as the national government carried out an aggressive policy of quantitative easing, combined with economic policies geared toward recovery.

On the international level, however, economic conditions remained uncertain. In North America, consumption and employment trends were both favorable. In Europe, however, despite signs of a gradual recovery, employment conditions remained challenging, frustrating hopes for a meaningful recovery in personal consumption. Similarly, the Asia ex-Japan region, paced by China, was gripped by concerns about an economic slowdown.

Against this background, the Group strove to develop new formulas and technologies. Marshaling its product-development and technological strengths, the Group actively deployed planning- and proposal-driven sales on a global level. The Group also committed resources to raising productivity and reinforcing its quality-assurance framework. Despite these efforts, however, revenues declined year-on-year, due to the already worn off effects of the large quantity orders

The business performance in each country

(Japan)

The domestic cosmetics OEM market enjoyed slender but positive growth during the period under review. This growth was buoyed by an advancing trend of outsourcing, driven by restructuring in the cosmetics industry, and also the fact that an increasing number of companies entered the cosmetics market from other fields. The cosmetics market as a whole in Japan benefited from growing consumer optimism, despite continuing cost-consciousness.

Under this business environment, revenues declined for the Company in the period under review. The reason is that although the Company enjoyed a positive trend in the cosmetics business as orders increased year-on-year led by lipsticks and creams, the initial effects of large quantity orders for new products and orders from abroad have worn off.

(France)

Revenues declined (though revenues grew in Japanese-yen-denominated terms, owing to the effects of a weakening yen) on a local-currency, year-on-year basis at our French subsidiary, THEPENIER PHARMA INDUSTRIE S.A.S (hereafter referred to as “THEPENIER”). While orders for skincare cosmetics trended strongly, large orders for new cosmetics products declined. Moreover, trouble with production equipment for the company’s core medicines caused an unavoidable fall in production. Income also fell on the same year-on-year basis. The problems with production equipment indicated above have now been corrected.

Information concerning consolidated earnings forecasts

With respect to our consolidated performance forecast for the full-year ending February 28, 2014, there is no change in performance forecast announced on April 16, 2013.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	7,221 million yen (Up 3.1%)
Operating income	263 million yen (Up 36.1%)
Ordinary income	205 million yen (Up 23.4%)
Net income	129 million yen (Up 74.1%)
Net income per share	29.95 yen

【Appendix】**Consolidated quarterly financial statements****(1) Consolidated quarterly balance sheets**

(Thousands of yen)

	At February 29, 2013	At August 31, 2013
Assets		
Current assets		
Cash and deposits	571,725	419,046
Trade notes and accounts receivable	1,708,803	1,917,412
Inventories	996,839	1,087,689
Others	187,933	211,852
Allowance for doubtful accounts	(3,469)	(4,712)
Total current assets	3,461,832	3,631,287
Fixed assets		
Tangible fixed assets		
Buildings and structures -net	1,262,998	1,263,899
Machinery and vehicles -net	399,450	406,302
Land	1,353,033	1,362,433
Others -net	280,906	535,456
Total tangible fixed assets	3,296,389	3,568,092
Intangible fixed assets	193,351	213,499
Investments and other assets		
Investment securities	189,561	207,515
Others	168,564	175,540
Allowance for doubtful accounts	(64,421)	(72,182)
Total investments and other assets	293,704	310,872
Total fixed assets	3,783,446	4,092,464
Total assets	7,245,279	7,723,752

(Thousands of yen)

	At February 29, 2013	At August 31, 2013
Liabilities		
Current liabilities		
Trade notes and accounts payable	858,460	934,774
Short-term borrowings	1,715,877	1,815,424
Current portion of corporate bonds	200,000	183,100
Income tax payable	15,813	42,112
Reserve for bonuses	44,451	94,598
Order loss reserve	1,000	—
Contingent loss reserve	2,294	2,570
Others	770,826	951,117
Total current liabilities	3,608,722	4,023,697
Long-term liabilities		
Corporate bonds	99,700	16,500
Long-term borrowings	1,501,480	1,567,412
Allowance for retirement benefits	81,683	82,186
Allowance for directors' retirement benefits	172,910	150,090
Others	129,593	176,863
Total long-term liabilities	1,985,367	1,993,052
Total liabilities	5,594,089	6,016,749
Net assets		
Shareholder's equity		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	371,734	352,609
Treasury stock	(2,150)	(2,150)
Total shareholder's equity	1,704,188	1,685,063
Accumulated other comprehensive income		
Unrealized holding gain (loss) on other securities	34,489	45,789
Deferred hedge gain (loss)	(5,236)	(3,754)
Foreign currency translation adjustment	(82,251)	(20,096)
Total accumulated other comprehensive income	(52,998)	21,939
Total net assets	1,651,189	1,707,003
Total liabilities and net assets	7,245,279	7,723,752

(2) Consolidated quarterly statements of income
(Six months ended August 31, 2013)

(Thousands of yen)

	Six months ended August 31, 2012	Six months ended August 31, 2013
Sales	3,756,100	3,517,004
Cost of sales	3,014,030	2,927,164
Gross profit	742,070	589,840
SG&A expenses	521,398	523,180
Operating income	220,671	66,659
Non-operating income:		
Interest income	55	22
Dividend income	4,596	4,661
Foreign exchange gains	—	7,730
Others	6,558	5,077
Total non-operating income	11,210	17,491
Non-operating expenses:		
Interest expense	35,183	31,646
Others	9,340	1,424
Total non-operating expenses	44,524	33,070
Ordinary income	187,358	51,079
Extraordinary loss:		
Loss on disposal of fixed assets	334	0
Total extraordinary loss	334	0
Income before income taxes	187,023	51,079
Income taxes	14,456	36,860
Adjustment for corporate tax	57,591	(9,783)
Total corporate income tax	72,047	27,076
Income before minority interests	114,975	24,003
Net income	114,975	24,003

(3) Consolidated quarterly statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2012	Six months ended August 31, 2013
Cash flows from operating activities:		
Income before income taxes	187,023	51,079
Depreciation	145,709	146,218
Increase (decrease) in order loss reserve	—	(1,000)
Increase (decrease) in reserve for bonuses	46,388	50,146
Increase (decrease) in directors bonuses reserve	(24,200)	—
Increase (decrease) in allowance for retirement benefits	4,092	(9,143)
Increase (decrease) in allowance for directors' retirement benefits	—	(22,820)
Increase (decrease) in allowance for doubtful accounts	(569)	807
Interest and dividend income	(4,652)	(4,684)
Interest expenses	35,183	31,646
Loss on disposal of fixed assets	334	0
Decrease (increase) in trade receivable	(161,317)	(171,203)
Decrease (increase) in inventories	(92,636)	(70,368)
Increase (decrease) in trade payable	68,216	62,120
Increase (decrease) in accounts payable-other	(118,174)	(7,848)
Increase (decrease) in accrued consumption taxes	(1,589)	8,871
Others	14,876	16,944
Subtotal	98,685	80,765
Interest and dividends received	4,652	4,680
Interest paid	(36,452)	(31,680)
Income taxes refund (paid)	20,641	(10,011)
Net cash provided by operating activities	87,525	43,754
Cash flows from investing activities:		
Payment for time deposits	(52,000)	(52,000)
Withdrawal of time deposits	52,000	52,000
Purchases of tangible fixed assets	(554,484)	(168,342)
Purchases of intangible fixed assets	(2,815)	(4,543)
Purchase of investment securities	(199)	(1,202)
Net cash used in investing activities	(557,499)	(174,088)

(Thousands of yen)

	Six months ended August 31, 2012	Six months ended August 31, 2013
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	—	100,000
Proceeds from long-term borrowings	1,070,000	500,000
Repayment of long-term borrowings	(686,308)	(434,521)
Redemption of corporate bonds	(100,100)	(100,100)
Purchase of treasury stock	(35)	—
Repayment of lease debt	(5,858)	(13,834)
Cash dividends paid	(64,287)	(43,191)
Others	13,717	(34,689)
Net cash provided by (used in) financing activities	227,127	(26,336)
Effect of exchange rate changes on cash and cash equivalents	(1,201)	4,054
Increase (decrease) in cash and cash equivalents	(244,048)	(152,615)
Cash and cash equivalents at beginning of year	681,187	435,442
Cash and cash equivalents at end of the period	437,138	282,826

(4) Segment information***Performance by business segment***

Six months ended August 31, 2013 (March 1, 2013 to August 31, 2013)

(Thousand of yen)

	Report segment			Adjustment (Note 1)	Consolidated quarterly statements of income amount (Note 2)
	Japan	France	Total		
Sales					
Sales to outside customers	2,950,190	566,814	3,517,004	—	3,517,004
Sales and transfer-Inter-segment	27,507	—	27,507	(27,507)	—
Total	2,977,697	566,814	3,544,512	(27,507)	3,517,004
Segment profit (loss)	122,603	(53,296)	69,306	(2,647)	66,659

Notes: 1. The -2,647 thousand yen adjustment in segment profit (loss) is for the elimination of intersegment transactions.

2. Segment profit has been adjusted with operating income of the consolidated quarterly statements of income.