

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the Fiscal Year Ended February 28, 2013**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. announced the consolidated financial results for the fiscal year ended February 28, 2013. The following is the report.

**Consolidated Financial Results**

- **Net sales:** 7,002 million yen (2.5% decrease from the previous period)
- **Operating income:** 193 million yen (51.7% decrease from the previous period)
- **Ordinary income:** 166 million yen (48.3% decrease from the previous period)
- **Net income:** 74 million yen (Net income of 314 million yen in the previous period)

**Summary of Consolidated Operating Results**

The Japanese economy in the consolidated fiscal year ended February 28, 2013 showed signs of moderate recovery because of disaster restoration-related demand and positive expectations about economic policies of the new government. However, due to external factors including deepening financial crisis resulting from the expansion and escalation of the European sovereign debt crisis and concern regarding an economic slowdown in Western and emerging economies, the future outlook remains uncertain.

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 2012 revealed that the value of shipments in cosmetic products amounted to 100.3% of the previous corresponding period (the shipments amounted to 100.0% of the previous corresponding period), suggesting that its market remained flat. Cosmetics industry faced an increasingly difficult business environment, due to not only the trend of the several years that consumers continue to be budget-minded and prefer lower-priced products, but also the diversified consumer needs and the polarization in consumption patterns in which consumers either want high-end or low-end 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, mascara, and sun care product. Also, we strived to enhance cost competitiveness through improved production efficiency and cost reduction.

As a result, we achieved higher sales in the first half of the year than in the previous corresponding period. However, sales for the year decreased, offset by a large drop in sales in the latter half of the year owing to continued strengthening of the yen, a drop in exports to China, inventory adjustments by cosmetics manufacturers, and a drop in sales of existing products caused by the launch of the new formula of sun care products. In terms of profit, earnings decreased due to rising investment costs of the growth strategy for the future and a drop in sales.

## **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 from the first half of the year in product orders for both skin care products including cream and for cosmetic products including eye liner, mascara, lip stick, face powder and talcum powder, while suffering a sharp drop in product orders for foundation, eye shadow, blush, and sun care product mainly due to marketing strategies redefined by cosmetics manufacturers resulting from a drop in exports to China and continued inventory adjustments. As a result, the domestic sales decreased by 255 million yen from the first half of the year. In terms of profit, earnings decreased due to rising costs of depreciation and repair with investment in higher production capacity and new cost of investment in improvement for global quality control system, in addition to a profit drop caused by the domestic sales drop.

### ***(France)***

The European economy continues to remain dire due to deepening financial crisis resulting from the European sovereign debt crisis and euro-zone nations have faced negative growth since 2009 with weak consumer spending and deteriorating employment conditions.

Under this business environment, our French subsidiary, THEPENIER PHARMA INDUSTRIES.A.S (hereafter referred to as “THEPENIER”) had an increase in earnings due to a sharp increase from the first half of the year in product orders for cosmetic products. However, in terms of profit, we recorded negative profit due to specific factors including renovation costs of some facilities based on the local pharmaceutical law and rising costs of industrial structural reform such as new management system, while reducing the deficit from the first half of the year.

## **Outlook**

For the next period, we forecast continuing uncertainty in the business environment due to factors including concern for the prolonged slowdown in Western and emerging economies and deepening financial crisis resulting from the European sovereign debt crisis, despite of the positive expectations about continued weakening of the yen and economic policies of the new government. 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 investments for building Tsukuba factory which will start production in the near future and for improving production efficiency, to expand sales, and to strengthen our high-profit business operation structure.

For the consolidated fiscal year, we forecast net sales of 7,221 million yen, operating income of 263 million yen, ordinary income of 205 million yen, and net income of 129 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	3,514 million yen (Down 6.4%)	7,221 million yen (Up 3.1%)
Operating income	122 million yen (Down 44.3%)	263 million yen (Up 36.1%)
Ordinary income	98 million yen (Down 47.5%)	205 million yen (Up 23.4%)
Net income	58 million yen (Down 49.3%)	129 million yen (Up 74.1%)
Net income per share	13.50 yen	29.95 yen

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

(Thousands of yen)

	At February 29, 2012	At February 28, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	817,300	571,725
Trade notes and accounts receivable	1,677,126	1,708,803
Merchandise and finished goods	434,554	500,109
Work in progress	78,278	54,777
Raw materials and supplies	447,715	441,952
Deferred tax assets	169,513	81,610
Others	84,463	106,323
Allowance for doubtful accounts	(569)	(3,469)
<b>Total Current Assets</b>	<b>3,708,382</b>	<b>3,461,832</b>
<b>Fixed Assets</b>		
<b>Tangible Fixed Assets</b>		
Buildings and structures	4,438,461	4,683,877
Accumulated depreciation	(3,241,416)	(3,420,878)
Buildings and structures - net	1,197,045	1,262,998
Machinery and vehicles	2,412,407	2,702,769
Accumulated depreciation	(2,126,113)	(2,303,318)
Machinery and vehicles - net	286,293	399,450
Tools, furniture and fixtures	533,573	585,285
Accumulated depreciation	(483,639)	(520,610)
Tools, furniture and fixtures - net	49,933	64,674
Land	1,187,580	1,353,033
Construction in progress	38,410	216,231
<b>Total Tangible Fixed Assets</b>	<b>2,759,263</b>	<b>3,296,389</b>
<b>Intangible Fixed Assets</b>	<b>198,001</b>	<b>193,351</b>
<b>Investments and Other Assets</b>		
Investment securities	166,760	189,561
Deferred tax assets	13,282	3,597
Others	144,340	164,966
Allowance for doubtful accounts	(51,369)	(64,421)
<b>Total Investments and Other Assets</b>	<b>273,013</b>	<b>293,704</b>
<b>Total Fixed Assets</b>	<b>3,230,278</b>	<b>3,783,446</b>
<b>Total Assets</b>	<b>6,938,660</b>	<b>7,245,279</b>

	At February 29, 2012	At February 28, 2013
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade notes and accounts payable	967,380	858,460
Short-term borrowings	1,282,610	1,715,877
Current portion of corporate bonds	200,200	200,000
Accounts payable-other	481,696	435,888
Income tax payable	-	15,813-
Bonuses reserve	42,884	44,451
Directors' bonuses reserve	24,200	-
Contingent loss reserve	2,014	2,294
Order loss reserve	-	1,000
Others	312,499	334,937
<b>Total Current Liabilities</b>	<b>3,313,485</b>	<b>3,608,722</b>
<b>Long-Term Liabilities</b>		
Corporate bonds	299,700	99,700
Long-term borrowings	1,387,575	1,501,480
Allowance for retirement benefits	65,735	81,683
Allowance for directors' retirement benefits	172,910	172,910
Others	120,648	129,593
<b>Total Long-Term Liabilities</b>	<b>2,046,568</b>	<b>1,985,367</b>
<b>Total Liabilities</b>	<b>5,360,054</b>	<b>5,594,089</b>
<b>NET ASSETS</b>		
<b>Shareholder's Equity</b>		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	362,230	371,734
Treasury stock	(2,114)	(2,150)
<b>Total Shareholder's Equity</b>	<b>1,694,72</b>	<b>1,704,188</b>
<b>Accumulated other comprehensive income</b>		
Unrealized holding gain (loss) on other securities	19,316	34,489
Deferred hedge gain (loss)	(8,675)	(5,236)
Foreign currency translation adjustment	(126,755)	(82,251)
<b>Total Accumulated other comprehensive income</b>	<b>(116,114)</b>	<b>(52,998)</b>
<b>Total Net Assets</b>	<b>1,578,606</b>	<b>1,651,189</b>
<b>Total Liabilities and Net Assets</b>	<b>6,938,660</b>	<b>7,245,279</b>

## (2) Consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
<b>Sales</b>	7,182,118	7,002,121
<b>Cost of sales</b>	5,735,322	5,788,452
<b>Gross profit</b>	1,446,795	1,213,668
<b>SG&amp;A expenses</b>	1,045,773	1,020,018
<b>Operating income</b>	401,021	193,649
<b>Non-operating income:</b>		
Interest income	137	79
Dividend income	5,636	6,140
House Rent income	2,861	2,971
Gain on allowance of investment securities	-	24,825
Others	13,701	10,060
<b>Total Non-operating Income</b>	22,337	44,077
<b>Non-operating expenses:</b>		
Interest expense	78,288	67,449
Corporate bond issue costs	3,369	-
Commission fee	1,000	-
Donations	10,448	-
Others	7,798	3,450
<b>Total Non-operating Expenses</b>	100,904	70,899
<b>Ordinary Income</b>	322,454	166,827
<b>Extraordinary Income:</b>		
Profit on disposal of fixed assets	5,843	-
<b>Total Extraordinary Income</b>	5,843	-
<b>Extraordinary Loss:</b>		
Loss on disposal of fixed assets	5,461	2,463
Loss on revision of retirement benefit plan	69,176	-
Loss on devaluation of golf memberships	8,000	-
<b>Total Extraordinary Loss</b>	82,638	2,463
<b>Income before income taxes</b>	245,659	164,363
Income taxes	9,109	10,115
Refund of income taxes	(9,119)	(9,234)
Adjustment for corporate tax	(68,992)	89,285
<b>Total Corporate Income Tax</b>	(69,001)	90,166
<b>Net income before gain and loss on minority interests</b>	314,661	74,196
<b>Net Income</b>	314,661	74,196

**Consolidated Statements of Comprehensive income**

(Thousands of yen)

	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
Income (loss) before minority interests	314,661	74,196
Other comprehensive income		
Valuation difference on available-for-sale securities	1,283	15,712
Deferred hedge gain (loss)	(4,773)	3,438
Foreign currency translation adjustment	(35,013)	44,503
Total Accumulated other comprehensive income	(38,503)	63,115
Comprehensive income	276,158	137,311
(Details)		
Comprehensive income in parent company interests	276,158	137,311
Comprehensive income in minority interests	-	-

**(3) Statement of Changes in Consolidated Shareholders' Equity**

(Thousands of yen)

	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
<b>Shareholders' equity</b>		
<b>Capital stock</b>		
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
<b>Capital surplus</b>		
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
<b>Retained earnings</b>		
Balance at the end of previous period	90,698	362,230
Changes during the period		
Dividends from surplus	(43,129)	(64,693)
Net income	314,661	74,196
Total changes during the period	271,532	9,503
Balance at the end of current period	362,230	371,734
<b>Treasury stock</b>		
Balance at the end of previous period	(2,084)	(2,114)
Changes during the period		
Acquisition of treasury stock	(30)	(35)
Total changes during the period	(30)	(35)
Balance at the end of current period	(2,114)	(2,150)
<b>Total shareholders' equity</b>		
Balance at the end of previous period	1,423,218	1,694,720
Changes during the period		
Dividends from surplus	(43,129)	(64,693)
Net income	314,661	74,196
Acquisition of treasury stock	(30)	(35)
Total changes during the period	271,501	9,468
Balance at the end of current period	1,694,720	1,704,188



	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
<b>Accumulated other comprehensive income</b>		
<b>Valuation difference on other marketable securities</b>		
Balance at the end of previous period	18,033	19,316
Changes during the period		
Changes in items other than shareholders equity (net)	1,283	15,172
Total changes during the period	1,283	15,172
Balance at the end of current period	19,316	34,489
<b>Gain (loss) on deferred hedges</b>		
Balance at the end of previous period	(3,901)	(8,675)
Changes during the period		
Changes in items other than shareholders equity (net)	(4,773)	3,438
Total changes during the period	(4,773)	3,438
Balance at the end of current period	(8,675)	(5,236)
<b>Foreign currency translation adjustment</b>		
Balance at the end of previous period	(91,742)	(126,755)
Changes during the period		
Changes in items other than shareholders equity (net)	(35,013)	44,503
Total changes during the period	(35,013)	44,503
Balance at the end of current period	(126,755)	(82,251)
<b>Total Accumulated other comprehensive income</b>		
Balance at the end of previous period	(77,610)	(116,114)
Changes during the period		
Changes in items other than shareholders equity (net)	(38,503)	63,115
Total changes during the period	(38,503)	63,115
Balance at the end of current period	(116,114)	(52,998)
<b>Total net assets</b>		
Balance at the end of previous period	1,345,607	1,578,606
Changes during the period		
Dividends from surplus	(43,129)	(64,693)
Net income	314,661	74,196
Acquisition of treasury stock	(30)	(35)
Changes in items other than shareholders equity (net)	(38,503)	63,115
Total changes during the period	232,998	72,583
Balance at the end of current period	1,578,606	1,651,189

#### (4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	245,659	164,363
Depreciation	279,926	323,856
Increase (decrease) in bonuses reserve	65	1,567
Increase (decrease) in directors bonuses reserve	24,200	(24,200)
Increase (decrease) in contingent loss reserve	-	1,000
Increase (decrease) in allowance for retirement benefits	(31,803)	6,120
Increase (decrease) in allowance for doubtful accounts	9,948	7,860
Interest and dividend income	(5,773)	(6,220)
Interest expenses	78,288	67,449
Corporate bond issue costs	3,369	-
Loss on retirement of tangible fixed assets	5,461	2,463
Loss (profit) on disposal of fixed assets	(5,843)	-
Loss on devaluation of golf memberships	8,000	-
Decrease (increase) in trade receivable	(104,156)	7,341
Decrease (increase) in inventories	(114,629)	(16,315)
Increase (decrease) in trade payable	(4,512)	(127,294)
Increase (decrease) in accrued consumption taxes	(6,050)	(7,082)
Increase (decrease) in account payable-other	102,769	(88,725)
Others	57,261	(71,340)
<b>Subtotal</b>	<b>542,183</b>	<b>240,845</b>
Interest and dividends received	5,816	6,229
Interest paid	(83,429)	(71,204)
Income taxes refund (paid)	(29,995)	20,494
<b>Net Cash Provided by Operating Activities</b>	<b>434,575</b>	<b>196,364</b>
<b>Cash Flows from Investing Activities:</b>		
Payment for time deposits	(157,500)	(135,000)
Withdrawal of time deposits	210,000	135,000
Purchases of tangible fixed assets	(139,838)	(756,900)
Proceeds from tangible fixed assets	144,060	-
Purchases of intangible fixed assets	(5,681)	(4,136)
Purchase of investment securities	-	(1,398)
<b>Net Cash Used in Investment Activities</b>	<b>51,040</b>	<b>(762,435)</b>

(Thousands of yen)

	Fiscal year ended February 29, 2012	Fiscal year ended February 28, 2013
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term borrowings	(470,000)	500,000
Proceeds from long-term borrowings	1,350,000	1,270,000
Repayment of long-term borrowings	(1,435,533)	(1,222,828)
Proceeds from corporate bonds issue	196,631	-
Redemption of corporate bonds	(150,100)	(200,200)
Purchase of treasury stock	(30)	(35)
Cash dividends paid	(43,024)	(64,487)
Repayment of lease debt	(16,877)	(21,822)
Others	22,867	56,814
<b>Net Cash Provided by Financing Activities</b>	<b>(546,067)</b>	<b>317,439</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>308</b>	<b>2,887</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(60,143)</b>	<b>(245,744)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>741,330</b>	<b>681,187</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>* 681,187</b>	<b>* 435,442</b>

Year Ended February 28, 2013 (March1, 2012 to February 28, 2013)

(Thousand of yen)

	Reporting Segment			Adjustment Amount * 1&2	Consolidated Income Statement Amount *3
	Japan	France	Total		
Sales					
Sales to outside customers	5,994,400	1,007,720-	7,002,12179	-	7,002,121-
Sales and transfer-Inter-segment	79,059		,059	(79,059)	-
Total	6,073,460	1,007,720	7,081,180	(79,059)	7,002,121
Segment income (loss)	234,849	(38,604)	196,244	(2,594)	193,649
Segment asset	6,876,755	1,119,765	7,996,520	(751,241)	7,245,279

Notes: 1 The adjustment amount of negative 2,594 thousand yen in segment income or loss is an elimination of intra-company transactions between segments.

2 The adjustment amount of negative 751,241 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.