

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the Six Months Ending February 28, 2015**  
**[Japanese Standard] (Consolidated)**

As the Nippon Shikizai, Inc. has today announced consolidated earnings for the first half of the fiscal year ending February 28, 2015, we will now report as follows.

**Consolidated financial results**

- **Net sales:** 3,665 million yen (4.2% increase from the previous period)
- **Operating income:** -112 million yen (—)
- **Ordinary income:** -144 million yen (—)
- **Net income:** -132 million yen (Net income of 24 million yen in the same period previous year)

**Summary of consolidated operating results**

Despite the impact of the consumption tax increase implemented in April, the fiscal policy and monetary easing of the government and the BOJ had an effect through the depreciation of the Yen and the improving stock market. Moreover, the Japanese economy in the first half of the fiscal year ending February 28, 2015 showed signs of recovery in corporate earnings and employment conditions. On the other hand, economic conditions overseas remain uncertain on the whole. In the US, consumption and employment continued to steadily increase. The European economy, however, has not yet attained the full-scale recovery although it is overall on the track to gradual recovery. Also the economy is at a standstill in Asia and emerging nations.

Under these economic conditions, the Group is developing new formulas and technologies and carrying out planning and solution sales on a global level utilizing its product development and technological capabilities. It is also focusing on improving productivity and further strengthening its quality assurance system.

Accordingly, consolidated net sales for the Group in the first half of the fiscal year under review grew compared to the same period the previous fiscal year thanks to steadily increasing orders from domestic customers. However, income was down year-on-year due to sluggish orders of make-up products in our subsidiary, THEPENIER PHARMA INDUSTRIE S.A.S. (hereinafter referred to as "THEPENIER"), a reduced production necessitated by problems of production equipment, as well as increased expenses from such forward investments as those made for operating the Company's Tsukuba Factory and improving quality control.

**The business performance in each country**

***(Japan)***

The domestic cosmetics OEM market is growing modestly on the back of an expansion of outsourcing by cosmetics manufacturers and new entrants from outside the cosmetics industry.

Under such market environment, in the Company's cosmetics business, orders of foundation, lipsticks, powders and other products increased compared with the same period the previous fiscal year, and net sales grew thanks to steadily increasing orders from domestic customers. However, income was down year-on-year due to increased expenses for operating the Tsukuba Factory (including depreciation expense) and for further strengthening our quality assurance system.

***(France)***

The economy in Europe, where THEPENIER is located, has not yet attained the full-scale recovery although it is overall on the track to recovery due to the gradual recovery in personal consumption along with the improvement in employment.

Under such market environment, in THEPENIER, while sales of skincare products and hygiene products steadily grew, net sales and income were down year-on-year due to sluggish orders of make-up products and a reduced production necessitated by problems of production equipment.

**Information concerning consolidated earnings forecasts**

In consideration of the trend in our business results in the first half of the fiscal year under review, we have revised the business forecasts and dividend forecast for the fiscal year ending February 28, 2015, announced on April 17, 2014.

For further information, please refer to the "Notice regarding 'the difference between business forecasts and actual results for the first half of the fiscal year ending February 28, 2015' and 'the revision of business forecasts and dividend forecast for the full fiscal year ending February 28, 2015'".

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	7,356 million yen (Up 0.7%)
Operating income	-212 million yen (—)
Ordinary income	-270 million yen (—)
Net income	-292 million yen (—)
Net income per share	-67.79 yen

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

(Thousands of yen)

	At February 29, 2014	At August 31, 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	950,391	517,050
Trade notes and accounts receivable	1,547,598	1,606,161
Inventories	963,628	1,200,292
Others	302,829	214,816
<b>Total current assets</b>	<b>3,764,447</b>	<b>3,538,321</b>
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings and structures -net	2,039,081	1,975,467
Machinery and vehicles -net	458,574	454,760
Land	1,363,997	1,363,359
Others -net	115,207	308,807
<b>Total tangible fixed assets</b>	<b>3,976,861</b>	<b>4,102,394</b>
<b>Intangible fixed assets</b>	<b>257,903</b>	<b>257,154</b>
<b>Investments and other assets</b>		
Investment securities	237,521	257,758
Others	182,591	193,927
Allowance for doubtful accounts	(60,009)	(58,888)
<b>Total investments and other assets</b>	<b>360,103</b>	<b>392,797</b>
<b>Total fixed assets</b>	<b>4,594,868</b>	<b>4,752,345</b>
<b>Total assets</b>	<b>8,359,315</b>	<b>8,290,666</b>

(Thousands of yen)

	At February 29, 2014	At August 31, 2014
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	929,700	1,089,160
Short-term borrowings	1,511,012	1,696,480
Current portion of corporate bonds	99,700	16,500
Income tax payable	44,747	8,357
Reserve for bonuses	48,517	100,250
Product warranties reserve	12,000	22,635
Others	1,079,396	806,980
<b>Total current liabilities</b>	<b>3,725,074</b>	<b>3,740,363</b>
<b>Long-term liabilities</b>		
Long-term borrowings	2,294,792	2,419,445
Allowance for retirement benefits	88,069	89,180
Allowance for directors' retirement benefits	88,069	150,090
Others	232,243	214,725
<b>Total long-term liabilities</b>	<b>2,765,195</b>	<b>2,873,441</b>
<b>Total liabilities</b>	<b>6,490,270</b>	<b>6,613,805</b>
<b>Net assets</b>		
<b>Shareholder's equity</b>		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	418,032	242,806
Treasury stock	(2,150)	(2,150)
<b>Total shareholder's equity</b>	<b>1,750,486</b>	<b>1,575,260</b>
<b>Accumulated other comprehensive income</b>		
Unrealized holding gain (loss) on other securities	65,364	77,962
Deferred hedge gain (loss)	(2,622)	(1,602)
Foreign currency translation adjustment	55,816	25,240
<b>Total accumulated other comprehensive income</b>	<b>118,559</b>	<b>101,600</b>
<b>Total net assets</b>	<b>1,869,045</b>	<b>1,676,861</b>
<b>Total liabilities and net assets</b>	<b>8,359,315</b>	<b>8,290,666</b>

(2) Consolidated quarterly statements of income  
(Six months ended August 31, 2014)

(Thousands of yen)

	Six months ended August 31, 2013	Six months ended August 31, 2014
<b>Sales</b>	3,517,004	3,665,126
<b>Cost of sales</b>	2,927,164	3,226,624
<b>Gross profit</b>	589,840	438,502
<b>SG&amp;A expenses</b>	523,180	551,190
<b>Operating income (loss)</b>	66,659	(112,687)
<b>Non-operating income:</b>		
Interest income	22	107
Dividend income	4,661	4,052
Foreign exchange gains	7,730	—
Others	5,077	4,497
<b>Total non-operating income</b>	17,491	8,657
<b>Non-operating expenses:</b>		
Interest expense	31,646	33,231
Others	1,424	6,934
<b>Total non-operating expenses</b>	33,070	40,166
<b>Ordinary income (loss)</b>	51,079	(144,196)
<b>Extraordinary loss:</b>		
Loss on disposal of fixed assets	0	543
<b>Total extraordinary loss</b>	0	543
<b>Income (loss) before income taxes</b>	51,079	(144,739)
Income taxes	36,860	4,231
Refund of income taxes	—	(12,618)
Adjustment for corporate tax	(9,783)	(4,256)
<b>Total corporate income tax</b>	27,076	(12,642)
<b>Income (loss) before minority interests</b>	24,003	(132,097)
<b>Net income (loss)</b>	24,003	(132,097)

### (3) Consolidated quarterly statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2013	Six months ended August 31, 2014
<b>Cash flows from operating activities:</b>		
Income (loss) before income taxes	51,079	(144,739)
Depreciation	146,218	192,405
Increase (decrease) in order loss reserve	(1,000)	—
Increase (decrease) in product warranties reserve	—	10,635
Increase (decrease) in reserve for bonuses	50,146	51,732
Increase (decrease) in allowance for retirement benefits	(9,143)	5,274
Increase (decrease) in allowance for directors' retirement benefits	(22,820)	—
Increase (decrease) in allowance for doubtful accounts	807	1,690
Interest and dividend income	(4,684)	(4,159)
Interest expenses	31,646	33,231
Loss on disposal of fixed assets	0	543
Decrease (increase) in trade receivable	(171,203)	(75,347)
Decrease (increase) in inventories	(70,368)	(246,929)
Increase (decrease) in trade payable	62,120	168,185
Increase (decrease) in accounts payable-other	(7,848)	18,532
Increase (decrease) in accrued consumption taxes	8,871	45,920
Others	16,944	61,749
<b>Subtotal</b>	<b>80,765</b>	<b>118,724</b>
Interest and dividends received	4,680	4,069
Interest paid	(31,680)	(35,099)
Income taxes refund (paid)	(10,011)	(39,920)
<b>Net cash provided by operating activities</b>	<b>43,754</b>	<b>47,773</b>
<b>Cash flows from investing activities:</b>		
Payment for time deposits	(52,000)	(251,589)
Withdrawal of time deposits	52,000	172,000
Purchases of tangible fixed assets	(168,342)	(596,431)
Purchases of intangible fixed assets	(4,543)	(5,718)
Purchase of investment securities	(1,202)	(1,210)
<b>Net cash used in investing activities</b>	<b>(174,088)</b>	<b>(682,949)</b>

(Thousands of yen)

	Six months ended August 31, 2013	Six months ended August 31, 2014
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term borrowings	100,000	200,051
Proceeds from long-term borrowings	500,000	525,760
Repayment of long-term borrowings	(434,521)	(412,400)
Redemption of corporate bonds	(100,100)	(83,200)
Repayment of lease debt	(13,834)	(25,163)
Proceeds from sale and leaseback	—	43,854
Cash dividends paid	(43,191)	(42,955)
Others	(34,689)	(80,475)
<b>Net cash provided by (used in) financing activities</b>	<b>(26,336)</b>	<b>125,471</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>4,054</b>	<b>(2,661)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(152,615)</b>	<b>(512,366)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>435,442</b>	<b>814,198</b>
<b>Cash and cash equivalents at end of the period</b>	<b>282,826</b>	<b>301,831</b>

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

Six months ended August 31, 2014 (March 1, 2014 to August 31, 2014)

(Thousand of yen)

	Report segment			Adjustment (Note 1)	Consolidated quarterly statements of income amount (Note 2)
	Japan	France	Total		
Sales					
Sales to outside customers	3,129,706	535,420	3,665,126	—	3,665,126
Sales and transfer-Inter-segment	55,055	688	55,743	(55,743)	—
Total	3,184,761	536,108	3,720,870	(55,743)	3,665,126
Segment loss	(11,304)	(88,269)	(99,574)	(13,113)	(112,687)

Notes: 1. The -13,113 thousand yen adjustment in segment loss is for the elimination of intersegment transactions.

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