

Nippon Shikizai, Inc.
Summary of Financial Results for the Fiscal Year Ended February 28, 2014
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. announced the consolidated financial results for the fiscal year ended February 28, 2014. The following is the report.

Consolidated Financial Results

- **Net sales:** 7,302 million yen (4.3% increase from the previous period)
- **Operating income:** 146 million yen (24.4% decrease from the previous period)
- **Ordinary income:** 116 million yen (30.0% decrease from the previous period)
- **Net income:** 89 million yen (Net income of 74 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 28, 2014 showed signs of recovery in corporate earnings, particularly corporations with business activities related to exporting, because of depreciation of the yen and an improving stock market. In regards to economic conditions overseas, there are relatively strong consumption and employment conditions in the U.S. In Europe, although there are signs of mild economic recovery, domestic demand remains stagnant and employment conditions are severe. Furthermore, there is concern regarding an accelerated economic slowdown in Asia and other emerging nations. Overall, the future outlook continues to be uncertain.

Under these circumstances, our group is expanding our planning- and proposal-driven sales on a global level by developing new formulas and technologies, and by utilizing our product-development and technological strengths. The Group is also committing resources to raising productivity and reinforcing our quality-assurance framework. Furthermore, in February, the first phase of construction was completed for our Tsukuba Factory which complies with global quality-assurance standards. This enabled the Group to increase production capacity.

As a result, consolidated net sales for the Group in the consolidated fiscal year under review increased when compared to the previous year, partly due to the effect of yen depreciation. However, operating income and ordinary income decreased when compared to the previous year, mainly due expenses associated with establishing the Tsukuba Factory and expenses related to strengthening our quality control system.

Regional Business Performance

(Japan)

The domestic cosmetics OEM market continues to grow modestly due to an expansion of outsourcing by cosmetics manufacturers and new entrants from outside the cosmetics industry.

However, according to a report entitled “Shipping Trends by Cosmetics Types” (data accumulated from January to December, 2013) published by the Ministry of Economy, Trade and Industry, the number of shipments for skincare and make-up products in the domestic cosmetics market was almost the same as the previous year, although the monetary amount of shipments is increasing. This indicates that consumer behavior is gradually shifting from a focus on low-priced products to medium- and high-priced products.

Under this market environment, in the Group's cosmetics business, sales of eye shadow, blush and sun care products which were popular last year failed to reach the same level as last year due to orders coming full circle. However, there were strong sales of lipstick, foundation, eyeliner and mascara. Overall, net sales increased by 33 million yen compared to the previous year.

Profits inevitably decreased as the result of expenses associated with establishing the Tsukuba Factory and expenses related to strengthening our quality control system.

(France)

The Group's French subsidiary, THEPENIER PHARMA INDUSTRIE S.A.S (hereafter referred to as "THEPENIER") enjoyed strong orders for skincare products medicine. However, large-lot orders for new makeup products came full circle, causing revenues to decline slightly on a local currency basis when compared to the previous year (although revenues grew in Japanese-yen-denominated terms, owing to the effects of a depreciating yen).

In terms of profit, THEPENIER recorded an operating loss due to increased expenses for improving quality based on France's Pharmaceuticals Affairs Act, to trouble with production facilities for major medicinal products, and to temporary stoppage of production due to a power blackout caused by lightning.

Outlook

For the next period, we forecast continued uncertainty in the business environment. Although sustained depreciation of the yen and economic/financial policy implemented by the Japanese government has created expectations for improved economic conditions, there is concern for the aftereffects of the increase in consumption tax in Japan and for an economic slowdown in the U.S., Europe and emerging nations.

In the next period, the Group forecasts an increase in fixed expenses associated with establishment of the Tsukuba Factory, as well as expenditures related to strengthening our quality control system. However, by leveraging the increased production capacity of the Tsukuba Factory, we are working to increase sales and strengthen our profit structure.

For the consolidated fiscal year, we forecast net sales of 8,097 million yen, operating income of 128 million yen, ordinary income of 71 million yen, and net income of 37 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	3,954 million yen (Up 12.4%)	8,097 million yen (Up 10.9%)
Operating income	3 million yen (Down 95.3%)	128 million yen (Down 11.9%)
Ordinary income	(24 million yen) -	71 million yen (Down 38.3%)
Net income	(22 million yen) -	37 million yen (Down 58.1%)
Net income per share	(5.16 yen)	8.68 yen

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

(Thousands of yen)

	At February 28, 2013	At February 28, 2014
ASSETS		
Current Assets		
Cash and deposits	571,725	950,391
Trade notes and accounts receivable	1,708,803	1,547,598
Merchandise and finished goods	500,109	461,004
Work in progress	54,777	77,348
Raw materials and supplies	441,952	425,275
Deferred tax assets	81,610	80,639
Others	106,323	222,190
Allowance for doubtful accounts	(3,469)	-
Total Current Assets	3,461,832	3,764,447
Fixed Assets		
Tangible Fixed Assets		
Buildings and structures	4,683,877	5,695,778
Accumulated depreciation	(3,420,878)	(3,656,697)
Buildings and structures - net	1,262,998	2,039,081
Machinery and vehicles	2,702,769	2,988,062
Accumulated depreciation	(2,303,318)	(2,529,487)
Machinery and vehicles - net	399,450	458,574
Tools, furniture and fixtures	585,285	672,166
Accumulated depreciation	(520,610)	(570,117)
Tools, furniture and fixtures - net	64,674	102,049
Land	1,353,033	1,363,997
Construction in progress	216,231	13,158
Total Tangible Fixed Assets	3,296,389	3,976,861
Intangible Fixed Assets	193,351	257,903
Investments and Other Assets		
Investment securities	189,561	237,521
Deferred tax assets	3,597	-
Others	164,966	182,591
Allowance for doubtful accounts	(64,421)	(60,009)
Total Investments and Other Assets	293,704	360,103
Total Fixed Assets	3,783,446	4,594,868
Total Assets	7,245,279	8,359,315

	At February 28, 2013	At February 28, 2014
LIABILITIES		
Current Liabilities		
Trade notes and accounts payable	858,460	929,700
Short-term borrowings	1,715,877	1,511,012
Current portion of corporate bonds	200,000	99,700
Accounts payable-other	435,888	455,942
Lease debt	20,060	50,455
Income tax payable	15,813	44,747
Bonuses reserve	44,451	48,517
Contingent loss reserve	2,294	-
Order loss reserve	1,000	-
Product warranties reserve	-	12,000
Others	314,877	572,998
Total Current Liabilities	3,608,722	3,725,074
Long-Term Liabilities		
Corporate bonds	99,700	-
Long-term borrowings	1,501,480	2,294,792
Lease dept	55,051	166,763
Deferred tax liabilities	-	14,173
Allowance for retirement benefits	81,683	88,069
Allowance for directors' retirement benefits	172,910	150,090
Others	74,541	51,306
Total Long-Term Liabilities	1,985,367	2,765,195
Total Liabilities	5,594,089	6,490,270
NET ASSETS		
Shareholder's Equity		
Common stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	371,734	418,032
Treasury stock	(2,150)	(2,150)
Total Shareholder's Equity	1,704,188	1,750,486
Accumulated other comprehensive income		
Unrealized holding gain (loss) on other securities	34,489	65,364
Deferred hedge gain (loss)	(5,236)	(2,622)
Foreign currency translation adjustment	(82,251)	55,816
Total Accumulated other comprehensive income	(52,998)	118,559
Total Net Assets	1,651,189	1,869,045
Total Liabilities and Net Assets	7,245,279	8,359,315

(2) Consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Sales	7,002,121	7,302,269
Cost of sales	5,788,452	6,074,805
Gross profit	1,213,668	1,227,464
SG&A expenses	1,020,018	1,081,050
Operating income	193,649	146,413
Non-operating income:		
Interest income	79	50
Dividend income	6,140	5,895
House Rent income	2,971	2,655
Gain on allowance of investment securities	24,825	19,828
Others	10,060	8,388
Total Non-operating Income	44,077	36,818
Non-operating expenses:		
Interest expense	67,449	63,796
Others	3,450	2,726
Total Non-operating Expenses	70,899	66,523
Ordinary Income	166,827	116,708
Extraordinary Loss:		
Loss on disposal of fixed assets	2,463	122
Total Extraordinary Loss	2,463	122
Income before income taxes	164,363	116,586
Income taxes	10,115	44,571
Refund of income taxes	(9,234)	(19,989)
Adjustment for corporate tax	89,285	2,579
Total Corporate Income Tax	90,166	27,160
Net income before gain and loss on minority interests	74,196	89,425
Net Income	74,196	89,425

Consolidated Statements of Comprehensive income

(Thousands of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Income (loss) before minority interests	74,196	89,425
Other comprehensive income		
Valuation difference on available-for-sale securities	15,712	30,875

Deferred hedge gain (loss)	3,438	2,614
Foreign currency translation adjustment	44,503	138,068
Total Accumulated other comprehensive income	63,115	171,068
Comprehensive income	137,311	260,984
(Details)		
Comprehensive income in parent company interests	137,311	260,984
Comprehensive income in minority interests	-	-

(3) Statement of Changes in Consolidated Shareholders' Equity

Fiscal year ended February 28, 2013

(Thousand of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	552,749	781,854	362,230	(2,114)	1,694,720
Changes during the period					
Dividends from surplus			(64,693)		(64,693)
Net income			74,196		74,196
Acquisition of treasury stock				(35)	(35)
Changes in items other than shareholders equity (net)					
Total changes during the period	-	-	9,503	(35)	9,468
Balance at the end of current period	552,749	781,854	371,734	(2,150)	1,704,188

	Accumulated other comprehensive income				Total net assets
	Valuation difference on other marketable securities	Gain (loss) on deferred hedges	Foreign currency translation adjustment	Total Accumulated other comprehensive income	
Balance at the end of previous period	19,316	(8,675)	(126,755)	(116,114)	1,578,606
Changes during the period					
Dividends from surplus					(64,693)
Net income					74,196
Acquisition of treasury stock					(35)
Changes in items other than shareholders equity (net)	15,172	3,438	44,503	63,115	63,115
Total changes during the period	15,172	3,438	44,503	63,115	72,583
Balance at the end of current period	34,489	(5,236)	(82,251)	(52,998)	1,651,189

Fiscal year ended February 28, 2014

(Thousand of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the end of previous period	552,749	781,854	371,734	(2,150)	1,704,188
Changes during the period					
Dividends from surplus			(43,127)		(43,127)
Net income			89,425		89,425
Changes in items other than shareholders equity (net)					
Total changes during the period	-	-	46,297	-	46,297
Balance at the end of current period	552,749	781,854	418,032	(2,150)	1,750,486

	Accumulated other comprehensive income				Total net assets
	Valuation difference on other marketable securities	Gain (loss) on deferred hedges	Foreign currency translation adjustment	Total Accumulated other comprehensive income	
Balance at the end of previous period	34,489	(5,236)	(82,251)	(52,998)	1,651,189
Changes during the period					
Dividends from surplus					(43,127)
Net income					89,425
Changes in items other than shareholders equity (net)	30,875	2,614	138,068	171,558	171,558
Total changes during the period	30,875	2,614	138,068	171,558	217,856
Balance at the end of current period	65,364	(2,622)	55,816	118,559	1,869,045

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Cash Flows from Operating Activities:		
Income before income taxes	164,363	116,586
Depreciation	323,856	319,500
Increase (decrease) in bonuses reserve	1,567	4,066
Increase (decrease) in directors' bonuses reserve	(24,200)	-
Increase (decrease) in contingent loss	-	(2,606)
Increase (decrease) in order loss reserve	1,000	(1,000)
Increase (decrease) in product warranties reserve	-	12,000
Increase (decrease) in allowance for retirement benefits	6,120	(13,671)
Increase (decrease) in allowance for directors' retirement benefits	-	(22,820)
Increase (decrease) in allowance for doubtful accounts	7,860	(23,210)
Interest and dividend income	(6,220)	(5,945)
Interest expenses	67,449	63,796
Loss on retirement of tangible fixed assets	2,463	122
Decrease (increase) in trade receivable	7,341	248,304
Decrease (increase) in inventories	(16,315)	75,610
Increase (decrease) in trade payable	(127,294)	37,476
Increase (decrease) in accrued consumption taxes	(7,082)	(10,738)
Increase (decrease) in account payable-other	(88,725)	21,098
Others	(71,340)	(63,781)
Subtotal	240,845	754,788
Interest and dividends received	6,229	5,947
Interest paid	(71,204)	(63,625)
Income taxes refund (paid)	20,494	(3,114)
Net Cash Provided by Operating Activities	196,364	693,995
Cash Flows from Investing Activities:		
Payment for time deposits	(135,000)	(135,000)
Withdrawal of time deposits	135,000	135,000
Purchases of tangible fixed assets	(756,900)	(563,204)
Purchases of intangible fixed assets	(4,136)	(27,954)
Purchase of investment securities	(1,398)	(2,408)
Net Cash Used in Investment Activities	(762,435)	(593,567)

(Thousands of yen)

	Fiscal year ended February 28, 2013	Fiscal year ended February 28, 2014
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term borrowings	500,000	(169,165)
Proceeds from long-term borrowings	1,270,000	1,600,000
Repayment of long-term borrowings	(1,222,828)	(845,877)
Redemption of corporate bonds	(200,200)	(200,000)
Purchase of treasury stock	(35)	-
Cash dividends paid	(64,487)	(43,218)
Repayment of lease debt	(21,822)	(33,192)
Others	56,814	(37,373)
Net Cash Provided by Financing Activities	317,439	271,173
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2,887	7,154
Increase (Decrease) in Cash and Cash Equivalents	(245,744)	378,755
Cash and Cash Equivalents at Beginning of Year	681,187	435,442
Cash and Cash Equivalents at End of Year	* 435,442	* 814,198

Year Ended February 28, 2014 (March 1, 2013 to February 28, 2014)

(Thousand of yen)

	Reporting Segment			Adjustment Amount * 1&2	Consolidated Income Statement Amount *3
	Japan	France	Total		
Sales					
Sales to outside customers	6,051,830	1,250,439	7,302,269	-	7,302,269
Sales and transfer-Inter-segment	55,385	-	55,385	(55,385)	-
Total	6,107,215	1,250,439	7,357,655	(55,385)	7,302,269
Segment income (loss)	177,127	(30,399)	146,728	(314)	146,413
Segment asset	7,724,274	1,453,295	9,177,570	(818,255)	8,359,315

Notes: 1 The adjustment amount of negative 314 thousand yen in segment income or loss is an elimination of intra-company transactions between segments.

2 The adjustment amount of negative 818,255 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.