

Nippon Shikizai, Inc.
Summary of Financial Results for the First Half of Fiscal Year
Ending February 29, 2016
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 29, 2016. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 3,834 million yen (4.6% increase from the same period previous year)
- **Operating income:** 56 million yen (—)
- **Ordinary income:** 23 million yen (—)
- **Net income:** -24 million yen (Net income of -132 million yen in the same period previous year)

Summary of Consolidated Operating Results

During the first half period of the fiscal year ending February 29, 2016, as corporate earnings, employment conditions and capital investment remained steady, the Japanese economy maintained a mild trend toward recovery, although sluggish.

Overseas, despite concerns over an economic downturn caused by a global fall in stock prices, personal consumption in the US remained robust thanks to improved employment and income conditions. Also in Europe, the economy continued to recover at a moderate pace overall, despite the turmoil in Greece and fiscal and financial instability. Meanwhile, the economy in Asia and emerging nations is generally decelerating.

Under these economic conditions, in order to strengthen its proposal-based sales, the Group has been working on reorganizing its selling and research operations, as well as on thoroughly reducing costs.

Segment Business Information: Business Performance by Region

(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 eye shadow and cheek palettes, eye liners and mascara outpaced those for the same period the previous fiscal year,

and remained strong both in the domestic and overseas markets. However, revenue slightly decreased from the same period previous fiscal year. On the other hand, operating income increased from the same period previous fiscal year as a result of our company-wide efforts to cut expenses, including a portion of the directors' remuneration.

(France)

The economy in Europe, where THEPENIER PHARMA INDUSTRIE S.A.S (hereafter referred to as "THEPENIER") is located, continued to recover at a moderate pace overall, despite the turmoil in Greece and fiscal and financial instability.

Under such market environment, THEPENIER managed to post a significant sales increase as well as to substantially reduce operating loss, compared with the same period the previous year, as sales of skincare products and make-up products steadily grew, and production increased due to large orders of pharmaceutical products.

Outlook

There is no change in forecasts for the fiscal year ending February 29, 2016, as announced on September 29, 2015.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	8,116 million yen (Up 9.8%)
Operating income	185 million yen (–)
Ordinary income	123 million yen (–)
Net income	29 million yen (–)
Net income per share	6.94 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2015	At August 31, 2015
ASSETS		
Current Assets		
Cash and deposits	755,043	784,221
Notes and accounts receivable - trade	1,671,357	1,466,868
Inventories	1,118,194	1,372,214
Other	168,342	195,147
Allowance for doubtful accounts	(1,791)	(1,729)
Total Current Assets	3,711,145	3,816,722
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures - net	2,294,351	2,164,795
Machinery, equipment and vehicles - net	642,669	567,325
Land	1,364,138	1,363,506
Other - net	101,248	97,993
Total Property, Plant and Equipment	4,402,407	4,193,620
Intangible Assets	255,714	249,830
Investments and Other Assets		
Investment securities	298,413	324,657
Other	312,842	302,832
Allowance for doubtful accounts	(63,228)	(59,306)
Total Investments and Other Assets	548,026	568,183
Total Non-current Assets	5,206,149	5,011,634
Total Assets	8,917,294	8,828,356

(Thousands of yen)

	At February 28, 2015	At August 31, 2015
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	973,573	1,125,523
Short-term loans payable	1,932,991	1,880,693
Income taxes payable	—	34,350
Provision for bonuses	51,540	106,975
Other	827,273	700,247
Total Current Liabilities	3,785,379	3,847,790
Non-current Liabilities		
Long-term loans payable	2,899,477	2,817,558
Provision for directors' retirement benefits	150,090	150,090
Net defined benefit liability	107,666	97,128
Other	336,499	335,823
Total Non-current Liabilities	3,493,733	3,400,600
Total Liabilities	7,279,112	7,248,390
NET ASSETS		
Shareholders' Equity		
Capital stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	139,148	115,108
Treasury shares	(2,150)	(2,649)
Total Shareholders' Equity	1,471,602	1,447,062
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	103,521	125,725
Deferred gains (losses) on hedges	(879)	(370)
Foreign currency translation adjustment	63,937	7,548
Total Accumulated Other Comprehensive Income	166,579	132,903
Total Net Assets	1,638,182	1,579,965
Total Liabilities and Net Assets	8,917,294	8,828,356

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Six Months ended August 31, 2015)

(Thousands of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Net Sales	3,665,126	3,834,379
Cost of Sales	3,226,624	3,256,150
Gross Profit	438,502	578,229
Selling, General and Administrative Expenses	551,190	522,155
Operating Income (Loss)	(112,687)	56,074
Non-operating Income		
Interest income	107	539
Dividend income	4,052	4,622
Other	4,497	5,886
Total Non-operating Income	8,657	11,048
Non-operating Expenses		
Interest expenses	33,231	43,122
Other	6,934	363
Total Non-operating Expenses	40,166	43,485
Ordinary Income (Loss)	(144,196)	23,636
Extraordinary Income		
Gain on sales of non-current assets	—	97
Total Extraordinary Income	—	97
Extraordinary Losses		
Loss on retirement of non-current assets	543	1,888
Loss on plant closing	—	3,066
Settlement package	—	15,198
Total Extraordinary Losses	543	20,153
Income (Loss) before Income Taxes	(144,739)	3,579
Income taxes - current	4,231	30,087
Refund of income taxes	(12,618)	(13,455)
Income taxes - deferred	(4,256)	10,988
Total Income Taxes	(12,642)	27,620
Income (Loss) before Minority Interests	(132,097)	(24,040)
Net Income (Loss)	(132,097)	(24,040)

Quarterly Consolidated Statement of Comprehensive Income
(Six Months ended August 31, 2015)

(Thousands of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Income (loss) before minority interests	(132,097)	(24,040)
Other Comprehensive Income		
Valuation difference on available-for-sale securities	12,598	22,204
Deferred gains (losses) on hedges	1,019	509
Foreign currency translation adjustment	(30,576)	(56,389)
Total Other Comprehensive Income	(16,959)	(33,675)
Comprehensive Income	(149,056)	(57,716)
(Breakdown)		
Comprehensive income attributable to owners of parent	(149,056)	(57,716)
Comprehensive income attributable to minority interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Cash Flows from Operating Activities:		
Income (loss) before income taxes	(144,739)	3,579
Depreciation	192,405	193,907
Increase (decrease) in provision for product warranties	10,635	—
Increase (decrease) in provision for bonuses	51,732	55,434
Increase (decrease) in provision for retirement benefits	5,274	—
Increase (decrease) in net defined benefit liabilities	—	(3,601)
Increase (decrease) in allowance for doubtful accounts	1,690	3
Interest and dividend income	(4,159)	(5,161)
Interest expenses	33,231	43,122
Loss (gain) on sales of non-current assets	—	(97)
Loss on retirement of non-current assets	543	1,888
Loss on plant closing	—	3,066
Settlement package	—	15,198
Decrease (increase) in notes and accounts receivable - trade	(75,347)	175,623
Decrease (increase) in inventories	(246,929)	(267,772)
Increase (decrease) in notes and accounts payable - trade	168,185	154,079
Increase (decrease) in accounts payable - other	18,532	(71,538)
Increase (decrease) in accrued consumption taxes	45,920	(87,318)
Other	61,749	18,113
Subtotal	118,724	228,528
Interest and dividend income received	4,069	4,645
Interest expenses paid	(35,099)	(42,707)
Income taxes (paid) refund	(39,920)	6,045
Net Cash Provided by Operating Activities	47,773	196,512

(Thousands of yen)

	Six months ended August 31, 2014	Six months ended August 31, 2015
Cash Flows from Investing Activities:		
Payments into time deposits	(251,589)	(90,000)
Proceeds from withdrawal of time deposits	172,000	90,000
Purchase of property, plant and equipment	(596,431)	(47,223)
Proceeds from sales of property, plant and equipment	—	325
Purchase of intangible assets	(5,718)	(3,971)
Purchase of investment securities	(1,210)	(1,213)
Net Cash Used in Investing Activities	(682,949)	(52,082)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	200,051	(103,215)
Proceeds from long-term loans payable	525,760	400,000
Decrease in short-term loans payable	(412,400)	(403,408)
Redemption of bonds	(83,200)	—
Purchase of treasury shares	—	(499)
Repayments of lease obligations	(25,163)	(44,863)
Proceeds from sales and leasebacks	43,854	55,456
Cash dividends paid	(42,955)	(39)
Other	(80,475)	(8,248)
Net Cash Provided by (Used in) Financing Activities	125,471	(104,819)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(2,661)	(9,774)
Net Increase (Decrease) in Cash and Cash Equivalents	(512,366)	29,836
Cash and Cash Equivalents at Beginning of Period	814,198	613,251
Cash and Cash Equivalents at End of Period	301,831	643,088

(4) Segment Information

Performance by Business Segment

1. Six Months ended August 31, 2015 (March 1, 2015 to August 31, 2015)

(Thousands of yen)

	Reporting Segment			Adjustment (Note 1)	Amount shown on Quarterly Consolidated Statement of Income (Note 2)
	Japan	France	Total		
Net Sales					
Net sales to outside customers	3,089,931	744,448	3,834,379	—	3,834,379
Internal sales and transfers between segments	51,890	1,368	53,258	(53,258)	—
Total	3,141,821	745,816	3,887,638	(53,258)	3,834,379
Segment Income (Loss)	74,886	(25,286)	49,599	6,474	56,074

Notes: 1. The adjustment amount of 6,474 thousand yen in segment income is an elimination of transactions between segments.

2. Segment income (loss) has been adjusted with operating income in the Quarterly Consolidated Statement of Income.

2. Information on impairment loss of non-current assets, goodwill, etc. by reporting segments has been omitted due to its lack of materiality.