

Nippon Shikizai, Inc.
Summary of Financial Results for the First Half of Fiscal Year
Ending February 28, 2017
[Japanese Standard] (Consolidated)

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2017. Please refer to the contents of the report disclosed below.

Consolidated Financial Results

- **Net sales:** 5,374 million yen (40.2% increase from the same period previous year)
- **Operating income:** 569 million yen (915.8% increase from the same period previous year)
- **Ordinary income:** 506 million yen (—)
- **Net income attributable to owners of parent:** 395 million yen (Net income attributable to owners of parent of -24 million yen in the same period previous year)

Summary of Consolidated Operating Results

During the first half period of the fiscal year ending February 28, 2017, although there was an increase in personal consumption, the recovery has stalled as can be seen in weak exports and sluggish capital investment, and with a slowdown in the overseas economies and strong yen rates, the situation remains to be highly unpredictable.

Overseas, despite the continuing sluggish growth in the U.S., the economy is slowly recovering backed by robust personal consumption, while in Europe also the economy continued to recover at a moderate pace overall. The economy in Asia and emerging nations on the whole continued to decelerate.

Under these economic conditions, the Group continued to work on strengthening its proposal-based sales, at the same time making strong efforts to improve production efficiency.

Segment Business Information: Business Performance by Region

(Japan)

The domestic cosmetics OEM market is growing robustly against the background 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 showed a substantial increase mainly against the background of inbound demand and demand in the markets of Asia and the ASEAN. If we look into sales by product classes, sales of eye shadow and cheek palettes, foundation creams, lipsticks, face powder, talcum powder, and creams by far exceeded sales for the same period of the previous fiscal year, resulting in an increase of both income and profits.

(France)

The economy in Europe, where THEPENIER PHARMA INDUSTRIE S.A.S. (hereafter referred to as "THEPENIER") is located, experienced a declined rate of growth overall due to a deceleration in personal consumption, but is still on the path of moderate economic recovery.

Under such market environment, THEPENIER managed to post an increase of both income and profits thanks to an increase compared with the same period of the previous year in sales of face lotions and pharmaceutical products, which are the mainstay of its business.

Outlook

There is no change in forecasts for the fiscal year ending February 28, 2017, as announced on July 12, 2016.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	9,688 million yen (Up 11.2%)
Operating income	703 million yen (Up 40.6%)
Ordinary income	611 million yen (Up 46.7%)
Net income attributable to owners of parent	450 million yen (Up 85.2%)
Net income per share	88.59 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 29, 2016	At August 31, 2016
ASSETS		
Current Assets		
Cash and deposits	878,205	1,098,810
Notes and accounts receivable - trade	1,767,380	1,958,819
Inventories	1,348,918	1,500,317
Other	231,195	258,275
Allowance for doubtful accounts	(1,821)	(1,901)
Total Current Assets	4,223,879	4,814,322
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures - net	2,050,225	1,909,765
Machinery, equipment and vehicles - net	500,834	495,233
Land	1,301,892	1,300,247
Other - net	135,808	258,613
Total Property, Plant and Equipment	3,988,761	3,963,859
Intangible Assets	245,955	236,605
Investments and Other Assets		
Investment securities	318,830	351,778
Other	282,366	266,466
Allowance for doubtful accounts	(64,177)	(51,917)
Total Investments and Other Assets	537,020	566,327
Total Non-current Assets	4,771,736	4,766,791
Total Assets	8,995,615	9,581,113

(Thousands of yen)

	At February 29, 2016	At August 31, 2016
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	1,313,212	1,475,731
Short-term loans payable	1,681,579	1,555,662
Income taxes payable	160,791	163,474
Provision for bonuses	53,632	108,454
Other	907,879	941,233
Total Current Liabilities	4,117,095	4,244,556
Non-current Liabilities		
Long-term loans payable	2,506,013	2,376,271
Provision for directors' retirement benefits	150,090	150,090
Net defined benefit liability	95,037	97,362
Other	302,608	275,253
Total Non-current Liabilities	3,053,749	2,898,977
Total Liabilities	7,170,844	7,143,534
NET ASSETS		
Shareholders' Equity		
Capital stock	552,749	714,104
Capital surplus	781,854	943,209
Retained earnings	382,428	756,471
Treasury shares	(2,682)	(3,288)
Total Shareholders' Equity	1,714,349	2,410,497
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	120,660	145,170
Deferred gains (losses) on hedges	(82)	(6)
Foreign currency translation adjustment	(10,156)	(118,081)
Total Accumulated Other Comprehensive Income	110,421	27,082
Total Net Assets	1,824,771	2,437,579
Total Liabilities and Net Assets	8,995,615	9,581,113

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Six Months ended August 31, 2016)

(Thousands of yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Net Sales	3,834,379	5,374,972
Cost of Sales	3,256,150	4,224,483
Gross Profit	578,229	1,150,489
Selling, General and Administrative Expenses	522,155	580,899
Operating Income	56,074	569,589
Non-operating Income		
Interest income	539	309
Dividend income	4,622	4,901
Other	5,886	5,546
Total Non-operating Income	11,048	10,758
Non-operating Expenses		
Interest expenses	43,122	35,175
Share issuance cost	—	19,278
Foreign exchange losses	217	19,019
Other	146	207
Total Non-operating Expenses	43,485	73,681
Ordinary Income	23,636	506,665
Extraordinary Income		
Gain on sales of non-current assets	97	804
Total Extraordinary Income	97	804
Extraordinary Losses		
Loss on retirement of non-current assets	1,888	397
Loss on plant closing	3,066	—
Settlement package	15,198	—
Total Extraordinary Losses	20,153	397
Income before Income Taxes	3,579	507,073
Income taxes - current	30,087	151,334
Refund of income taxes	(13,455)	(10,037)
Income taxes - deferred	10,988	(29,823)
Total Income Taxes	27,620	111,474
Net Income (Loss)	(24,040)	395,599
Net Income (Loss) Attributable to Owners of Parent	(24,040)	395,599

Quarterly Consolidated Statement of Comprehensive Income
(Six Months ended August 31, 2016)

(Thousands of yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Net income (loss)	(24,040)	395,599
Other Comprehensive Income		
Valuation difference on available-for-sale securities	24,040	24,509
Deferred gains (losses) on hedges	509	75
Foreign currency translation adjustment	(56,389)	(107,924)
Total Other Comprehensive Income	(33,675)	(83,339)
Comprehensive Income	(57,716)	312,259
(Breakdown)		
Comprehensive income attributable to owners of parent	(57,716)	312,259
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Cash Flows from Operating Activities:		
Income before income taxes	3,579	507,073
Depreciation	193,907	178,767
Increase (decrease) in provision for bonuses	55,434	54,822
Increase (decrease) in net defined benefit liabilities	(3,601)	16,087
Increase (decrease) in allowance for doubtful accounts	3	(4,089)
Interest and dividend income	(5,161)	(5,211)
Interest expenses	43,122	35,175
Share issuance cost	—	19,278
Loss (gain) on sales of non-current assets	(97)	(804)
Loss on retirement of non-current assets	1,888	397
Loss on plant closing	3,066	—
Settlement package	15,198	—
Decrease (increase) in notes and accounts receivable - trade	175,623	(259,235)
Decrease (increase) in inventories	(267,772)	(186,163)
Increase (decrease) in notes and accounts payable - trade	154,079	189,346
Increase (decrease) in accounts payable - other	(71,538)	12,472
Increase (decrease) in accrued consumption taxes	(87,318)	(19,112)
Other	18,113	25,893
Subtotal	228,528	564,696
Interest and dividend income received	4,645	4,933
Interest expenses paid	(42,707)	(35,361)
Income taxes (paid) refund	6,045	(155,919)
Net Cash Provided by Operating Activities	196,512	378,349

(Thousands of yen)

	Six months ended August 31, 2015	Six months ended August 31, 2016
Cash Flows from Investing Activities:		
Payments into time deposits	(90,000)	(90,000)
Proceeds from withdrawal of time deposits	90,000	90,000
Purchase of property, plant and equipment	(47,223)	(166,883)
Proceeds from sales of property, plant and equipment	325	804
Purchase of intangible assets	(3,971)	(3,264)
Purchase of investment securities	(1,213)	(1,239)
Net Cash Used in Investing Activities	(52,082)	(170,582)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	(103,215)	(86,688)
Proceeds from long-term loans payable	400,000	324,768
Repayments of long-term loans payable	(403,408)	(431,408)
Proceeds from issuance of common shares	—	303,431
Purchase of treasury shares	(499)	(605)
Repayments of lease obligations	(44,863)	(42,642)
Proceeds from sales and leasebacks	55,456	—
Cash dividends paid	(39)	(21,286)
Other	(8,248)	(10,636)
Net Cash Provided by (Used in) Financing Activities	(104,819)	34,930
Effect of Exchange Rate Change on Cash and Cash Equivalents	(9,774)	(21,574)
Net Increase (Decrease) in Cash and Cash Equivalents	29,836	221,123
Cash and Cash Equivalents at Beginning of Period	613,251	737,322
Cash and Cash Equivalents at End of Period	643,088	958,446

(4) Segment Information

Performance by Business Segment

1. Six Months ended August 31, 2016 (March 1, 2016 to August 31, 2016)

(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	4,415,181	959,791	5,374,972	—	5,374,972
Internal sales and transfers between segments	65,940	913	66,854	(66,854)	—
Total	4,481,121	960,705	5,441,827	(66,854)	5,374,972
Segment Income	471,048	91,369	562,418	7,171	569,589

Notes: 1. The adjustment amount of 7,171 thousand yen in segment income is an elimination of transactions between segments.

2. Segment income 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
None