

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

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

Consolidated Financial Results

- Net sales: 8,711 million yen (17.9% increase from the previous period)
- Operating income: 500 million yen (—)
- Ordinary income: 416 million yen (—)
- Net income: 243 million yen (Net income of -235 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 29, 2016 improved in terms of corporate earnings and employment conditions, however, personal consumption hovered on a weak note, and recently, the impact from the rapid acceleration of appreciation in the yen and fall of stock prices is a concern.

On the other hand, for economic conditions overseas, in the US, consumption and employment did well. The European economy has also been overall on the track to gradual recovery. However, in China and emerging nations in Asia, an economic slowdown has become apparent and economic growth experienced a further downturn.

Under these economic conditions, with full operation of the Tsukuba factory as the driving force, 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 by Region

(Japan)

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

Under such market environment, in the Company's cosmetics business, orders due to inbound demand, etc. from domestic customers and orders for new products from overseas customers increased. By product type, orders of eye shadow and cheek palettes, foundation, eye liners and mascara and creams outpaced those for the previous fiscal year, and as a result, there was a significant increase in net sales compared to the previous year. Operating income increased drastically due to the growth of income associated with the rise in net sales and 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, saw the recovery of personal consumption in the backdrop of improvement in employment and continued to recover at a moderate pace.

Under such market environment, in THEPENIER, there was a significant increase in net sales and income results compared to the previous fiscal year due to the large growth in production for

medicine related products as well as healthy sales of skincare products and make-up products.

Outlook

For the next period, we forecast continued uncertainty also in Japanese economic trends which have been on track for a gradual recovery due to concerns over the risks of downward swing of overseas economies from the decline in crude oil prices and unclear outlook of China and emerging nations in Asia.

Under such economic conditions, the Group will enhance efforts to acquire orders from domestic and overseas customers by continuously promoting proposal-based sales and further strengthening production and quality enhancement systems.

For the next consolidated fiscal year, we forecast net sales of 8,704 million yen, operating income of 370 million yen, ordinary income of 310 million yen, and profit attributable to owners of parent of 224 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	4,668 million yen (Up 21.7%)	8,704 million yen (Down 0.1%)
Operating income	239 million yen (Up 327.5%)	370 million yen (Down 26.0%)
Ordinary income	213 million yen (Up 805.2%)	310 million yen (Down 25.5%)
Profit attributable to owners of parent	158 million yen (—)	224 million yen (Down 7.5%)
Net income per share	32.10 yen	44.23 yen

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

(Thousands of yen)

	At February 28, 2015	At February 29, 2016
ASSETS		
Current Assets		
Cash and deposits	755,043	878,205
Notes and accounts receivable - trade	1,671,357	1,767,380
Merchandise and finished goods	571,784	572,481
Work in process	60,218	134,637
Raw materials and supplies	486,192	641,800
Deferred tax assets	63,956	102,879
Other	104,386	128,315
Allowance for doubtful accounts	(1,791)	(1,821)
Total Current Assets	3,711,145	4,223,879
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	6,133,352	5,987,103
Accumulated depreciation	(3,839,001)	(3,936,878)
Buildings and structures, net	2,294,351	2,050,225
Machinery, equipment and vehicles	3,317,604	2,992,489
Accumulated depreciation	(2,674,935)	(2,491,655)
Machinery, equipment and vehicles, net	642,669	500,834
Tools, furniture and fixtures	702,478	692,522
Accumulated depreciation	(602,849)	(590,731)
Tools, furniture and fixtures, net	99,628	101,790
Land	1,364,138	1,301,892
Construction in progress	1,619	34,017
Total Property, Plant and Equipment	4,402,407	3,988,761
Intangible Assets	255,714	245,955
Investments and Other Assets		
Investment securities	298,413	318,830
Deferred tax assets	17,110	-
Other	295,732	282,366
Allowance for doubtful accounts	(63,228)	(64,177)
Total Investments and Other Assets	548,026	537,020
Total Non-current Assets	5,206,149	4,771,736
Total Assets	8,917,294	8,995,615

(Thousands of yen)

	At February 28, 2015	At February 29, 2016
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	973,573	1,313,212
Short-term loans payable	1,932,991	1,681,579
Lease obligations	84,479	83,260
Accounts payable - other	380,736	422,924
Income taxes payable	-	160,791
Provision for bonuses	51,540	53,632
Other	362,057	401,694
Total Current Liabilities	3,785,379	4,117,095
Non-current Liabilities		
Long-term loans payable	2,899,477	2,506,013
Lease obligations	299,465	233,388
Deferred tax liabilities	-	46,000
Provision for directors' retirement benefits	150,090	150,090
Net defined benefit liability	107,666	95,037
Other	37,034	23,219
Total Non-current Liabilities	3,493,733	3,053,749
Total Liabilities	7,279,112	7,170,844
NET ASSETS		
Shareholders' Equity		
Capital stock	552,749	552,749
Capital surplus	781,854	781,854
Retained earnings	139,148	382,428
Treasury shares	(2,150)	(2,682)
Total Shareholders' Equity	1,471,602	1,714,349
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	103,521	120,660
Deferred gains (losses) on hedges	(879)	(82)
Foreign currency translation adjustment	63,937	(10,156)
Total Accumulated Other Comprehensive Income	166,579	110,421
Total Net Assets	1,638,182	1,824,771
Total Liabilities and Net Assets	8,917,294	8,995,615

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016
Net Sales	7,389,896	8,711,882
Cost of Sales	6,455,835	7,121,949
Gross Profit	934,060	1,589,933
Selling, General and Administrative Expenses	1,143,634	1,089,918
Operating Income (loss)	(209,574)	500,015
Non-operating Income:		
Interest income	570	961
Dividend income	5,398	6,325
House rent income	2,485	2,574
Interest subsidy	2,264	2,229
Other	5,736	8,663
Total Non-operating Income	16,455	20,754
Non-operating Expenses:		
Interest expenses	76,067	82,881
Foreign exchange losses	706	20,873
Other	1,288	345
Total Non-operating Expenses	78,062	104,100
Ordinary Income (Loss)	(271,181)	416,669
Extraordinary Income:		
Gain on sales of non-current assets	461	351
Subsidy income	14,038	-
Total Extraordinary Income	14,499	351
Extraordinary Losses:		
Loss on retirement of non-current assets	1,050	1,994
Loss on litigation	21,057	-
Special retirement expenses	5,500	-
Settlement package	-	15,232
Total Extraordinary Losses	27,607	17,226
Income (loss) before Income Taxes and Minority Interests	(284,289)	399,793
Income taxes - current	8,439	156,358
Refund of income taxes	(27,959)	(22,752)
Income taxes for prior periods	6,889	-
Income taxes - deferred	(35,901)	22,909
Total Income Taxes	(48,533)	156,514
Income (Loss) before Minority Interests	(235,755)	243,279
Net Income (Loss)	(235,755)	243,279

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016
Income (loss) before minority interests	(235,755)	243,279
Other comprehensive income		
Valuation difference on available-for-sale securities	38,156	17,139
Deferred gains (losses) on hedges	1,742	796
Foreign currency translation adjustment	8,120	(74,093)
Total other comprehensive income	48,019	(56,157)
Comprehensive income	(187,735)	187,121
(Breakdown)		
Comprehensive income attributable to owners of parent	(187,735)	187,121
Comprehensive income attributable to minority interests	-	-

(3) Consolidated Statement of Changes in Equity

Fiscal year ended February 28, 2015

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	552,749	781,854	418,032	(2,150)	1,750,486
Changes of items during period					
Dividends of surplus			(43,127)		(43,127)
Net income (loss)			(235,755)		(235,755)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	(278,883)	-	(278,883)
Balance at end of current period	552,749	781,854	139,148	(2,150)	1,471,602

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	65,364	(2,622)	55,816	118,559	1,869,045
Changes of items during period					
Dividends of surplus					(43,127)
Net income (loss)					(235,755)
Net changes of items other than shareholders' equity	38,156	1,742	8,120	48,019	48,019
Total changes of items during period	38,156	1,742	8,120	48,019	(230,863)
Balance at end of current period	103,521	(879)	63,937	166,579	1,638,182

Fiscal year ended February 29, 2016

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	552,749	781,854	139,148	(2,150)	1,471,602
Changes of items during period					
Net income			243,279		243,279
Purchase of treasury shares				(532)	(532)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	243,279	(532)	242,746
Balance at end of current period	552,749	781,854	382,428	(2,682)	1,714,349

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of current period	103,521	(879)	63,937	166,579	1,638,182
Changes of items during period					
Net income					243,279
Purchase of treasury shares					(532)
Net changes of items other than shareholders' equity	17,139	796	(74,093)	(56,157)	(56,157)
Total changes of items during period	17,139	796	(74,093)	(56,157)	186,588
Balance at end of current period	120,660	(82)	(10,156)	110,421	1,824,771

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016
Cash Flows from Operating Activities:		
Income (loss) before income taxes and minority interests	(284,289)	399,793
Depreciation	409,755	394,665
Increase (decrease) in provision for bonuses	3,023	2,091
Increase (decrease) in provision for product warranties	(12,000)	-
Increase (decrease) in provision for retirement benefits	(85,234)	-
Increase (decrease) in net defined benefit liability	103,140	(1,806)
Increase (decrease) in allowance for doubtful accounts	4,303	7,428
Interest and dividend income	(5,969)	(7,287)
Interest expenses	76,067	82,881
Loss (gain) on sales of non-current assets	(461)	(351)
Loss on retirement of non-current assets	1,050	1,994
Subsidy income	(14,038)	-
Loss on litigation	21,057	-
Settlement package	-	15,232
Decrease (increase) in notes and accounts receivable - trade	(118,692)	(142,611)
Decrease (increase) in inventories	(150,404)	(256,605)
Increase (decrease) in notes and accounts payable - trade	40,180	362,370
Increase (decrease) in accrued consumption taxes	123,922	(44,944)
Increase (decrease) in accounts payable - other	(11,812)	34,333
Other	45,814	44,487
Subtotal	145,412	891,672
Interest and dividend income received	5,438	6,409
Interest expenses paid	(77,693)	(81,634)
Proceeds from subsidy income	14,038	-
Payments for loss on litigation	(21,057)	-
Settlement package paid	-	(15,232)
Income taxes (paid) refund	(61,566)	5,781
Net Cash Provided by Operating Activities	4,571	806,997

(Thousands of yen)

	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016
Cash Flows from Investing Activities:		
Payments into time deposits	(338,109)	(135,000)
Proceeds from withdrawal of time deposits	255,000	140,788
Purchase of property, plant and equipment	(905,271)	(127,602)
Proceeds from sales of property, plant and equipment	688	64,928
Purchase of intangible assets	(12,015)	(9,704)
Purchase of investment securities	(2,419)	(2,446)
Net Cash Used in Investing Activities	(1,002,127)	(69,036)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	393,989	(259,331)
Proceeds from long-term loans payable	1,457,034	490,000
Repayments of long-term loans payable	(842,143)	(828,309)
Redemption of bonds	(99,700)	-
Purchase of treasury shares	-	(532)
Cash dividends paid	(43,034)	(116)
Repayments of lease obligations	(60,512)	(88,601)
Proceeds from sales and leasebacks	43,854	55,456
Other	(56,827)	30,698
Net Cash Provided by (Used in) Financing Activities	792,659	(600,736)
Effect of Exchange Rate Change on Cash and Cash Equivalents	3,949	(13,153)
Net Increase (Decrease) in Cash and Cash Equivalents	(200,946)	124,070
Cash and Cash Equivalents at Beginning of Period	814,198	613,251
Cash and Cash Equivalents at End of Period	613,251	737,322

(5) Segment Information***Performance by Business Segment***

Year Ended February 29, 2016 (March 1, 2015 to February 29, 2016)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	6,966,827	1,745,054	8,711,882	-	8,711,882
Internal sales and transfers between segments	127,535	5,537	133,072	(133,072)	-
Total	7,094,363	1,750,592	8,844,955	(133,072)	8,711,882
Segment income	430,676	61,550	492,227	7,787	500,015
Segment assets	7,912,184	2,064,366	9,976,551	(980,935)	8,995,615
Other items					
Depreciation	274,043	120,622	394,665	-	394,665
Increase of property, plant and equipment and intangible assets	82,259	84,914	167,173	-	167,173

Notes: 1. The adjustment amount of 7,787 thousand yen in segment income is an elimination of transactions between segments.

2. The adjustment amount of negative 980,935 thousand yen in segment asset is a reflection of consolidated adjustment between segments.

3. The segment income is adjusted with operating income on the consolidated financial statements.

(Major Subsequent Events)

(Issuance of New Shares through Third-Party Allotment)

The issuance of new shares through third-party allotment was resolved in a board of directors meeting held on April 15, 2016. The outline is as follows.

1. Number and Type of Shares Issued

930,000 shares of common stock

2. Issue Price

347 yen per share

3. Total Issue Price

322,710,000 yen

4. Amount of Capital and Capital Reserve to be Increased

Amount of capital to be increased 161,355,000 yen

Amount of capital reserve to be increased 161,355,000 yen

5. Subscription

Third-party allotment

6. Payment Date

May 10, 2016

7. Allottee and Number of Shares Allotted

Chifure Corporation 365,000 shares

MITSUBISHI PENCIL CO., LTD. 315,000 shares

IDA Laboratories Co., Ltd. 250,000 shares

8. Use of the Funds

The funds are scheduled to be used for increasing the filling/finishing/packaging lines and installation of new accessory equipment which are under examination as the Tsukuba Factory Expansion Project.

For details, please refer to the “Notice on Issuance of New Shares Through Third-Party Allotment” which was released today.

Others

(1) Transition to a Company with Audit and Supervisory Committee

The Company resolved the transition to a company with an audit and supervisory committee in the board of directors meeting held on February 16, 2016 with the precondition of approval in the 59th annual shareholders' meeting scheduled to be held on May 27, 2016.

For details, please refer to "Notice on Transition to a Company with an Audit and Supervisory Committee" released on February 26, 2016.

(2) Transfer of Directors

<1> Appointment of New Representative Directors

Koji Okumura Chairman of the Board, Chief Executive Officer (CEO) and Representative Director
(Present President, Chief Director of Production, Representative Director)

Yasuhiko Todani President, Chief Operating Officer (COO), Chief Director of Corporate
Management Division and Representative Director
(Present Executive Managing Director, Corporate Management Division)

<2> Transfer of Other Directors

There are no changes to other directors.

<3> Scheduled Appointment Date

June 1, 2016

For details, please refer to "Notice on the Informal Decision of Representative Directors Transfers (Appointment of New President)" released on March 15, 2016.