

**Nippon Shikizai, Inc.**  
**Summary of Financial Results for the First Half of Fiscal Year**  
**Ending February 28, 2018**  
**[Japanese Standard] (Consolidated)**

Nippon Shikizai, Inc. has announced its consolidated financial results for the first half of the fiscal year ending February 28, 2018. Please refer to the contents of the report disclosed below.

**Consolidated Financial Results**

- **Net sales: 5,343 million yen (0.6% decrease from the same period previous year)**
- **Operating income: 412 million yen (27.6% decrease from the same period previous year)**
- **Ordinary income: 418 million yen (17.5% decrease from the same period previous year)**
- **Net income attributable to owners of parent: 335 million yen (Net income attributable to owners of parent of 395 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, 2018 (March 1, 2017 - August 31, 2017), Japanese economy has shown improvements in employment situation and corporate earnings across all kinds of industries, and, together with economic growth we have seen on a global scale, these trends helped Japan to regain, although by a small margin, some of its business confidence, while personal consumption has also continued on the same steady level.

The domestic cosmetics market remained strong, thanks to the ongoing economic recovery on the one hand and the flourishing inbound and outbound demand for Japanese-made cosmetics on the other. The overseas cosmetics market also remained robust, thanks to a gradual expansion of the markets in Europe and the Americas as well as steady trends in Asia and China.

Under these economic conditions, the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) made a range of efforts to increase group synergies to reinforce productive capacity in Japan further and accelerate globalization of the Group's operations based on the "Medium-Term Business Strategy Vision" that we established for a period starting in the current fiscal year.

During the first half period of the fiscal year ending February 28, 2018, the Group managed to achieve business results exceeding the initial plan thanks to a recovery of the market of make-up products on the one hand and successful efforts to attract inbound and outbound demand in Japan as well as to acquire orders for pharmaceutical products in France, which are the mainstay of its business, on the other. Nevertheless, we posted net sales of 5,343 million yen, down 0.6% from the same period previous year.

In terms of profits, the Group achieved a result exceeding the forecast as sales remained robust, but due to a number of reasons including an increase in depreciation expenses and incidental expenses incurred in connection

with the completion of the second Tsukuba factory expansion project, the operating income was 412 million yen, down 27.6% from the same period previous year. In the same way, the ordinary income was 418 million yen, down 17.5% from the same period previous year, and, as a result of the above, the Group posted net income attributable to owners of parent of 335 million yen, down 15.2% from the same period previous year.

### **Segment Business Information: Business Performance by Region**

#### ***(Japan)***

The domestic cosmetics OEM market has shown a robust growth against the background of an expansion of outsourcing by domestic cosmetics manufacturers, new entrants from outside the cosmetics industry, and a strong inbound and outbound demand for Japanese-made cosmetics, which are highly popular in the Asian/ASEAN countries. Moreover, partly owing to the fact that make-up products are currently driving market growth, which served as a favorable tailwind, the Group managed to acquire orders from customers in many areas. As a result, the Group managed to achieve higher net sales than initially planned, but still, at 4,456 million yen, the result is down 0.5% from the same period previous year. Operating income was also higher than initially planned, but due to an increase in depreciation expenses and incidental expenses incurred in connection with the completion of the second Tsukuba factory expansion project and some other reasons, it was 329 million yen, down 30.0% from the same period previous year.

#### ***(France)***

The economy in Europe, where THEPENIER PHARMA INDUSTRIE S.A.S. (hereafter referred to as "THEPENIER") is located, experienced robust trends in personal consumption and capital investment, and the economy continued to recover.

Under such market environment, although THEPENIER showed a good performance with its pharmaceutical products, which are the mainstay of its business, and ensured net sales substantially higher than initially planned, compared with the same period previous year, net sales were 912 million yen, down 5.0%, while operating income was 83 million yen, down 8.2% from the same period previous year.

### **Outlook**

There is no change in forecasts for the fiscal year ending February 28, 2018, as announced on April 13, 2017.

(%: change from the same period previous year)

	Full year (increase/decrease)
Net sales	10,200 million yen (Up 1.9%)
Operating income	674 million yen (Down 15.7%)
Ordinary income	622 million yen (Down 13.7%)
Net income attributable to owners of parent	457 million yen (Down 14.2%)
Net income per share	436.14 yen

[Appendix]

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	At February 28, 2017	At August 31, 2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	1,319,746	835,022
Notes and accounts receivable - trade	1,789,683	2,026,667
Inventories	1,389,016	1,563,087
Other	228,791	252,779
Allowance for doubtful accounts	(1,819)	(1,300)
<b>Total Current Assets</b>	<b>4,725,418</b>	<b>4,676,257</b>
<b>Non-current Assets</b>		
<b>Property, Plant and Equipment</b>		
Buildings and structures - net	1,930,485	2,807,359
Machinery, equipment and vehicles - net	545,315	637,983
Land	1,301,034	1,301,533
Other - net	764,547	177,556
<b>Total Property, Plant and Equipment</b>	<b>4,541,381</b>	<b>4,924,431</b>
<b>Intangible Assets</b>	<b>232,114</b>	<b>225,721</b>
<b>Investments and Other Assets</b>		
Investment securities	427,581	562,526
Other	272,502	453,724
Allowance for doubtful accounts	(59,799)	(73,930)
<b>Total Investments and Other Assets</b>	<b>640,284</b>	<b>942,319</b>
<b>Total Non-current Assets</b>	<b>5,413,780</b>	<b>6,092,473</b>
<b>Total Assets</b>	<b>10,139,199</b>	<b>10,768,730</b>

(Thousands of yen)

	At February 28, 2017	At August 31, 2017
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	1,170,349	1,510,951
Short-term loans payable	1,571,688	1,697,753
Income taxes payable	149,106	100,166
Provision for bonuses	56,004	218,031
Provision for directors' bonuses	47,500	—
Other	1,082,235	912,722
<b>Total Current Liabilities</b>	<b>4,076,884</b>	<b>4,439,626</b>
<b>Non-current Liabilities</b>		
Long-term loans payable	2,841,231	2,710,821
Provision for directors' retirement benefits	150,090	147,630
Net defined benefit liability	101,057	98,473
Other	284,319	319,600
<b>Total Non-current Liabilities</b>	<b>3,376,697</b>	<b>3,276,525</b>
<b>Total Liabilities</b>	<b>7,453,582</b>	<b>7,716,151</b>
<b>NET ASSETS</b>		
<b>Shareholders' Equity</b>		
Capital stock	714,104	714,104
Capital surplus	943,209	943,209
Retained earnings	893,651	1,150,630
Treasury shares	(3,481)	(3,481)
<b>Total Shareholders' Equity</b>	<b>2,547,483</b>	<b>2,804,463</b>
<b>Accumulated Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	197,096	290,049
Foreign currency translation adjustment	(58,963)	(41,934)
<b>Total Accumulated Other Comprehensive Income</b>	<b>138,132</b>	<b>248,115</b>
<b>Total Net Assets</b>	<b>2,685,616</b>	<b>3,052,578</b>
<b>Total Liabilities and Net Assets</b>	<b>10,139,199</b>	<b>10,768,730</b>

## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

### Quarterly Consolidated Statement of Income

(Six Months ended August 31, 2017)

(Thousands of yen)

	Six months ended August 31, 2016	Six months ended August 31, 2017
<b>Net Sales</b>	5,374,972	5,343,429
<b>Cost of Sales</b>	4,224,483	4,289,316
<b>Gross Profit</b>	1,150,489	1,054,113
<b>Selling, General and Administrative Expenses</b>	580,899	641,930
<b>Operating Income</b>	569,589	412,182
<b>Non-operating Income</b>		
Interest income	309	584
Dividend income	4,901	6,120
Foreign exchange gains	—	25,249
Other	5,546	6,587
<b>Total Non-operating Income</b>	10,758	38,542
<b>Non-operating Expenses</b>		
Interest expenses	35,175	32,359
Share issuance cost	19,278	—
Foreign exchange losses	19,019	—
Other	207	137
<b>Total Non-operating Expenses</b>	73,681	32,497
<b>Ordinary Income</b>	506,665	418,227
<b>Extraordinary Income</b>		
Gain on sales of non-current assets	804	24
<b>Total Extraordinary Income</b>	804	24
<b>Extraordinary Losses</b>		
Loss on retirement of non-current assets	397	1,157
<b>Total Extraordinary Losses</b>	397	1,157
<b>Income before Income Taxes</b>	507,073	417,093
Income taxes - current	151,334	70,118
Refund of income taxes	(10,037)	(9,413)
Income taxes - deferred	(29,823)	20,809
<b>Total Income Taxes</b>	111,474	81,514
<b>Net Income</b>	395,599	335,579
<b>Net Income Attributable to Owners of Parent</b>	395,599	335,579

**Quarterly Consolidated Statement of Comprehensive Income**  
**(Six Months ended August 31, 2017)**

(Thousands of yen)

	Six months ended August 31, 2016	Six months ended August 31, 2017
Net income	395,599	335,579
<b>Other Comprehensive Income</b>		
Valuation difference on available-for-sale securities	24,509	92,953
Deferred gains (losses) on hedges	75	—
Foreign currency translation adjustment	(107,924)	17,028
<b>Total Other Comprehensive Income</b>	(83,339)	109,982
<b>Comprehensive Income</b>	312,259	445,561
(Breakdown)		
Comprehensive income attributable to owners of parent	312,259	445,561
Comprehensive income attributable to non-controlling interests	—	—

### (3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended August 31, 2016	Six months ended August 31, 2017
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	507,073	417,093
Depreciation	178,767	210,533
Increase (decrease) in provision for bonuses	54,822	162,027
Increase (decrease) in provision for directors' bonuses	—	(47,500)
Increase (decrease) in net defined benefit liability	16,087	(6,586)
Increase (decrease) in provision for directors' retirement benefits	—	(2,460)
Increase (decrease) in allowance for doubtful accounts	(4,089)	10,497
Interest and dividend income	(5,211)	(6,705)
Interest expenses	35,175	32,359
Share issuance cost	19,278	—
Loss (gain) on sales of non-current assets	(804)	(24)
Loss on retirement of non-current assets	397	1,157
Decrease (increase) in notes and accounts receivable - trade	(259,235)	(220,882)
Decrease (increase) in inventories	(186,163)	(163,250)
Increase (decrease) in notes and accounts payable - trade	189,346	319,259
Increase (decrease) in accounts payable - other	12,472	(226,882)
Increase (decrease) in accrued consumption taxes	(19,112)	(102,024)
Other	25,893	(9,899)
<b>Subtotal</b>	<b>564,696</b>	<b>366,713</b>
Interest and dividend income received	4,933	6,140
Interest expenses paid	(35,361)	(32,021)
Income taxes (paid) refund	(155,919)	(112,357)
<b>Net Cash Provided by Operating Activities</b>	<b>378,349</b>	<b>228,475</b>

(Thousands of yen)

	Six months ended August 31, 2016	Six months ended August 31, 2017
<b>Cash Flows from Investing Activities:</b>		
Payments into time deposits	(90,000)	(90,000)
Proceeds from withdrawal of time deposits	90,000	140,000
Purchase of property, plant and equipment	(166,883)	(401,075)
Proceeds from sales of property, plant and equipment	804	24
Purchase of intangible assets	(3,264)	(5,023)
Purchase of shares of subsidiaries	—	(146,076)
Purchase of investment securities	(1,239)	(1,231)
<b>Net Cash Used in Investing Activities</b>	<b>(170,582)</b>	<b>(503,381)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase (decrease) in short-term loans payable	(86,688)	109,557
Proceeds from long-term loans payable	324,768	299,000
Repayments of long-term loans payable	(431,408)	(431,860)
Proceeds from issuance of common shares	303,431	—
Purchase of treasury shares	(605)	—
Repayments of lease obligations	(42,642)	(49,356)
Proceeds from sales and leasebacks	—	22,235
Cash dividends paid	(21,286)	(78,373)
Other	(10,636)	(39,046)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>34,930</b>	<b>(167,845)</b>
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	<b>(21,574)</b>	<b>7,445</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>221,123</b>	<b>(435,306)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>737,322</b>	<b>1,179,226</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>958,446</b>	<b>743,920</b>

#### (4) Segment Information

##### *Performance by Business Segment*

1. Six Months ended August 31, 2017 (March 1, 2017 to August 31, 2017)

(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	4,430,976	912,453	5,343,429	—	5,343,429
Internal sales and transfers between segments	25,704	103	25,807	(25,807)	—
Total	4,456,680	912,556	5,369,237	(25,807)	5,343,429
Segment Income	329,607	83,872	413,480	(1,297)	412,182

Notes: 1. The adjustment amount of negative 1,297 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