

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

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

Consolidated Financial Results

- **Net sales:** 10,007 million yen (14.9% increase from the previous period)
- **Operating income:** 799 million yen (60.0% increase from the previous period)
- **Ordinary income:** 721 million yen (73.1% increase from the previous period)
- **Net income attributable to owners of parent:** 532 million yen (Net income attributable to owners of parent of 243 million yen in the previous period)

Summary of Consolidated Operating Results

The Japanese economy in the consolidated fiscal year ended February 28, 2017 continued to be on the moderate recovery trend supported by improvement in employment conditions and corporate earnings as a whole, and personal consumption showed some signs of recovery.

The domestic cosmetics market remained strong as a whole, thanks to expansion of inbound demand driven by an increase in foreign visitors, as well as expectation for economic recovery. However, some observers commented that the inbound demand had already peaked out. Except the inbound demand, the figures in the domestic cosmetics market seem to have remained at the almost same level with the previous year. In the overseas cosmetics market, business in Asian countries including China and the Americas continued steady growth, despite of weak performance in some countries in Europe.

Under these economic conditions, the Group (which collectively means the Company and consolidated subsidiaries, and the same applies hereinafter) made full efforts to increase sales and to strengthen the business foundation by developing innovative formulas and promoting proposal-based sales, with an aim to expand our revenue base through enhancement of cost efficiency and cost structure.

Segment Business Information by Region

(Japan)

The domestic cosmetics OEM market remained firm backed by an expansion of outsourcing by domestic cosmetics manufacturers, new comers from outside the cosmetics industry, and an increase in inbound and outbound demand in Asia and ASEAN regions where “Japanese cosmetics” are popular.

Under such market environment, the Company saw double-digit sales increases in the business of the make-up products including eye shadow and cheek palettes, foundation creams, lipsticks, face powder and talcum powder, as well as skin-care products including creams, face packs and skin lotions. As the result, both net sales and income increased.

(France)

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

Under such market environment, in THEPENIER, there was an increase in net sales and income compared to the previous fiscal year on a Euro basis, thank to sales increases in pharmaceutical products and make-up products, which are the mainstay of its business. On the other hand, net sales on a yen basis slightly decreased, due to appreciation of yen against the Euro.

Outlook

It is expected that the global economy continue to be on the path of moderate recovery as a whole in the next period, but there remains a possibility that it is affected by some factors such as downturn in economy in Asian emerging countries including China, economic and financial policies implemented by the new administration in the U.S., and political climates in major European countries. Hence, we forecast that the global economy remain uncertain.

Under such economic conditions, the Group has developed the “Medium-Term Business Strategy Vision (2017 – 2021)” aiming at “growth investment mainly for expansion of the Tsukuba factory” and “acceleration of globalization of our business,” in order to expand our business sustainably and enhance the company value over medium- to long term.

Implementing this strategy vision, we forecast net sales of 10,200 million yen (up 1.9% from the previous period), operating income of 674 million yen (down 15.7% from the previous period), ordinary income of 622 million yen (down 13.7% from the previous period), and net income attributable to owners of parent of 457 million yen (down 14.2% from the previous period) for the next consolidated fiscal year.

(%: 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	5,222 million yen (Down 2.8%)	10,200 million yen (Up 1.9%)
Operating income	305 million yen (Down 46.3%)	674 million yen (Up 15.7%)
Ordinary income	279 million yen (Down 44.8%)	622 million yen (Down 13.7%)
Net income attributable to owners of parent	196 million yen (Down 50.4%)	457 million yen (Down 14.2%)
Net income per share	37.48 yen	436.14 yen*

*The figures in the above table are theoretical figures calculated under the assumption that every five shares are consolidated into one share, as explained in the “Major Subsequent Events” on page 13.

Group’s Medium- to Long-term Management Strategies and Challenges to be Addressed

Under the “Medium-Term Business Strategy Vision” aiming at “growth investment mainly for expansion of the Tsukuba factory” and “acceleration of globalization of our business,” we will implement the following core strategies, in order to expand our business sustainably and enhance the corporate value over medium- to long term.

1) Strategic growth investment

Investment for production capacity expansion that contributes to sales growth

2) Acceleration of globalization of our business

Group-wide research and development activities, technology development activities, and global deployment of our marketing activities

- Promote expansion of our product portfolio, increase in our product capacity, and R&D activities in France through

management integration with Orleans Cosmetics S.A.S., a company we acquired as part of our global strategies

- Deploy our production bases in both Japan and France, in order to gain market superiority by utilizing our unique group synergy allowing us to supply the products made in both Japan and France

3) Enhancement in customer satisfaction

Strengthen our business foundation for long-term and sustainable growth

4) Strengthening of our business foundation

5) Pursuit of profitability

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

(Thousands of yen)

	At February 29, 2016	At February 28, 2017
ASSETS		
Current Assets		
Cash and deposits	878,205	1,319,746
Notes and accounts receivable - trade	1,767,380	1,789,683
Merchandise and finished goods	572,481	626,755
Work in process	134,637	141,808
Raw materials and supplies	641,800	620,452
Deferred tax assets	102,879	130,729
Other	128,315	98,062
Allowance for doubtful accounts	(1,821)	(1,819)
Total Current Assets	4,223,879	4,725,418
Non-current Assets		
Property, Plant and Equipment		
Buildings and structures	5,987,103	5,974,129
Accumulated depreciation	(3,936,878)	(4,043,644)
Buildings and structures, net	2,050,225	1,930,485
Machinery, equipment and vehicles	2,992,489	3,075,577
Accumulated depreciation	(2,491,655)	(2,530,262)
Machinery, equipment and vehicles, net	500,834	545,315
Tools, furniture and fixtures	692,522	678,072
Accumulated depreciation	(590,731)	(588,637)
Tools, furniture and fixtures, net	101,790	89,434
Land	1,301,892	1,301,034
Construction in progress	34,017	675,112
Total Property, Plant and Equipment	3,988,761	4,541,381
Intangible Assets	245,955	232,114
Investments and Other Assets		
Investment securities	318,830	427,581
Other	282,366	272,502
Allowance for doubtful accounts	(64,177)	(59,799)
Total Investments and Other Assets	537,020	640,284
Total Non-current Assets	4,771,736	5,413,780
Total Assets	8,995,615	10,139,199

(Thousands of yen)

	At February 29, 2016	At February 28, 2017
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	1,313,212	1,170,349
Short-term loans payable	1,681,579	1,571,688
Lease obligations	83,260	96,588
Accounts payable - other	422,924	534,534
Income taxes payable	160,791	149,106
Provision for bonuses	53,632	56,004
Provision for directors' bonuses	-	47,500
Other	401,694	451,112
Total Current Liabilities	4,117,095	4,076,884
Non-current Liabilities		
Long-term loans payable	2,506,013	2,841,231
Lease obligations	233,388	192,265
Deferred tax liabilities	46,000	79,099
Provision for directors' retirement benefits	150,090	150,090
Net defined benefit liability	95,037	101,057
Other	23,219	12,954
Total Non-current Liabilities	3,053,749	3,376,697
Total Liabilities	7,170,844	7,453,582
NET ASSETS		
Shareholders' Equity		
Capital stock	552,749	714,104
Capital surplus	781,854	943,209
Retained earnings	382,428	893,651
Treasury shares	(2,682)	(3,481)
Total Shareholders' Equity	1,714,349	2,547,483
Accumulated Other Comprehensive Income		
Valuation difference on available-for-sale securities	120,660	197,096
Deferred gains (losses) on hedges	(82)	-
Foreign currency translation adjustment	(10,156)	(58,963)
Total Accumulated Other Comprehensive Income	110,421	138,132
Total Net Assets	1,824,771	2,685,616
Total Liabilities and Net Assets	8,995,615	10,139,199

(2) Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Net Sales	8,711,882	10,007,370
Cost of Sales	7,121,949	7,986,593
Gross Profit	1,589,933	2,020,776
Selling, General and Administrative Expenses	1,089,918	1,220,886
Operating Income	500,015	799,890
Non-operating Income:		
Interest income	961	815
Dividend income	6,325	7,748
House rent income	2,574	2,637
Other	10,893	10,874
Total Non-operating Income	20,754	22,076
Non-operating Expenses:		
Interest expenses	82,881	67,454
Share issuance cost	-	19,278
Foreign exchange losses	20,873	10,643
Other	345	3,466
Total Non-operating Expenses	104,100	100,843
Ordinary Income	416,669	721,123
Extraordinary Income:		
Gain on sales of non-current assets	351	930
Total Extraordinary Income	351	930
Extraordinary Losses:		
Loss on retirement of non-current assets	1,994	782
Settlement package	15,232	-
Total Extraordinary Losses	17,226	782
Income before Income Taxes	399,793	721,271
Income taxes - current	156,358	229,652
Refund of income taxes	(22,752)	(16,513)
Income taxes - deferred	22,909	(24,646)
Total Income Taxes	156,514	188,492
Net Income	243,279	532,778
Net Income Attributable to Owners of Parent	243,279	532,778

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Net income	243,279	532,778
Other Comprehensive Income		
Valuation difference on available-for-sale securities	17,139	76,435
Deferred gains (losses) on hedges	796	82
Foreign currency translation adjustment	(74,093)	(48,807)
Total Other Comprehensive Income	(56,157)	27,711
Comprehensive Income	187,121	560,489
(Breakdown)		
Comprehensive income attributable to owners of parent	187,121	560,489
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

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 attributable to owners of parent			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 attributable to owners of parent					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

Fiscal year ended February 28, 2017

(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	382,428	(2,682)	1,714,349
Changes of items during period					
Issuance of new shares	161,355	161,355			322,710
Dividends of surplus			(21,555)		(21,555)
Net income attributable to owners of parent			532,778		532,778
Purchase of treasury shares				(798)	(798)
Net changes of items other than shareholders' equity					
Total changes of items during period	161,355	161,355	511,223	(798)	833,134
Balance at end of current period	714,104	943,209	893,651	(3,481)	2,547,483

	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	120,660	(82)	(10,156)	110,421	1,824,771
Changes of items during period					
Issuance of new shares					322,710
Dividends of surplus					(21,555)
Net income attributable to owners of parent					532,778
Purchase of treasury shares					(798)
Net changes of items other than shareholders' equity	76,435	82	(48,807)	27,711	27,711
Total changes of items during period	76,435	82	(48,807)	27,711	860,845
Balance at end of current period	197,096	-	(58,963)	138,132	2,685,616

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Cash Flows from Operating Activities:		
Income before income taxes	399,793	721,271
Depreciation	394,665	374,530
Increase (decrease) in provision for bonuses	2,091	2,371
Increase (decrease) in provision for directors' bonuses	-	47,500
Increase (decrease) in net defined benefit liability	(1,806)	12,298
Increase (decrease) in allowance for doubtful accounts	7,428	7
Interest and dividend income	(7,287)	(8,564)
Interest expenses	82,881	67,454
Share issuance cost	-	19,278
Loss (gain) on sales of non-current assets	(351)	(930)
Loss on retirement of non-current assets	1,994	782
Settlement package	15,232	-
Decrease (increase) in notes and accounts receivable - trade	(142,611)	(54,148)
Decrease (increase) in inventories	(256,605)	(58,102)
Increase (decrease) in notes and accounts payable - trade	362,370	(127,676)
Increase (decrease) in accrued consumption taxes	(44,944)	(11,864)
Increase (decrease) in accounts payable - other	34,333	142,459
Other	44,487	47,828
Subtotal	891,672	1,174,495
Interest and dividend income received	6,409	7,895
Interest expenses paid	(81,634)	(68,031)
Settlement package paid	(15,232)	-
Income taxes (paid) refund	5,781	(233,885)
Net Cash Provided by Operating Activities	806,997	880,474

(Thousands of yen)

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017
Cash Flows from Investing Activities:		
Payments into time deposits	(135,000)	(135,000)
Proceeds from withdrawal of time deposits	140,788	139,874
Purchase of property, plant and equipment	(127,602)	(858,368)
Proceeds from sales of property, plant and equipment	64,928	930
Purchase of intangible assets	(9,704)	(9,411)
Purchase of investment securities	(2,446)	(2,460)
Net Cash Used in Investing Activities	(69,036)	(864,435)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term loans payable	(259,331)	(108,117)
Proceeds from long-term loans payable	490,000	1,225,026
Repayments of long-term loans payable	(828,309)	(853,134)
Proceeds from insurance of common shares	-	303,431
Purchase of treasury shares	(532)	(798)
Repayments of lease obligations	(88,601)	(87,277)
Proceeds from sales and leasebacks	55,456	30,078
Cash dividends paid	(116)	(21,302)
Other	30,698	(50,531)
Net Cash Provided by (Used in) Financing Activities	(600,736)	437,372
Effect of Exchange Rate Change on Cash and Cash Equivalents	(13,153)	(11,508)
Net Increase (Decrease) in Cash and Cash Equivalents	124,070	441,903
Cash and Cash Equivalents at Beginning of Period	613,251	737,322
Cash and Cash Equivalents at End of Period	737,322	1,179,226

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

Year Ended February 28, 2017 (March 1, 2016 to February 28, 2017)

(Thousands of yen)

	Reporting Segment			Adjustment Amount (Notes 1, 2)	Consolidated Financial Statements Amount (Note 3)
	Japan	France	Total		
Sales					
Sales to outside customers	8,274,539	1,732,831	10,007,370	-	10,007,370
Internal sales and transfers between segments	131,860	1,681	133,541	(133,541)	-
Total	8,406,399	1,734,512	10,140,912	(133,541)	10,007,370
Segment income	674,028	115,609	789,638	10,251	799,890
Segment assets	9,238,119	1,919,206	11,157,325	(1,018,126)	10,139,199
Other items					
Depreciation	258,467	116,062	374,530	-	374,530
Increase of property, plant and equipment and intangible assets	903,870	81,385	985,255	-	985,255

Notes: 1. The adjustment amount of 10,251 thousand yen in segment income is an elimination of transactions between segments.

2. The adjustment amount of negative 1,018,126 thousand yen in segment assets 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)

(Change in share unit and consolidation of shares)

In a board of directors meeting held on April 13, 2017, the Company resolved to change the share unit from one thousand (1,000) to one hundred (100) shares and to submit proposals for consolidation of shares and a partial amendment of Company's Articles of Incorporation to change the total number of authorized shares and the share unit to the 60th annual shareholders meeting to be convened on May 26, 2017, under the condition that the said proposal for the partial amendment of Company's Articles of Incorporation is approved as drafted in the above mentioned shareholders meeting.

(1) Purpose of change in share unit and consolidation of shares

The Japanese stock exchanges announced the "Action Plan for Consolidating Trading Units," aiming to consolidate one hundred (100) shares of common stock of domestic companies listed on Japanese stock exchanges into one trading unit by October 2018. As a company listed on the Tokyo Stock Exchange, the Company respects this intention, and has decided to change its number of shares constituting one share unit from one thousand (1,000) to one hundred (100) shares, and to execute consolidation of shares (under which every five shares are consolidated into one share) with the objectives of enhancing investment opportunities for individual investors as well as adjusting the investment unit to an appropriate level taking into consideration changes in stock prices in the medium to long term.

(2) Details of change in share unit

The Company changes its number of shares constituting one share unit from one thousand (1,000) shares to one hundred (100) shares as of September 1, 2017

(3) Details of consolidation of shares

1) Type of shares subject to the consolidation of shares

Common shares

2) Method and ratio of the consolidation of shares

On September 1, 2017, shares held by shareholders recorded in the latest register of shareholders as of August 31, 2017 will be consolidated at the ratio of five shares to one share.

3) Number of shares reduced through consolidation

Total number of outstanding shares before consolidation (as of February 28, 2017)	5,248,444 shares
Number of shares to be reduced through consolidation	4,198,756 shares
Total number of outstanding shares after consolidation	1,049,688 shares

Note: The "Number of shares to be reduced through consolidation" and "Total number of outstanding shares after consolidation" are theoretical values calculated based on the total number of outstanding shares before consolidation and the consolidation ratio.

4) Treatment of fractional shares

If fractional shares of less than one share arise as a result of the consolidation of shares, such shares shall be subject to a bulk sale in accordance with the provisions of the Companies Act, or the Company shall purchase them as treasury stock. The proceeds of the said sale shall be distributed to the shareholders having fractional shares in proportion to their respective fractions.

5) Total number of authorized shares as of the effective date

In conjunction with the reduction of the number of outstanding shares of the Company as a result of the consolidation of shares, in order to adjust the total number of authorized shares to an appropriate level, the total

number of authorized shares shall be amended in accordance with the share consolidation ratio (one fifth) as of September 1, 2017.

Total number of authorized shares before change	Total number of authorized shares after change (as of September 1, 2017)
13,000,000 shares	2,600,000 shares

(4) Schedule for consolidation of shares and change in share unit

Resolution at the board of directors	April 13, 2017
Resolution at annual shareholders meeting	May 26, 2017 (tentative)
Effective date of change of the share unit number and share consolidation	September 1, 2017 (tentative)

(5) Impact that has on per-share information

Assuming that the said share consolidation had been executed at the beginning of the previous consolidated fiscal year, the per-share information of the previous consolidated fiscal year and the current consolidated fiscal year are calculated as follows.

	Previous consolidated fiscal year (from March 1, 2015 through February 29, 2016)	Current consolidated fiscal year (from March 1, 2016 through February 28, 2017)
Amount of net assets per share	2,116.36 yen	2,562.62 yen
Amount of net income per share	282.13 yen	523.82 yen

Note: Primary net income per share is not included in the above table, because there is no dilutive share.

For details, please refer to the “Notice Concerning Change in Partial Amendments of the Articles of Incorporation, Change in Share Unit, and Consolidation of Shares” disclosed today.