

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the six months ended September 30, 2015 (April 1 to September 30, 2015), the Japanese economy was at a standstill due to sluggish personal consumption and a downturn in business confidence due to the slowdown of the Chinese economy.

In the housing market, which is one of our business areas, improved employment and income statistics and economic stimulus measures such as the expansion of mortgage loan tax break and housing subsidy program have had a positive effect on housing starts, which are on a gradual recovery trend.

In the retail and service industries, personal consumption remained weak despite an upturn in employment and income because of fears of rising prices due to yen depreciation.

Under these conditions, the Nac Group focused on improving customer satisfaction in all business areas, providing services suited to customers' needs, and strategies that work well in current market conditions such as aggressively launching new products.

As a result, consolidated results for the six months ended September 30, 2015 included sales of 36,523 million yen (down 10.9% year on year), operating loss of 1,094 million yen (compared with a loss of 183 million yen in the six months ended September 30, 2014) and ordinary loss of 1,089 million yen (compared with a loss of 182 million yen a year earlier). Loss attributable to owners of parent was 912 million yen (compared with a loss of 334 million yen a year earlier).

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 562 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the six months ended September 30, 2015, intense competition for new customers continued in the bottled water delivery industry, mainly among providers of one-way bottles, although the rush to enter the market by companies such as major soft drink manufacturers appears to have slowed. In addition, unseasonable weather during the second quarter of fiscal 2015, which is the summer peak demand season, had an adverse effect on consumer sentiment and marketing activities.

Under these conditions, the CreCla Business segment strengthened staff training targeted at improving customer satisfaction, while our directly managed stores and affiliated stores worked together on further improvements in quality and service.

However, these actions were not enough to counteract the effect of adverse weather conditions. As a result, the CreCla Business segment posted a minor year-on-year sales decline.

Operating income of the CreCla Business declined year on year, because it booked depreciation expenses on the Honjo Plant operated from April, 2015.

As a result, during the six months ended September 30, 2015, the CreCla Business segment posted

sales of 6,660 million yen (down 0.4% year on year), and operating loss of 219 million yen (compared with a loss of 65 million yen in the six months ended September 30, 2014).

[Rental Business]

In the mainstay dust control products business, price competition is continuing in the business-use market.

In this environment, per-customer spending and contract termination rates improved as a result of a sales policy focusing on the household-use market and doing more business with existing customers. As a result of an upward trend in the number of customers due to efforts to acquire customers from affiliated stores that were closing down, sales increased year on year.

In the With-branded pest-control devices business, sales grew year on year thanks to directly managed stores that opened up last year getting underway, and strong sales to affiliated stores.

Our regular cleaning plan for business recorded year-on-year sales growth thanks to steady orders received via the Internet and an increase in referrals of new customers by existing customers.

During the six months ended September 30, 2015, operating income rose year on year thanks to sales growth in all businesses.

As a result, during the six months ended September 30, 2015, the Rental Business segment posted sales of 6,296 million yen, up 2.4% year on year, and operating income of 912 million yen, up 22.4% year on year.

[Construction Consulting Business]

Conditions of the local construction market remained harsh, although we are beginning to see some signs of recovery.

In this environment, the construction know-how systems business kept up sales efforts to sustain growth of new customers. As a result, sales grew significantly year on year.

In the construction materials business, which is focused on solar energy systems, sales efforts focused on the new housing market. However, sales decreased year on year, because these efforts were not sufficient to compensate for the decline of the industrial solar systems market.

Overall, operating income increased significantly year on year owing to sales growth of the profitable construction know-how systems business and revisions to management costs.

As a result, during the six months ended September 30, 2015, the Construction Consulting Business segment posted sales of 2,747 million yen, down 5.5% year on year, and operating income of 523 million yen, up 31.7% year on year.

[Housing Sales Business]

In Japan's housing industry for the six months ended September 30, 2015, housing starts including

rental housing and condominiums continued to recover, increasing seven months in a row. Owner-occupied housing including custom-built house that is affected by the consumption tax hike indicated gradual recovery.

Against this backdrop, Leohouse, Ltd. opened new stores in major urban areas mainly in the Kansai region to expand its business territory. In addition, the company targeted a broad range of customers by offering diverse value-added products, such as “ZEH (Net Zero Energy House) as a lineup of Dai-ninki no ie,” which is a new high-end product featuring high cost performance, “Surprise as a lineup of Dai-ninki no ie” to mark the 45th anniversary of the founding of Nac Co., Ltd., and “Hapi Sora as a lineup of Dai-ninki no ie,” which features a roof garden.

However, sales declined year on year, because it takes time for new products to gain traction in the market, and operating income also fell year on year due to lower sales.

The introduction of new products has started to contribute to the recovery of new orders received. However, the number of orders received and orders in hand both decreased year on year to 920 homes (compared with 1,055 a year earlier) and 1,057 homes (compared with 1,220 a year earlier), respectively, as of September 30, 2015.

At J-wood Co., Ltd., sales and new orders received increased. There was also steady growth in orders in hand, which stood at 121 homes as of September 30, 2015 thanks to the popular customer attraction model with “Housing cafes.”

As a result, during the six months ended September 30, 2015, the Housing Sales Business posted sales of 15,874 million yen (down 22.8% year on year), and operating loss of 1,297 million yen (compared with a loss of 383 million yen a year earlier, including goodwill amortization costs related to J-wood).

[Mail-order Business]

At JIMOS Co., Ltd., sales remained solid year on year because of steady customer numbers for the mainstay Macchia Label brand. New Macchia Label products “Re-praise Cleansing” and “TAN-SAN Esthe Shampoo” went on sale from the second quarter of fiscal 2015.

Sales of the Coyori brand of skin and hair care products made from natural ingredients grew year on year as a result of a steady increase in the number of new customers thanks to ongoing aggressive spending in advertising.

On the other hand, sales decreased year on year in the wholesaling business and the mail-order consulting business.

Operating income declined year on year due to aggressive investment in advertising and promotions ahead of the spending plan and a decrease in sales of the wholesaling and mail-order consulting businesses.

As a result, during the six months ended September 30, 2015, the Mail-order Business posted sales of 4,959 million yen (up 5.6% year on year), and operating loss of 451 million yen (compared with a loss

of 264 million yen a year earlier, including goodwill amortization costs related to JIMOS).