NIPRO®

Annual Report 2004

Year Ended March 31, 2004

Our quest is for wholesome life:

medical supplies for the world population

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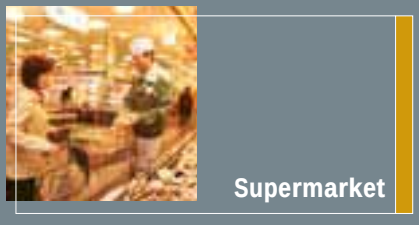
medical supplies for the world population



In 1954, we started business as a glass and instruments distributor dealing in glass tubes for ampoules and tablet bottles under the name of Nippon Glass Shoji Co., Ltd. Since then, we have become a world leader in successfully developing an automated processing machine of ampoules and thermos bulbs, and we have begun the manufacturing of ampoules, small light bulbs, among other products. In 1963, we entered the supermarket business, which was rapidly growing at the time in Japan. A stable earning capacity served as the driving force behind the creation of our next new business.

The quest to become the world's leading dialyzer manufacturer with the medical equipment brand "NIPRO"

In 1965, we entered into the medical equipment business, backed by our technical capabilities, product development abilities and sales expertise, which were augmented through the manufacture and sale of glass and instruments. Under our proprietary brand, "NIPRO," we released safe, sophisticated and user-friendly medical equipment into the market, including dialysis-related products and infusion lines. Among them, our dialyzers (a medical device used in dialysis treatment) earned a strong reputation both domestically and abroad. Currently, dialyzers are the pillars of our growth, serving as our flagship product with a large share in the global market.

To become the world leader in two areas: Development of artificial organs and manufacturing of injection drugs

In April 2001, we absorbed a domestic sales subsidiary and renamed ourselves as Nipro Corporation, which features our globally recognized brand name, "NIPRO." In June 2001, Nipro spun off the supermarket division into a separate company and took other restructuring measures. From there, we launched the integrated administration of R&D, production and sales with medical and pharmaceuticals businesses at its core. Currently, Nipro Group is actively engaged in R&D in leading-edge technologies such as regenerative medicine. We aim to become the world's leading company in two areas: in artificial organs, including artificial kidney (dialyzers), and in injection drugs.

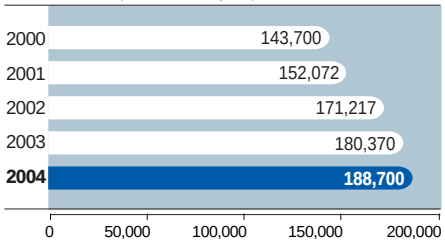
Contents

Consolidated Financial Highlights

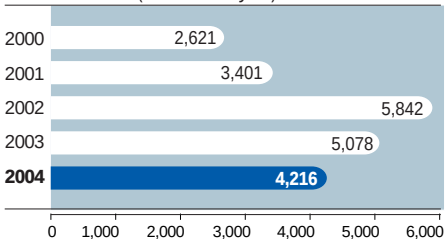
Nipro Corporation and its consolidated subsidiaries Years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
For the year:			
Net sales	**¥ 188,700**	¥ 180,370	**$ 1,786,255**
Operating income	**12,557**	14,899	**118,866**
Net income	**4,216**	5,078	**39,909**
Capital expenditures	**14,500**	20,775	**137,259**
Depreciation and amortization	**9,819**	8,767	**92,948**
R&D expenses	**3,074**	2,328	**29,099**
At year-end:			
Total assets	**¥ 279,701**	¥ 252,848	**$ 2,647,681**
Total shareholders' equity	**94,711**	83,533	**896,545**
Per share data (in yen and U.S. dollars):			
Net income:			
Basic	**¥ 64.9**	¥ 84.3	**$ 0.61**
Diluted	**—**	78.5	**—**
Cash dividends	**30.5**	32.0	**0.29**
Shareholders' equity	**1,487.5**	1,310.7	**14.08**

The U.S. dollar amounts in this report represent translations of Japanese yen,
for convenience only, at the rate of ¥105.64=US$1, the approximate exchange rate on March 31, 2004.

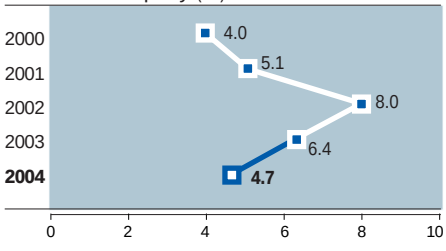
Net Sales (Millions of yen)



Net Income (Millions of yen)



Return on Equity (%)



Disclaimer Regarding Forward-Looking Statements

This report contains forward-looking statements regarding business performance and environment, in addition to current and historical facts of the Company, its subsidiaries and affiliates ("the Nipro Group"). These forward-looking statements represent the expectations and judgments of the management, based on the information available to the Company at the time they were prepared. When reading this report, please consider that forward-looking statements involve known and unknown risks and uncertainties; therefore, the actual future business performance and environment may differ materially, from what is forecasted in these statements. The Nipro Group assumes no responsibility or liability for potential problems.

To Our Shareholders and Friends

FY2003-05:
A Time to Gather Strength

During fiscal year 2003 (the year ended March 31, 2004), the Japanese economy recovered rapidly in the second half as a result of strong exports and capital investments. However, due to the effects of yen appreciation and a severe personal income environment, the economic recovery had a weak dynamic as a whole. The medical-related market overall was unable to extract itself from a tone of stagnation as a result of factors such as the governmental policy to suppress healthcare costs.

In this environment for the Nipro Group, fiscal 2003 was a year of making adjustments in order to advance our future business activities.

Domestically, we adjusted distributor inventories of medical equipment. Since we have adopted a "Sliding wage scale system" for each division, when inventory acquired by a sales distributor in accordance with industry custom is credited to sales for the division, it can lead to unfair results when evaluating the performance of the division. Also, a part of such distribution inventories had been considered to be excessive, so we decided to clear them. As a result of this adjustment, our results for the fiscal year ended March 31, 2004 showed a transient slow of growth.

In our overseas operations, sales increased year on year as OEM shipments of dialyzers, which had fallen temporarily, showed signs of recovering. At the same time, however, fiscal 2003 saw a further increase in the yen's value.

We achieved increased revenues in the Supermarket Division by opening up several new drugstores during the fiscal year. But the increase in initial expenses for opening stores reduced profits, and as a result, we are re-examining our current new-store strategy.

Meanwhile, in the Pharmaceutical Division, infusion kit products increased greatly. Also, in our Glass and Materials Division, the digital home-electronics boom led to significant growth in shipments of glass materials for LCD backlight bulbs.

In this environment, consolidated net sales for the year ended March 31, 2004 were ¥188,700 million, a 4.6% increase over the previous year. Consolidated operating income decreased 15.7% to ¥12,557 million, and consolidated net income declined 17.0% to ¥4,216 million. The fiscal year ended March 31, 2004 was a transitional phase for us, but we will be strengthening our efforts, as described below, to ensure the future expansion of the Nipro Group.

Revitalizing our business with "Sliding wage scale system"

The Nipro Group utilizes a performance-based, "Sliding wage scale system" as a management principle. This is a system whereby profit-sharing such as stock dividends, manager's compensation and employee bonuses is directly linked to measures of financial results such as net income. If net income is zero, there are no stock dividends for shareholders, no bonuses for employees, and all managers' pay is reduced. It is precisely because we have adopted a system in which dividends and wages are tied to performance that we must accurately measure our business performance.

As stated above, because of an adjustment on domestic distribution inventory, our fiscal 2003 results were temporarily depressed. However, this was a necessary step in order to promote a transparent performance-based pay system for our employees. As the governmental policies to cut healthcare expenditures such as revision of the National Health Insurance (NHI) price are implemented, and as price competition intensifies both in Japan and overseas, this new system will revitalize our businesses. We plan to consolidate and strengthen our "Sliding wage scale system" as a means of achieving expanded revenues and profits.

Building greater cost-competitiveness

As price competition intensifies, we are promoting a shift to overseas production in medical products and other areas to ensure we can maintain strong cost-competitiveness, increase market share and secure revenue and income. In the next four to five years, we plan to increase our overseas production ratio from the current approximately 15% to 50%.

Minoru Sano
President

While aggressively transferring production of products that can be produced overseas, we will produce high-function, high value-added products in Japan, so that our production system is one that is appropriate for each location.

As a future candidate site for expanding production, China has the most potential. This is not only because of its low wages and plentiful labor force, but also because it represents a large future market. In fiscal 2004, at the medical equipment plant already operating in China, we plan to introduce new equipment for a process of product sterilization that is currently outsourced. By doing this, we aim to enhance quality and strengthen competitiveness.

Even for our mainstay product, dialyzers, we are studying expansion of overseas production in response to declines in market prices. We are now conducting site selection for construction of a plant in the Shanghai area. At the same time, we are pursuing investment and rationalization to expand production and further enhance the cost-competitiveness of our manufacturing facilities in Japan.

Restructuring our overseas operations

Until now, the Nipro Group has supplied medical products to overseas markets essentially as an original equipment manufacturer (OEM), but we have now reviewed our OEM contracts. Over the past several years, we have made efforts to introduce our own brand products in overseas markets, and we have achieved good business results. Recently, we have readjusted our contracts with OEM customers, clarifying product areas and sales regions. From now on, we will tackle overseas markets with a two-pronged approach, selling as an OEM and also selling our own brand.

As one step in this strategy, we have recently established a business partnership with a leading American healthcare company to jointly develop artificial kidney and dialysis technologies and products. As in the past, this partnership will develop our overseas business as an OEM in dialyzers and related products. By combining our product development and production technology capabilities with the distribution and service-providing capabilities of our partner company, we will strengthen our business presence in the North American market. The transition from multiple to single use of dialyzers has been particularly

rapid in recent years in North America, and the total number used is on the rise. We cannot avoid declines in unit prices, but in cooperation with our partner, we plan to greatly expand total volume.

Another corporate issue that we must deal with is the appreciation of the yen. We are building a tough corporate structure that can withstand fluctuations in exchange rates through measures such as shifting production overseas, as explained above.

Expanding our pharmaceutical business

In anticipation of a rise in contract manufacturing of pharmaceuticals assisted by other pharmaceutical companies in connection with the April 2005 amendment of Pharmaceutical Affairs Law in Japan, our corporate group has continued to expand its production facilities, mainly at our consolidated subsidiary Nipro Pharma Corporation. In the field of injection kit products, we have the most comprehensive product line-up, and thus possess a major advantage over the competitors. To continue in our position as the leading manufacturer of injection kit products, which we expect will take off around fiscal 2006, we are currently expanding Nipro Pharma's Odate Factory.

In addition, we are investing between five and six billion yen to construct a pharmaceutical research facility with pilot plant functions within the Odate Factory. The plan is to have it serve not only an R&D center but also as a production facility capable of manufacturing a variety of contract manufacturing in small lots.

Meanwhile, in anticipation of an expansion in Japan's generic drug market, our policy is to strengthen both manufacturing and sales of oral drugs. While the market share of generic drugs is around 50% in Europe and North America, in Japan it is around 10%, leaving much room for expansion. Nipro has invested in Takeshima Pharmaceutical Co., Ltd., a manufacturer of generic drugs. Furthermore, we are going to build a new factory for generic oral drugs, and plan to increase its line-up to about 500 items in the next four to five years. As the Nipro Group develops generic drugs, we intend to enhance our market reputation and share by integrating our unique technologies.

By continuing these efforts, we aim to achieve annual net pharmaceutical sales of ¥100 billion in the near future.

Rounding out our line-up of medical products

Not only have we already secured a top-class world market share in artificial dialyzers, but we are also working on providing total solutions with devices and dialysis machines spanning the entire field of dialysis. We are also solidifying our line-up of diabetes-related products. Our cardiosurgery products, which we have been concentrating on in recent years, have started to take off. Sales of the PTCA balloon catheter launched in fiscal 2002 are brisk. We have also launched new products in the field of thrombus vacuum aspiration catheter, and recognition of the Nipro Group has been climbing.

In addition, we expect to obtain approval soon from the Ministry of Health, Labour and Welfare for the implantable left ventricular assist devices that we have been developing. Along with our non-implantable left ventricular assist device, which is already being sold, this is an example of how our company is developing a substantial presence in the field of artificial organs.

Looking to the future

In the next fiscal year ending March 2005, we anticipate increasingly severe price competition due to the coming NHI price revision in Japan. On the other hand, our Group plans to conduct a major expansion of manufacturing facilities for medical equipment such as dialyzers and infusion kit products. We have reflected on the fiscal 2003 decline in profits in our Supermarket Division due to expenses from new-store openings, especially drugstores. From now on, we plan to slow the pace of new store openings somewhat, and make efforts to strengthen profitability. After taking these steps, we aim to open some 200 new stores in the near future, adding to the 88 stores open as of March 31, 2004.

I see the three years starting in fiscal 2003 as a period for fortifying the operational base of the Nipro Group. As long-term goals, our Group is targeting consolidated net sales of ¥300 billion and consolidated recurring income of ¥20 billion in 2010. I believe this will be an important period for us to prepare for the achievement of those goals.

With this in mind, we expect net sales in fiscal 2004 to grow just a few percent, as in the past year, and for major increases to come in fiscal 2005 and thereafter. While we have always planned for our company to secure stable growth in earnings, we have moved boldly in fields where growth was expected or where we could display leadership in technologies we developed. We will continue to pursue this policy in the future. Besides our determination to achieve our long-term goals for 2010, we intend to conduct activities to enable us to take off in the following decade. Based on our "Sliding wage scale system", we will strengthen the structural responsibility of each division. We will work to secure earnings year by year, focusing our energies on securing stable profits for you, our shareholders.

It is my honor to request the further support of our shareholders and stakeholders, now and into the future.

Minoru Sano
President

Special Issues:
Strategy for Future Growth

I

Research & Development Laboratory

From Pioneering Medical Devices, We're Progressing to the Frontiers of Research

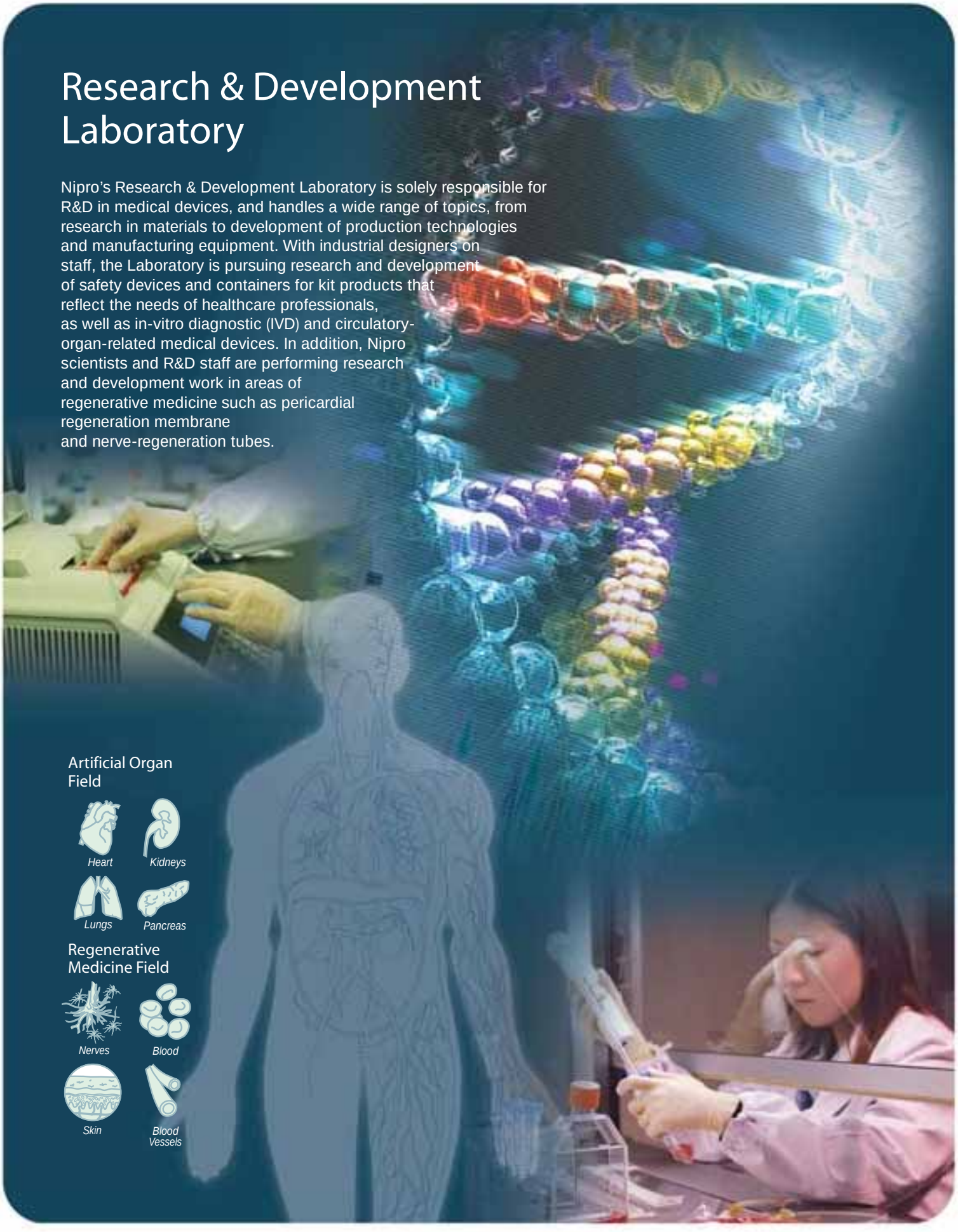
II

Pharmaceutical Research Center

Creating a Base for Expansion of the Pharmaceutical Division

Research & Development Laboratory

Nipro's Research & Development Laboratory is solely responsible for R&D in medical devices, and handles a wide range of topics, from research in materials to development of production technologies and manufacturing equipment. With industrial designers on staff, the Laboratory is pursuing research and development of safety devices and containers for kit products that reflect the needs of healthcare professionals, as well as in-vitro diagnostic (IVD) and circulatory-organ-related medical devices. In addition, Nipro scientists and R&D staff are performing research and development work in areas of regenerative medicine such as pericardial regeneration membrane and nerve-regeneration tubes.



From Pioneering Medical Devices, We're Progressing to the Frontiers of Research

Concentrating R&D efforts on circulatory organs and regenerative medicine

When we re-launched our company as the new Nipro Corporation in April 2001, we reorganized part of the Research & Development Laboratory into two new divisions in order to handle R&D in "Circulatory-organ-related Medical Devices" and "Medical Devices for Regenerative Medicine." These two divisions began to take off in fiscal 2003, and are now achieving numerous notable results in the fields of both circulatory organs and regenerative medicine.

In the field of circulatory organs, which we are pursuing as a company-wide effort, we are advancing development of Interventional Radiology (IVR) products, to be used for heart treatment and diagnosis. Specifically, we are now either developing or awaiting approval of new products used in PTCA, PTA, and stenting.

In the field of regenerative medicine, during fiscal 2004 we plan to undertake clinical trials of artificial heart membrane and nerve-regeneration devices. For these two topics, we hope to exert our strengths and move quickly to product commercialization.

Research into applied technologies as a technological base

Within the Research & Development Laboratory, our Applied Technical Section has grown remarkably over the past two years. Organized to refine fundamental technologies shared across the R&D Laboratory, it is made up of a group for polymer materials, analysis, prototyping, and design. The Applied Research Division has demonstrated a high degree of specialized expertise and is involved in virtually every topic being studied at the laboratory. For example, the Division has developed vinyl chloride materials that do not use DEHP Di (2-ethylhexyl) phthalate plasticizer, which was shown to cause generative toxicity in mice and rats and has also succeeded in developing a vinyl chloride-free infusion tube. As a result of the strengthening of the Applied Technical Section, the laboratory can now move in a systematic way in the processes leading up to productization, and this can be considered a major accomplishment.

Links to the sales division and the odate plant

The Research & Development Laboratory is also providing strong support to the Sales Division by helping to recruit customers for our cardiovascular system-related medical devices and our blood-glucose monitoring system. The Laboratory has also accepted personnel from the Odate Factory to provide programs from half a year to a whole year in "getting to know the R&D shop floor," providing a valuable opportunity to learn the product-development process centering on the cardiovascular area.

Also, to ensure improvements to our major products in fiscal 2003, we hired additional staff. We are starting to have researchers go out into the real-world market and survey how their products are being used. Our goal is to enhance the quality and user-friendliness of medical equipment.

Research & Development Laboratory

From the Development of Medical Devices to the Frontiers of Research

Artificial Organs

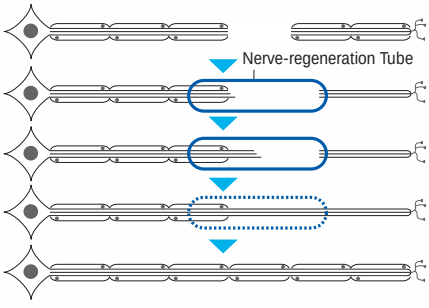
Left Ventricular Assist Devices

We have been introducing an implantable left ventricular assist device in Japan. This device is a pump that supports the heart function of patients with the end-stage heart failure such as dilated cardiomyophathy, while they wait for an available donor heart for transplantation. The effectiveness of the device has been demonstrated in more than 3,000 cases world-wide, and is capable of being used long-term. In some cases, the device has been used continuously for over 3 years. We're currently conducting the clinical trial at six institutes in Japan.

Regenerative Medicine

Nerve-regeneration Tube

These are proprietary biodegradable materials shaped in the form of pipes. When embedded between nerves that have been severed in accidents, among other incidents, the nerve cells grow by using the nerve-regeneration tube as a platform, which enables nerves to reconnect again. In joint research with a university, we have already succeeded in repairing damaged nerves measuring 35 mm in animal experiments.

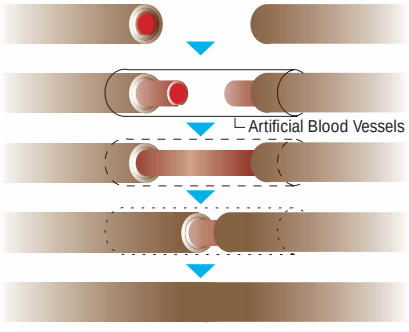


Pericardial Regeneration Membrane

Pericardial membrane refers to the membrane covering the exterior of organs in the thoracic cavity, for example, the heart, and abdominal cavity. The Pericardial Regeneration Membrane supplements the original membrane when it is damaged during surgery. It prevents the adhesion with other organs and tissue, and it gradually decomposes while helping cells regenerate, and is eventually absorbed into the body. We will release clinical trials at a university hospital in Japan.

Artificial Blood Vessels (Vascular Prosthesis)

These are biodegradable materials that promote the growth of vascular cells, which are shaped in the form of vessels. These materials have antithrombotic functions until the vascular endothelial cells cover the artificial blood vessels. They do not lead to thrombotic occlusion, unlike conventional artificial blood vessels made of synthetic materials, and they are absorbed into the body after the regeneration of blood vessels. We successfully developed products with a smaller diameter than we have ever developed before, and we are currently conducting experiments.



“Tailor-made” medicine:

Diagnostics for Drug-resistant M. tuberculosis

Conventionally, to secure a diagnosis for drug-resistant M. tuberculosis, two cultures were required: the first culture for isolation of M. tuberculosis, and the second culture to test for susceptibility to various antibiotics. We have already commercialized the diagnostics for drug-resistant M. tuberculosis without second culture, and newly arranged a new diagnostic to detect it directly from the specimen (sputa) without both cultures. It has already been applied, and is expected to be approved by 2005.

Diagnostics for Drug-response to Osteoporosis

Osteoporosis often develops among post-menopausal women. It is caused by a deterioration of the secreted level of the female hormone estrogen. Current treatment regimes include administering vitamin D, estrogen or others. However, some medicines have no effect on particular patients. If this was able to be tested in the early stages of treatment, it would prescribe the medicine, which may take effects for the patient and the patient could undergo a more suitable treatment. We have developed new diagnostics to test the prognosis to the disease and to aid the selection of therapeutic drugs base upon the individuals. It has already been applied, and is expected to be approved by the end of 2004.

Nipro Technology Contributes to the Future of Regenerative Medicine

In the field of regenerative medicine, research is advancing towards regeneration of a variety of tissues that comprise the human body, including bones, skin, and internal organs. A very important topic in regenerative tissue research and development is tissue-derived protein engineering technology. Nipro possesses a high level of technical capability in this area, and we are capitalizing on that by jointly developing nerve-regeneration tubes. Currently, as the final stage of commercialization, we are performing animal experiments and simultaneously preparing for clinical trials. Nipro’s products, which utilize tissue-derived proteins, have superior biocompatibility and are likely to be very competitive.

The ultimate goal of regenerative medicine that I am researching is to be able to synthesize all of the tissues and organs of the human body. To that end, we need a “cell bank” - for instance, a system in which hematopoeitic stem cells are harvested from umbilical-cord blood at birth, cultured, and cryopreserved to be used when needed. If we can make cell banks a reality, we will need cryopreservation bags to preserve the cells. Nipro also has a high technological capability to develop cryopreservation bags, so I expect they will also be strong in this field.

I believe that henceforth, regenerative medicine will be transformed from just treatment to heal sickness into one that can make patients healthier. In this way, I am sure regenerative medicine will provide the impetus for us to make healthcare a positive process of enhancing quality-of-life. I expect Nipro technology to contribute greatly to this, and look forward to continuing our ambitious work with this excellent partner.

by Dr. **Minoru Ueda**
Professor, Graduate School of Medicine, Nagoya University
Professor, Institute of Medical Science, University of Tokyo
Chairman, Japanese Society for Tissue Engineering

Pharmaceutical Research Center

The Pharmaceutical Research Center is in charge of all of the Nipro Group's research and development for pharmaceutical products. It is actively developing injection drugs aimed at expanding our contract manufacturing business, developing kit products, half-dose tablets and other products responding to current demands, and pouring efforts into the development of pharmaceutical products for kidney diseases. Furthermore, it is pushing forward with development of recombinant pharmaceuticals including recombinant human serum albumin applications being commercialized by Bipha Corporation, in which we have an equity stake.

We have won recognition for both its pharmaceutical development and its capabilities regarding formulations, and in recent years has seen a rapid rise in contract manufacturing orders from big pharmaceutical companies.

Creating a Base for Expansion of the Pharmaceutical Division

Developing Kit Products Other Companies Can't

With the April 2005 implementation of the amendment of the Pharmaceutical Affairs Law, the contract manufacturing of pharmaceuticals will become possible in all respects in Japan. As of the fiscal year ended March 31, 2004, Nipro Pharma Corporation was already Japan's No. 1 company in contract manufacturing business. However, seizing on the opportunity presented by the amendment of the Pharmaceutical Affairs Law, the Pharmaceutical Research Center is devoting significant effort to the development of kit products to rapidly expand the contract manufacturing business.

Since most injection drugs are already being sold as kit products, there are few for which kits can be easily developed and it is impossible to create kit products without improving preparation formulations and developing materials. The Pharmaceutical Research Center, therefore, focuses on developing kit products for which the difficulty involved precludes development by other companies. For example, it is now pursuing the development of anti-cancer drug kits for which significant bioactivity requires the use of a containment facility. Bringing to bear all of the capabilities of the Nipro Group, the Pharmaceutical Research Center examines the compatibility of drugs and materials and is pushing forward with kit product development raised to a new level and focusing on pre-filled syringe products.

Aiming to Be the Leading Manufacturer of Injection Drugs

One of the Nipro Group's goals has been to become the leading manufacturer of injection drugs, and we are about to achieve that goal in Japan. We now have our sights set on becoming the world's leading manufacturer of injection drugs, and the Pharmaceutical Research Center is preparing kit products for overseas markets. In Japan, we already lead the industry in terms of the number of injection drug products approved for production and challenge in the Europe and US markets based on our results and technologies.

Full-scale Development of Oral Drugs

Over the past several years, we have been aggressively developing our business to achieve our aim of becoming the leading manufacturer of injection drugs. As its next big theme, the Pharmaceutical Research Center will embark on a full-scale effort to develop oral drugs. The initial focus will be on increasing product numbers, and we believe that if we can gain production approval for an additional 150 products, we will be the leading manufacturer of both injection drugs and oral drugs in Japan. Ultimately, we aim to add 300 products to our line of oral drugs. The next topic to address is differentiation. This could include the development of uniquely shaped tablets, multi-layered tablets (dry-coated tablets), and tablets that dissolve in the mouth (without water).

We are already working to develop a tablet that dissolves in the mouth and can be manufactured on a normal production line, a type of drug that does not yet exist.

In the area of half-dose tablets, we have developed such a product for a new pharmaceuticals company's anti-diabetic drug and have sold the formulation data to that company. Nipro Pharma Corporation has won an agreement for the contract manufacturing of this drug and will make it at its Shirokita Factory. The Pharmaceutical Research Center has in some sense come to function like a contract research organization (CRO) and aims to continue developing promising drugs for new pharmaceutical companies who are seeking a business partner.

Pharmaceutical Research Center

Creating a Base for Expansion of the Pharmaceutical Division

Recombinant Human Serum Albumin Field

Application in Continuous Ambulatory Peritoneal Dialysis (CAPD)

Continuous Ambulatory Peritoneal Dialysis (CAPD) is an excellent method of treatment in terms of quality of life in that it enables patients to be treated at home. However, after several years of continual treatment, the dialysis effects deteriorate and peritoneal sclerosis occurs. Furthermore, patients lose approximately 70% of the albumin that is generated daily in the body during treatment. CAPD fluid, which contains albumin, has a dual effect: it prevents both the occurrence of peritoneal sclerosis and the loss of albumin from the living body. We have already completed basic research in this field, and have acquired patent rights in the U.S.

Development of Preparations Using Recombinant Human Serum Albumin

Albumin preparations include 5% albumin preparations administered for bleeding and 25% albumin preparations used for liver and kidney disease. Presently, nearly all of the 5% albumin preparation used in Japan is imported. In Europe and America only blood preparations produced domestically are approved, and among industrialized countries only Japan imports blood preparations in large quantities. From a safety perspective, it is necessary for Japan, as well, to shift from imported to domestically manufactured products and from blood preparations to non-blood preparations. Regarding 250ml vials of 5% albumin preparations, which are used for bleeding and other emergency situations, it is desirable that these be packed in soft bags, which are easy to handle in settings where medical care is actually administered. This hasn't been done yet because albumin is vulnerable to factors, such as heat and oxygen. The Pharmaceutical Research Center, however, is working to create 5% albumin preparations packed in soft bags, which are in great demand particularly by those providing medical care.

Application in Artificial Oxygen Carrier

Artificial oxygen carriers are generally called "artificial blood." The hemoglobin within red blood cells consists of heme, which binds with oxygen, and globin, a protein. Heme binds with oxygen and distributes it. Nipro's completely synthetic artificial oxygen carrier is Albumin Heme, which binds heme with recombinant human serum albumin. Artificial oxygen carriers that have been the subject of research to date employ hemoglobin from human blood. Introduction of these artificial oxygen carriers into the body raises blood pressure and presents the possibility of infection. Albumin Heme, however, presents none of these concerns. The Pharmaceutical Research Center, working in cooperation with venture firms and universities, is pursuing the development of hemoglobin that employs recombinant technology and is not derived from human blood and the development of hemoglobin packets encapsulating that hemoglobin. Working in these ways, Nipro aims to commercialize a safe artificial oxygen carrier that presents no risks of elevated blood pressure or infection.

Application in Drug Delivery System (DDS)

Nearly all drugs introduced into the human body bind with albumin. Nipro has developed a drug delivery system that applies this function to send drugs directly to the targeted organ. We are currently working with universities and research institutions to use recombinant technology to develop an albumin with the ability to selectively combine with and distribute drugs. PEG-grafted liposomes are known as one way to increase retention of drugs in the blood, but through this research we have discovered that the addition of an albumin modification to liposomes results in a greatly improved retention of drugs in the blood. A patent application has been submitted for this discovery. This technology has the potential to boost the tumor-localizing properties of anti-cancer drugs and, thereby, greatly increase therapeutic effects while minimizing possible side effects.

Kit Products*

*A kit product refers to an injection drug product in which a drug (with special container) is combined with the injection device.

Half-type Kit

This is a kit product that enables the user to dissolve various powdered drugs easily and safely. It is easier to handle and requires shorter processing time than conventional dissolving methods.

Pre-filled Syringe

This is a syringe product pre-filled with the required injectable. The Nipro group can manufacture the syringe in either glass or plastic depending on the type of drug to be used. Pre-filled syringes are available in a range of capacities and forms.

Double-bag Kit

This is a bag-type kit product, which combines powdered drugs with a dissolving solution. Drugs can be dissolved quickly in completely sterile conditions by pressing the bag just once.

Full-type Kit

This is a kit product that combines a vial containing powdered drugs such as antibiotics with dissolving solution in perfectly sterile conditions. It is designed to adapt to a range of drug vial sizes, and it can be disposed of separately after use.

Other Injection Drugs

The Nipro group also undertakes the complete manufacturing of non-kit products, including conventional injection drugs in containers as well as empty containers. We manufacture injection drugs in glass ampoules-whose use have been on the decline in recent years-in a range of colors, forms and capacities according to demand. This manufacturing expertise is based on our rich experience dating back to the company's foundation. In recent years, because of the benefits in terms of safety and emergency care, plastic ampoules have gradually replaced injection drugs in glass ampoules. We manufacture injection drugs in plastic ampoules with varying capacities based on an integrated system from the development of resin materials. We also manufacture numerous injection drugs in vials, utilizing our technologies for manufacturing injection drugs, as well as glass containers and rubber plugs.

Medical Division

FY2003 Overview

Progress in a challenging business environment

In the fiscal year ending March 31, 2004, the market environment became more severe as the Japanese government proceeded with policies to restrict medical costs and price competition intensified. Despite this difficult situation, we increased sales of injection and infusion products as well as circulatory-organ-related products through our efforts to increase and strengthen sales outlets, develop new products and markets, and offer a systematized product package for each medical treatment. In addition, we worked hard to expand sales of our dialyzer (artificial kidney) products. However, due to the impact of adjustments on distributors' inventories and intensified sales competition, we had a severe result as a whole.

New products sustain growth in international operations

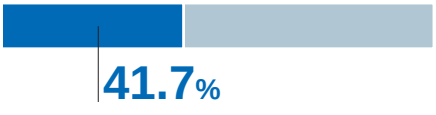
In our international operations for fiscal 2003, all of our core businesses, including dialysis products, blood-collection products, and diabetes-related products, grew firmly. Sales of dialyzers, which decreased last year, have recovered substantially. Especially, with the establishment of our cooperative sales relationship with OEM clients, we were able to turn favorable results.

The single-use dialyzer is becoming increasingly prevalent in the market. By introducing a new product that responds to this trend, we expanded our dialyzer business significantly. We also successfully launched a new dialysis machine, the DIAMAX™. In addition, the even higher quality of our AVF needles with safety features and blood lines for dialysis has been well accepted and they are steadily being distributed.

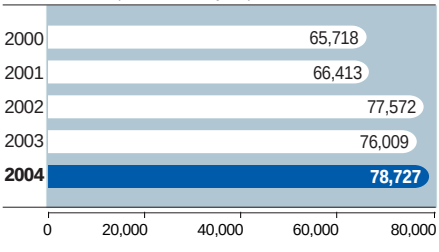
Because of these efforts, we were able to sustain good growth in international operations despite the effects of sudden fluctuations in foreign exchange rates.

As a result, net sales combining both domestic and overseas business were ¥78,727 million, an increase of 3.6% over the previous year.

Medical Division net sales ratio
(% of total net sales)



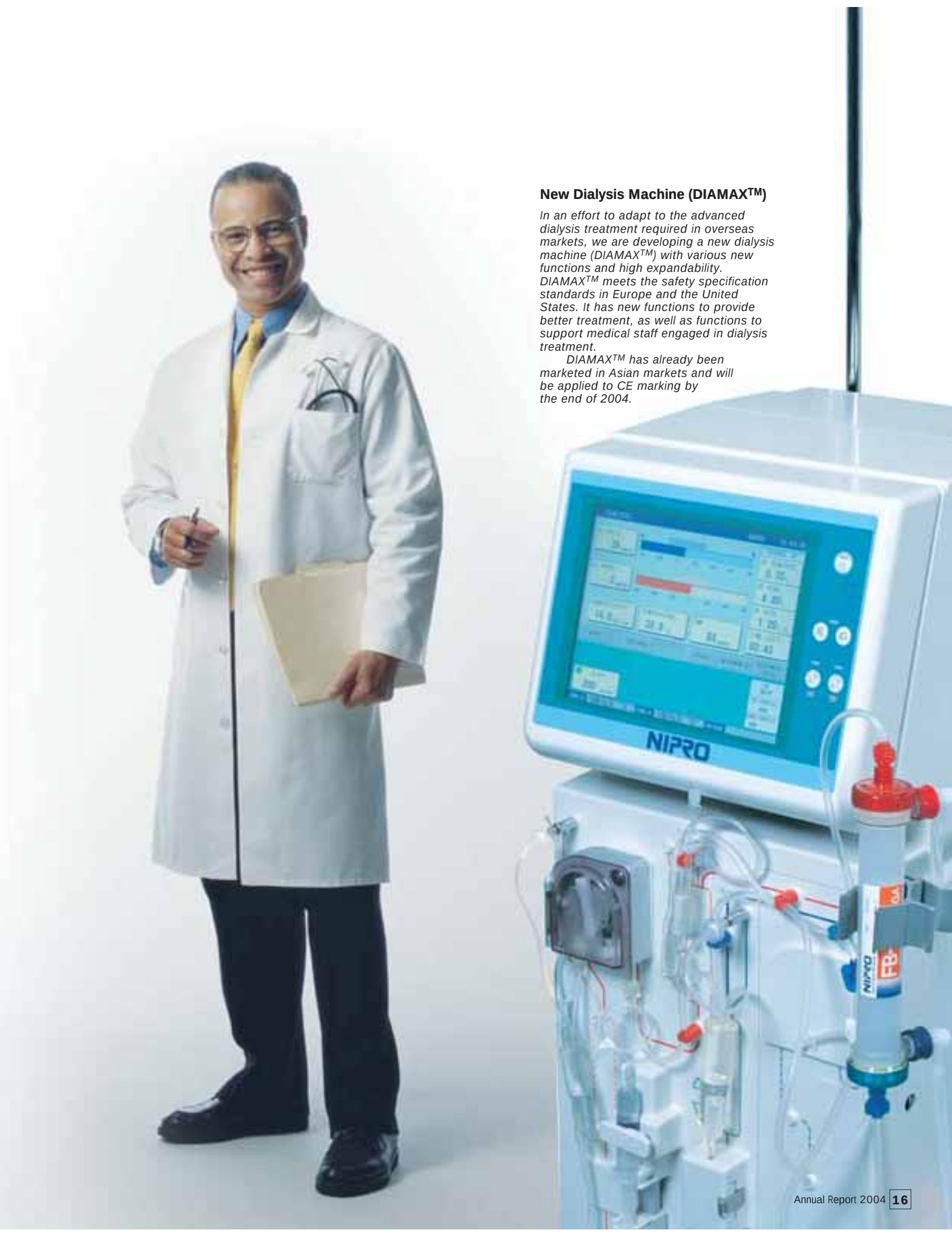
Net Sales (Millions of yen)



New Dialysis Machine (DIAMAX™)

In an effort to adapt to the advanced dialysis treatment required in overseas markets, we are developing a new dialysis machine (DIAMAX™) with various new functions and high expandability. DIAMAX™ meets the safety specification standards in Europe and the United States. It has new functions to provide better treatment, as well as functions to support medical staff engaged in dialysis treatment.

DIAMAX™ has already been marketed in Asian markets and will be applied to CE marking by the end of 2004.



Medical Division

Outlook

Realizing our potential in the domestic medical products market

In the fiscal year ending March 2005, we intend to strengthen our sales capability in the domestic Medical Division by increasing our sales force. By region, in addition to the Tokyo and Osaka metro districts, in which we have traditionally had high market shares, we will be putting effort into developing our business in other regions, where we have been stretched thin until now.

In our product line-ups, we will concentrate further on boosting our strength in dialysis-related products, for which we have already established a solid reputation in Japan. With the National Health Insurance (NHI) price revision, the price of dialyzers will fall. In order to overcome this, we will need to increase in sales volume and secure market share. In order to do that, we aim to deepen our total range of dialysis-related products, such as blood line for dialysis and dialysis machines. This will enhance our ability to provide total dialysis treatment solutions to our customers.

In the field of clinical testing products, we have noted an increase in comprehensive contracting of lab work with hospitals, and will pursue this business by making the most of our total, comprehensive product line. Also, concerning in-vitro diagnostics for drug-resistant M. tuberculosis and for sensitivity to medicine for osteoporosis, we are now applying for and expect to receive government approval by the end of 2004.

We are continuing to apply our strength to development of the FREESTYLE,® blood glucose monitoring system, which has earned kudos in the market, and with this product we will also attempt to enter the expanding diabetes market. In addition, in the field of circulatory-organ-related products, we will concentrate on boosting sales of the PTCA Balloon Catheter launched this fiscal year. Concerning implantable left ventricular assist devices, at present we have completed clinical trials in Japan and we are applying for import approvals.

Expansion of overseas operations in fiscal 2004

As for international operations in the fiscal year ending March 2005, we will be strengthening our local subsidiaries in North America, Europe and Asia, and boosting their sales capabilities by building up their staffs. We are also keeping an eye on China as a new market, and have already established a sales subsidiary that will take the lead in responding to the needs of this rapidly growing market.

The quality of medical equipment is improved, but at the same time price competition is also intensified. It is necessary to cut down the cost of production. We have a leading world share in dialyzers and a high brand strength in related products. The world dialyzer market is now becoming fragmented, and we have formed a cooperative partnership with a leading American company in addition to our own sales network to further increase market share. Currently, we are preparing to sell high-performance dialyzers in fiscal 2005. We have already

Dialyzer

Nipro has been well-known as one of the leading dialyzer manufacturers for many years. The main functions of the dialyzers are to maintain body fluid balance and remove from blood not only low molecular substances, but also low molecular proteins such as beta 2 microglobulin and balance to the level of molecular weight of albumin. The recent progress of the dialyzers reduces patient mortality and improves quality of life by relieving complications of renal patients. The wide range of dialyzers Nipro carries helps treat a variety of patients with renal diseases and their complications.

In the latter half of 2004, a new synthetic dialyzer PES-DS series will be launched in some of the world markets and will be CE-marked within 2004. This new series feature high performance removal of middle molecules and low molecular proteins, and minimized albumin leakage.

With such abundant selections of Nipro dialyzers, we shall penetrate even further into the world market.

SAFETOUCH®AVF Needle

Needlestick accidents are one of the major causes of nosocomial infection. Doctors, nurses and medical staffs who have accidentally pricked their finger, hand or other parts of the body with a bloodstained needle may be infected with HIV, hepatitis C or other diseases. Nipro has developed the SAFETOUCH®AVF Needle to prevent needlestick accidents. This product is used in artificial dialysis. The needle can be accommodated and locked inside the wing-hub after the completion of dialysis so the needle will not come out again. It is smaller than the AVF needles made by competitors and it is an extremely user-friendly safety device.

started sales of the Diamax dialysis machine, and will soon obtain a safety standard mark “CE mark” in the European Union (EU), and widely promote in the market.

As well as dialysis-related products, we have a dominant share of diabetes-related products including those supplied to OEMs. Our new products include the Amigo™ insulin pump developed by Nipro Diabetes Systems, Inc., for continuous insulin infusion treatment. Amigo™ is awaiting sales approval, and as soon as it is granted we plan to start marketing Amigo™ as a main diabetes-related product.

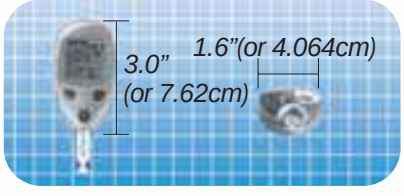
Boosting international production and improving quality to stay ahead

Price competition in the medical-related products field is becoming more severe both in Japan and overseas. Nowadays, overseas production is an essential means of ensuring the continued expansion of the competitiveness of our own products. We have therefore established a policy to raise our overseas production ratio from the current 15% to about 50% in the near future. As we move toward this goal, along with increasing our price-competitiveness, we will be developing a specialized quality assurance that staff will work on improvements in our quality. Starting with the establishment of a new division at the HQ office in April 2004 that administers quality and safety of products, we are enhancing our company-wide quality assurance system. We believe that it is our duty to propel cost reduction based on an established quality system.

Meanwhile, in our research and development areas, we have already completed trials of an implantable left ventricular assist device, and are currently awaiting sales approval. This rounds out our product line-up in the field of artificial heart. We will continue to work on the development of a variety of artificial organs including artificial kidney and pancreas.

SUREFUSER®

The SUREFUSER® is a small, lightweight continuous drug injection pump that uses the contractile pressure of a balloon. It is widely used to control post-operative pain and to inject drug into terminal cancer patients. The new SUREFUSER® with Variable Flow Regulator employs a switch handle that can be turned to set the rate of infusion, making it possible to proportionally control pain according to the manifestation and symptoms. It also comes with a Patient-Controlled Analgesia (PCA) system that allows the patient to inject a predetermined amount of painkiller by him/herself when feeling pain. Demand for a home-use pain control system is expected to grow in the future.



Freestyle® Blood Glucose Monitoring System

The FreeStyle® SMBG (Self-Monitoring Blood Glucose) system, which offers virtually painless testing as a result of requiring the world’s smallest blood sample, has been marketed in Japan by Nipro Corporation jointly with Kissei Pharmaceutical for over 2 years. Nipro Corporation has the exclusive distributorship of FreeStyle® systems in Japan that is granted by the manufacturer of the system, TheraSense, Inc. - a wholly-owned subsidiary of Abbott Laboratories. In early fall of 2004, the new FreeStyle® Flash (See the photo above) was introduced into the Japanese market. It is the world’s smallest meter with a new 7-second average test time. All FreeStyle® systems enable a blood sampling from most sites on the body (forearm, upper arm, thigh, calf, hand, as well as fingers) with just a tiny 0.3 microliter blood sample (the world’s smallest sample size).

Amigo™

The market for insulin infusion pumps for people with insulin dependent diabetes continues to grow worldwide. In response to this serious need, the Amigo™ Insulin Pump offers healthcare professionals and their patients a powerful and easy-to-use tool in managing diabetes. This small and lightweight device features simple icons and text driven menus. The Amigo™ also uses a stepper motor that ensures accurate and safe delivery of insulin. Since the Amigo™ performs much like a healthy pancreas, users can benefit from tighter control over blood glucose levels, which greatly reduces the risk of serious complications resulting from diabetes.

Pharmaceutical Division

FY2003 Overview

Successful marketing strategies maintain growth

Nipro's Pharmaceutical Division experienced another very challenging year in fiscal 2003 as price competition intensified due to various factors, including the governmental policy to suppress healthcare costs in Japan.

In this difficult operating environment, we worked to expand sales by supplying products in combination with our dialyzers, such as powdered dialysate solution and substitution fluids for HF and HDF (filled in dual chamber bag), thus providing total solutions for dialysis treatment. In addition, our Ise Factory expanded its annual production capacity to 25 million pre-filled syringes. During fiscal 2003, we also expanded sales of double-bag kits combining powdered drugs and a reconstitution solution. As a result of these marketing innovations and strategies, sales in the division were ¥25,339 million, a 15.3% increase over the previous year.

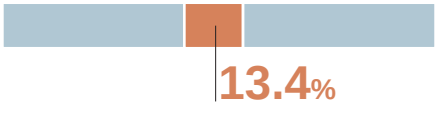
Investing for continued expansion in pharmaceuticals

For the past several years, we have aggressively invested to expand the pharmaceutical manufacturing capacity of our consolidated subsidiary, Nipro Pharma Corporation. In anticipation of the April 2005 implementation of Japan's amended Pharmaceutical Affairs Law, this year we are preparing to start up four new production lines for pre-filled syringes at the Odate Factory, our primary facility for contract manufacturing of pharmaceuticals. Of these, one line will go into operation by the end of fiscal 2004.

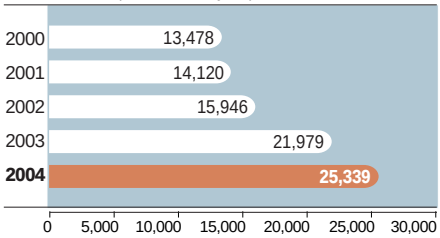
We have also acquired capital in a maker of generic* oral drugs, Takeshima Pharmaceutical Co., Ltd., making it a subsidiary. With demand for generic drugs expected to expand significantly in the future, we are counting on Takeshima Pharmaceutical to expand the generic oral drug business for the Nipro Group.

*Drugs to be sold with the approval of the Ministry of Health, Labour and Welfare after the expiration of patents for new drugs whose effectiveness and safety have been fully demonstrated. While having the same active ingredients and effect as new drugs, the price of generic drugs is more economical because the cost of development is lower.

Pharmaceutical Division net sales ratio
(% of total net sales)



Net Sales (Millions of yen)



Active R&D program yields new and improved products

In fiscal 2003, our Pharmaceutical Division received approval to manufacture more than ten different kinds of pre-filled syringe kits for the delivery of heparin, physiological saline solution, 10%-Nacl solution, calcium chloride, xylitol, and glucose. We also completed the market-launch of two Prednisolone drug products in low-dose tablets. Current items under development include kit products for the delivery of cancer drugs and a variety of pre-filled syringe and double-bag (liquid-and-powder) kit products.

We recently began developing low-dose tablets of Lasix, Lendormin, and Glimicron. Nipro researchers are also working on a nutrition infusion for peripheral veins and improved versions of products already on the market. In addition, we are focusing our development efforts on improving and expanding our line-up of dialysis-related drugs, drugs that apply recombinant human serum albumin, and generic oral drugs.

Pharmaceutical Division

Outlook

Targeting future growth in the oral generic drug market

While we are still concentrating our efforts on manufacturing injection drugs, we are also especially keen to apply our strengths to the manufacture and sales of generic oral drugs. From now on, the generic drug market is expected to expand rapidly, and it is possible that the generic drugs will account for about half of the entire drug market in the future. In generic drugs, our goal is to become the No. 1 maker in the domestic market.

To do that we will need to strengthen our production capacity of oral drugs. We are now selecting the site for new manufacturing facility. We are aggressively advancing our research and development activity, and hope to expand this line-up to 500 items.

Japan's university hospitals are making a transition to independent administrative institutions, and as a result we expect competition in the pharmaceutical market to heat up. We hope to make our mark in the medical field with our unique development approach emphasizing ease of use, as exemplified by our half-dose products, innovations in tablet shapes, and optimizations of drug-effective duration.

We plan to start up production of pre-filled syringes at Nipro Pharma Odate Factory soon, and to construct a pharmaceutical research facility within the plant that will have new-drug prototyping and small-lot production functions. As a result of expanding the capacity of the Nipro Pharma Odate Factory, we expect to expand contract manufacturing business.

R&D to develop products with appeal

It is our policy to continue strengthening research and development to provide appealing drug products to the market. In the dialysis treatment field, in which we maintain a high level of competitiveness, we have succeeded in developing and commercializing the Japan's first double-bag kit that combines substitution fluids for HF and HDF. Also, we expect to apply soon for manufacturing approval of a TPN (total parenteral nutrition) formulation designed with home treatment in mind.

Meanwhile, in joint research with universities and university-nurtured venture companies, we have already succeeded in developing artificial red blood cells that can be preserved long-term and transfused regardless of the recipient's blood type. We plan to start clinical trials in 2006.

Double-bag Kit (Liquid-and-Powder)

This is a kit product based on a double-bag design, in which the powdered drug and the reconstitution agent are in two separate bags which are then combined together. The layer between the bags is made of different material and is completely sealed by applying Nipro's unique adhesion techniques. To dissolve the drug, the bag is pressed to penetrate the wall. As the dissolving task involves nothing more than just pressing the bag, it reduces the medical staff's workload. An aluminum cover is pasted onto the bag containing the powdered drug to ensure stability.

The vital importance of investment to leadership in pharmaceuticals

In Japan, pharmaceuticals require at least 10 months of testing for medical safety before equipment for their manufacture is installed and we can apply for production approval from the Ministry of Health, Labour and Welfare. From investment in equipment to actual production start-up, it typically takes two years. As a result, we must budget for capital investment two years in advance, which definitely constitutes a burden to management. However, without appropriate investment, future growth would be impossible. By skillfully balancing sales and production capacity with investment, we aim for our Pharmaceutical Division to eventually achieve ¥100 billion in annual net sales.

Pre-filled Syringe

A pre-filled syringe consists of a syringe (a cylindrical vessel designed for injection) that is pre-filled with various injection solutions. The demand for these products has expanded rapidly in recent years based on their safety and practicality. Medical staff can administer drugs safely by taking the syringe out of the blister pack, removing the rubber plug on the end and attaching the injection needle. As the syringe is already filled with an injection solution, there is no need to fill the syringe with injection drugs from vials or ampoules.

Half-type Kit

The Half-type Kit is a reconstitution kit product with a double-ended needle, which enables powdered injection drugs in a vial to be dissolved safely and easily. As the inlet for dissolving purposes (positioned at the top) is designed separately to the outlet that connects to infusion set (positioned at the bottom), the Half-type Kit is less prone to the leakages and coring associated with IV infusion. Safety is ensured by accommodating the double-ended needle for dissolving purposes on the inside of the sticker on the upper part of the product.

Glass & Materials Division

FY2003 Overview

LCD TVs and good product quality spur growth

In the fiscal year ended March 31, 2004, the Glass & Materials Division was characterized most of all by strong sales in the field of glass for lighting purposes. In particular, demand for glass materials for liquid crystal display (LCD) backlight bulbs grew significantly along with the expansion of the market for LCD televisions. The sales of glass for pharmaceutical purposes was adversely affected by changes in types of medical containers, such as the shift to ampoules made of plastic, pre-filled syringes, and the use of plastic bags to replace vials. However, supported by high quality, we increased sales of glass tubes for the overseas market, i.e. Malaysia and South Korea, and experienced increased demand for large-sized bottles such as nursing bottles, so overall sales were firm.

As a result, sales in the division were ¥11,891 million, a 7.5% increase over the previous year.

Outlook

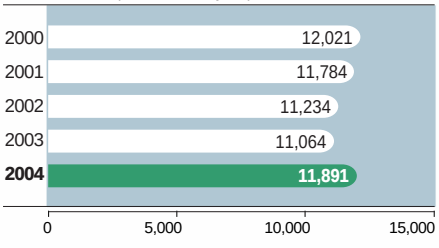
Steady growth expected

In fiscal 2004, we forecast continued growth in glass materials for LCD backlight bulbs. We intend to strive to enhanced product quality further and work on the development of new products.

For ampoules, due to the impact of shifting to pre-filled syringes and other factors, we believe a decline in domestic sales is unavoidable. However, with high regard for our product quality, European pharmaceutical companies are approaching us for business deals and in the future we would like to expand our product lines for Europe and the Chinese market. Meanwhile, although plastic containers are becoming standard for pre-filled products, we will continue manufacturing glass products in which we have a high technology.

Glass & Materials Division net sales ratio
(% of total net sales)

Net Sales (Millions of yen)



Supermarket Division

FY2003 Overview

Store sales hurt by sluggish spending and unseasonable weather

Although a moderate economic recovery was seen in the second half of fiscal 2003, the overall trend in employment and personal income was severe, and personal consumption continued to be sluggish. Moreover, a cooler-than-average summer and a warmer-than-average winter depressed seasonal demand. Along with this, because of the impact of bird influenza, a BSE issue in America and intensification of competition, the operating environment for our supermarket business was very difficult. Under such circumstances, we endeavored to improve profitability by increasing the number of stores with a liquor sales license, giving more privileged offers to the point card members, and other measures to increase sales. However, the results were generally low-toned, due to a decrease in number of customers coming to stores. The drugstore business also suffered from weak sales of seasonal items, including a decline in movement of allergy-season products due to decreases in airborne pollen. However, by opening new stores, we achieved an increase in drugstore revenues. As a result of these factors, fiscal 2003 sales for the Supermarket Division were ¥71,357 million, an increase of 2.6% over the previous year.

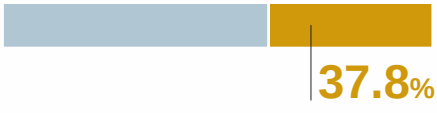
Outlook

Cultivating retail customer loyalty and drugstore expansion

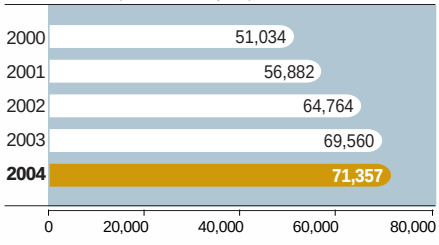
In our food supermarket business, we are utilizing a point-card system to send sales promotion information to the PCs and cell phones of customers in the E-mail Membership Program. We will further advance efforts in fiscal 2004 to capture a stable customer base. In order to help customers feel more comfortable about purchasing from our stores, we are increasingly divulging the production history of food products. We will continue to develop DirectShop, which conducts mail-order sales of superior Japanese and imported products.

As for our drugstore business, we continue to work toward the target we have set of opening a total of 100 stores during fiscal 2004.

Supermarket Division net sales ratio
(% of total net sales)



Net Sales (Millions of yen)



Board of Directors and Auditors (As of June 29, 2004)

President
Minoru Sano *

Senior Managing Director
Shigeki Tanaka

Managing Director
Seiya Ishida

Managing Director
Shuichi Tsuzuki

Director
Masato Naganami

Director
Akihiko Yamabe

Director
Hiroshi Ikeuchi

Director
Makoto Sato

Director
Yoshihiko Sano

Director
Masataka Yanai

Director
Noriaki Watanabe

Director
Kazuo Wakatsuki

Director
Hiroyuki Hattori

Standing Statutory Auditor
Hiroshi Kobayashi

Statutory Auditor
Shigeru Kobayashi

Statutory Auditor
Masamichi Wada

* Representative Director

Business and Other Risks

Risks that have the possibility of impacting the Nipro Group's results of operations and financial condition are discussed below.

Risks Related to Product Safety

The Nipro Group brings all of our capabilities to bear in securing product safety in the design, development, and manufacturing stages of medical and pharmaceutical products. However, there is still the risk that accidental defects or side effects could result in damages to a third party, and the risk of being sued for liability.

To cover these risks, we maintain general liability and product liability insurance. However, a successful claim in excess of the insurance coverage could have a material adverse effect on our results of operations and financial condition.

Risks Related to Supplier Concentration

The Nipro Group procures materials and parts for its operations from many suppliers. Some key materials and parts may be obtained only from a single supplier or a limited group of suppliers. If circumstances at any of these suppliers make it impossible for us to acquire a sufficient quantity of materials and parts, in a timely and cost-effective manner, to meet its production, there could be a material adverse effect on our results of operations and financial condition.

Risks Related to Intellectual Property

The Nipro Group owns numerous patents and trademarks and maintains various proprietary rights for the products it manufactures. Additionally, we make double assurances to avoid infringing the patents and proprietary rights of any third party. We also avoid breaching any licenses that we have entered into with regard to our technologies or those of other companies. Nevertheless, if an unanticipated damage claim is made by a third party and the defense of the Nipro Group is unsuccessful, there could be a material adverse effect on our results of operations and financial condition.

Risks Related to Environmental Regulations

The Nipro Group believes that it has taken adequate precautions to comply with applicable regulations in the course of its business activities. However, if our activities cause an unforeseen environmental problem and damage claims are made against us, there could be a material adverse effect on our results of operations and financial condition.

Risks Related to Exchange Rate Fluctuations

The Nipro Group derives a considerable proportion of its net sales from exports to overseas markets including the United States, Europe and Asia. Additionally, the Nipro Group produces a significant proportion of its products overseas and purchases significant quantities of its supplies from overseas vendors. Consequently, it faces risks posed by fluctuations in foreign exchange rates and hedges these risks by, in principle, performing all intra-Group import/export transactions in US dollars.

However, when US-dollar-denominated exports exceed US-dollar-denominated imports and as some of our products are sold denominated in Euro or South American currencies, a rapid and significant increase in the value of the yen could have a material adverse effect on our results of operations and financial condition.

Risks Related to Investment Value

The Nipro Group's assets include investments in stocks and other securities. These investments have been made for purposes such as building good business relationships with the issuers of these securities and gathering useful information for development of new products or for new business opportunities. However, the value of these investments could significantly decline due to factors such as fluctuations in the stock markets, circumstances at an issuer, or a change in accounting treatment covering such investments. A significant decline in the value of these investments could have a material adverse effect on our results of operations and financial condition.

Risks Related to Lawsuits

For a detailed discussion of this topic, please refer to the "Subsequent Event" section of the Notes to Consolidated Financial Statements (page 46).

Other Risks

A fire, earthquake, terrorism act, war, epidemic, or other unforeseen man-made or natural disaster affecting an area or facility where the Nipro Group conducts its business activities has the possibility of causing a delay or interruption in production, sales, distribution, or service provision. Such a delay or interruption, if it becomes extended, could have a material adverse effect on our results of operations and financial condition.

Financial Section

2004

Nipro Corporation and its Consolidated Subsidiaries
Year ended March 31,2004 (fiscal 2003)

Financial Review

The following sections are a review of Nipro Corporation's financial position and operating performance for the year ended March 31, 2004. All figures are on a consolidated basis and include the accounts of Nipro Corporation,
Nipro Medical Industries, Ltd.,
Nipro (Thailand) Corporation Ltd.,
Fuzhou Nipro Co., Ltd.,
Nipro (Shanghai) Co., Ltd.,
Nipro Medical LTDA.,
Nipro Europe N.V.,
Nipro Medical Corporation,
Nipro Medical Panama S.A.,
Nipro Medica de Mexico S.A. DE C.V.,
Nipro Pharma Corporation,
Shinwa Shoji Co., Ltd.,
Shanghai Nissho Vacuum Flask Refill Co., Ltd,
Nissho Corporation,
Nissho Drug Co., Ltd., and Bipha Corporation.*

* Affiliate accounted for by the equity method.

Overview

In fiscal 2003, the Japanese economy entered a recovery trend on the strength of exports and capital expenditures, but with a strong yen and ongoing difficult conditions as regards personal incomes, the recovery lacked broad strength.

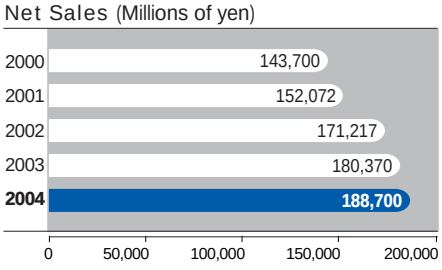
In the medical equipment and pharmaceuticals industries, as the governmental policy to suppress healthcare costs pushed price competition to a new level of intensity, and in the retailing industry, new store openings by other companies made competitive conditions even more difficult.

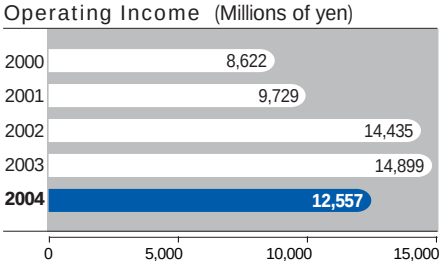
With these conditions serving as a background, the Nipro Group ("Nipro") maintained its focus on research and development; expanded and enhanced some production facilities, while rationalizing others, and pushed forward with aggressive sales activities.

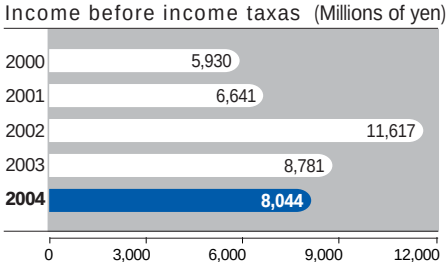
Net Sales

In fiscal 2003, consolidated net sales rose 4.6% to ¥188,700 million (US$1,786,255 thousand) compared to the previous year. This was the result of several factors. We worked to adjust our domestic distributors' inventories of medical products, but we also saw a significant increase in orders for OEM products, which had fallen off in the previous year, and greater sales of pharmaceuticals, primarily dialysis-related products and kit products. Sales of glass materials for liquid crystal display (LCD) backlight bulbs were strong, and openings of new drugstores also helped to boost sales.

By market, net sales for the year ended March 31, 2004 for the Company's primary markets of Japan, the Americas, Europe and Asia were, respectively, ¥143,277 million (US$1,356,275 thousand and 75.9% of total net sales), a 3.4% increase compared to the previous year; ¥21,136 million (US$200,076 thousand and 11.2% of total net sales), a 11.1% increase; ¥18,862 million (US$178,550 thousand and 10.0% of total net sales), a 8.6% increase; ¥5,425 million (US$51,354 thousand and 2.9% of total net sales).







Financial Review

By operating segment, net sales reflected the following trends:

Medical Division

In Japan, the governmental policy to suppress healthcare costs was further strengthened, and the intensifying price competition overall market conditions more difficult. Nipro also adjusted domestic distributors' inventories. In this environment, Nipro strengthened its sales force; developed and introduced new products in the field of dialysis, injection-related products, circulatory-organ treatment, and examination reagent; Nipro also worked to sell our products in the systematized package. In international business, positive results were achieved through efforts to introduce Nipro-branded products and bring about a recovery in OEM product orders. Additionally, sales of blood collection products and diabetes products showed steady growth. As a result, net sales rose 3.6% to ¥78,727 million (US$745,239 thousand).

Pharmaceutical Division

For the Pharmaceutical Division, the market has been awfully harsh, due to the intensified price competition driven by the governmental controls on drug prices. Under these circumstances, the division worked to expand sales of dialysis-related products. In addition, as we have continuously focused on strengthening the production facilities, contract manufacturing of kit products have greatly expanded. As a result, net sales grew 15.3% to ¥25,339 million (US$239,862).

Glass & Materials Division

In the Glass & Materials Division, sales of glass for pharmaceutical purposes were affected by the switch from glass to plastic for pharmaceutical containers, but with greater sales of glass tubes to overseas customers and of large-sized glass bottles such as nursing bottles, sales displayed steady growth. Sales of glass for LCD backlight bulbs also showed strong growth due to the expansion of the LCD television market. As a result, the division's net sales, therefore, rose 7.5% to ¥11,891 million (US$112,561 thousand).

Supermarket Division

Affected by ongoing weakness in personal consumption and the additional problems posed by bird influenza and BSE issue in the U.S., unusually bad weather conditions, and intensified competition among stores, the food supermarket business was faced with extremely difficult business conditions. In response, the division worked to secure sales by gaining new liquor sales licenses, enhancing benefits for point card members, and taking other measures to improve customer service. In the drugstore business, factors such as a cool summer, warm winter, and lower pollen levels led to weak sales of seasonal items, but the openings of 20 new stores resulted in higher sales. As a result, net sales grew 2.6% to ¥71,357 million (US$675,473 thousand).

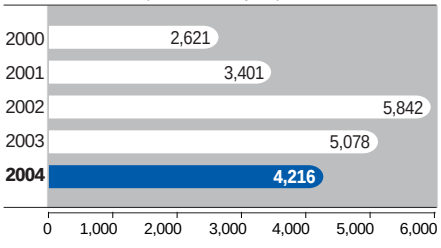
The sales of "Other" include the sales of machinery for manufacture of medical equipment and real estate rental income. This portion of net sales declined 21.2% to ¥1,386 million (US$13,120 thousand).

Cost of Sales

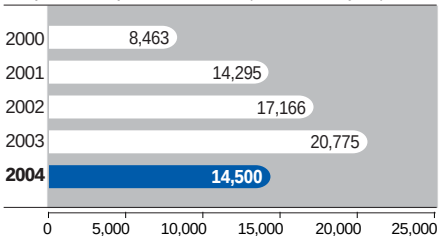
With higher net sales, the cost of sales rose 6.5% to ¥137,153 million (US$1,298,306 thousand). The ratio of cost of sales to net sales rose 1.3 percentage point year-on-year to 72.7% due to greater price competition faced by the Medical Division, foreign currency translation effects, and the adjustment on domestic distributors' inventories the Medical Division. As a result, gross profit declined 0.1% to ¥51,547 million (US$1,298,306 thousand).

Selling, general and administrative expenses rose 6.3% to ¥38,990 million (US$369,083 thousand) due to increase in costs associated with increase in net sales, such as shipping, storage

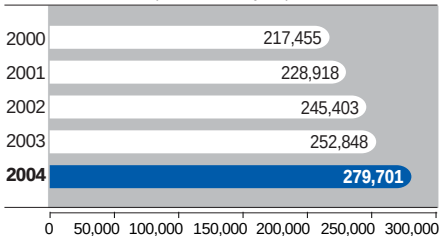
Net Income (Millions of yen)



Capital Expenditures (Millions of yen)



Total Assets (Millions of yen)



and other cost and increase in the initial costs for opening new drugstores.

Operating Income

Operating income decreased by 15.7% during the year ended March 31, 2004, compared to the year ended March 31, 2003, to ¥12,557 million (US$118,866 thousand). Despite the increase in net sales, operating income decreased compared to the previous year due to an increase in the ratio of cost of sales to net sales in the medical division and an increase in selling, general and administrative (SG&A) expenses in the supermarket division, the latter of which was related to the opening of new drugstores.

On an overall basis (including intra-segment transactions), operating income of Nipro's four primary operating segments were ¥12,117 million (US$114,701 thousand) for the medical division (a decrease of 14.5%), reflecting intense price competition and adjustments on domestic distributors' inventories; ¥2,471 million (US$23,391 thousand) for the pharmaceutical division (an increase of 24.7%), reflecting an increase in net sales and higher productivity due to the increase in contract manufacturing of pharmaceuticals; ¥1,819 million (US$17,219 thousand) for the glass and materials division (an increase of 2.4%), reflecting an increase in sales of glass for (LCD) backlights and related materials; ¥420 million (US$3,976 thousand) for the supermarket division (a decrease of 62.1%), reflecting bad weather conditions, intensified competition arising from competitors opening new stores and an increase in expenses for the opening of new drugstores. The operating income ratio decreased from 18.6% to 15.4% in the medical division, increased from 9.0% to 9.8% in the pharmaceutical division, decreased from 16.1% to 15.3% in the glass and materials division, decreased from 1.6% to 0.6% in the supermarket division.

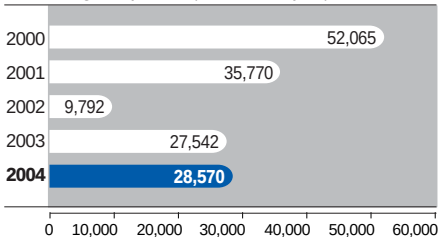
Other Income (Expenses)

Other expenses decreased by 26.2% to ¥4,513 million (US$42,721 thousand) in the year ended March 31, 2004, compared to ¥6,118 million in the previous year. The two primary reasons for the decrease in other expenses were that Nipro had expenses of ¥1,178 million related to compensation for breaching a contract with an overseas OEM customer in the previous year and that losses on devaluation of marketable securities for investment were ¥103 million (US$975 thousand) compared to losses of ¥629 million in the previous year. The higher amount for the previous year relates primarily to the devaluation of certain bank stocks and interests in investment trusts. Interest and dividend income was ¥345 million (US$3,266 thousand) compared to ¥398 million in the previous year. Interest expenses were ¥1,636 million (US$15,487 thousand) compared to ¥1,671 million in the previous year. Losses on sales and disposals of property, plant and equipment, net were ¥415 million (US$3,928 thousand) compared to ¥337 million in the previous year. Exchange losses were ¥1,429 million (US$13,527 thousand) compared to ¥1,750 million in the previous year, reflecting primarily the effects of a stronger yen. Equity in loss of an affiliate company was ¥772 million (US$7,308 thousand) compared to a loss of ¥658 million in the previous year. Gains on sales of marketable securities for investment were ¥140 million (US$1,325 thousand). Bond issue expenses were ¥78 million (US$738 thousand) compared to ¥34 million in the previous year. Bad debt loss was ¥291 million (US$2,755 thousand). This loss was related to a lease deposit for a building. Other expenses, net, was ¥274 million (US$2,594 thousand) compared to ¥259 million in the previous year. Other expenses, net, included ¥272 million (US$2,575 thousand) relating to a settlement by reconciliation regarding sales rights dispute with one of the foreign OEM customers. As a result of the foregoing, income before income taxes decreased by 8.4% from the year ended March 31, 2003 to ¥8,044 million (US$76,145 thousand).

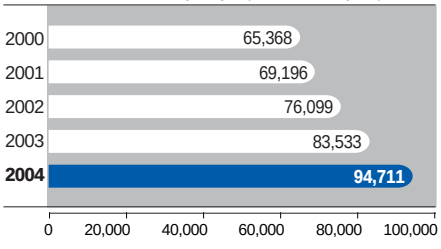
Net income for the year ended March 31, 2004 decreased 17.0% year-on-year to ¥4,216 million (US$39,909 thousand), primarily as a result of the foregoing factors.

Basic earnings per common share were ¥64.9 (US$0.61) on a consolidated net income basis and ¥62.46 (US$0.59) on a non-consolidated net income basis. Cash dividends per share for fiscal 2003 were ¥30.5 (US$0.29) based on our policy of distributing 50% of non-consolidated net income.

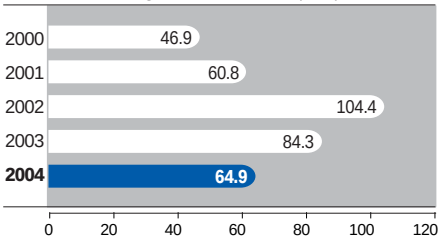
Working Capital (Millions of yen)



Shareholders' Equity (Millions of yen)



Basic Earnings Per Share (Yen)



Financial Review

Financial Position

Assets

Total assets as at March 31, 2004, were ¥279,701 million (US$2,647,681 thousand), an increase of 10.6% compared to the previous year. Current assets increased by 7.3% to ¥124,934 million (US$1,182,640 thousand), primarily as a result of an increase in cash and cash equivalents of ¥12,836 million to ¥42,229 million (US$399,744 thousand) relating to issuance of zero coupon convertible bonds and an increase in inventories of ¥1,327 million to ¥32,541 million (US$308,037 thousand) relating to an increase in the number of drug stores. These factors more than offset a decrease in other current assets of ¥3,772 million relating to the reimbursement of funds to the Company in the year ended March 31, 2004, due to conversion of convertible bonds after the Company advanced the repayment money to a bank on March 26, 2003. Other current assets were ¥4,101 million (US$38,820 thousand).

Investments and other assets increased by 34.2% to ¥60,762 million (US$575,179 thousand), largely because of an increase of ¥15,931 million in marketable securities for investments to ¥31,992 million (US$302,840 thousand). This increase was mainly due to the rise in stock price.

Property, plant and equipment, net of accumulated depreciation, increased by 3.1% to ¥94,005 million (US$889,862 thousand), comprising an increase in buildings of ¥4,743 million to ¥81,747 million (US$773,826 thousand), and an increase in machinery and equipmentof ¥4,841 million to ¥73,581 million (US$696,526 thousand). The primary reasons for the increase of the former were expansion and improvement of the production facilities in the Company and its subsidiaries.

Liabilities

Current liabilities increased by 8.4% to ¥96,364 million (US$912,192 thousand) due to there being more current portion of long-term debt at March 31, 2004 compared to the previous year. Long-term liabilities increased by 10.5% to ¥86,932 million (US$822,908 thousand), primarily reflecting an increase in deferred income taxes due to an increase in unrealized gains on marketable securities. Long-term debt increased by ¥1,363 million to ¥74,184 million (US$702,234 thousand) relating to issuance of ¥14,000 million in zero coupon convertible bonds, which offset a decrease due to transfer to current portion of long-term debt.

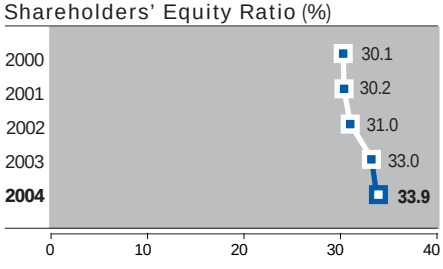
Shareholders' equity

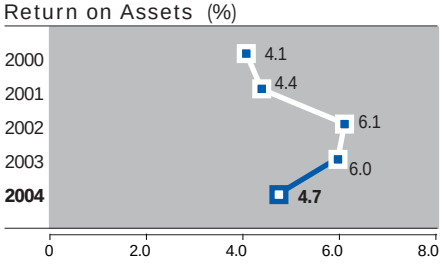
Shareholders' equity was ¥94,711 million (US$869,545 thousand), an increase of 13.4% compared to the previous year. This was primarily due to an increase in unrealized gains on marketable securities for investments of ¥9,611 million to ¥12,462 million (US$117,967 thousand) and an increase in retained earnings of ¥2,705 million to ¥30,610 million (US$289,758 thousand). As a result, the ratio of shareholders' equity to total assets increased from 33.0% to 33.9%.

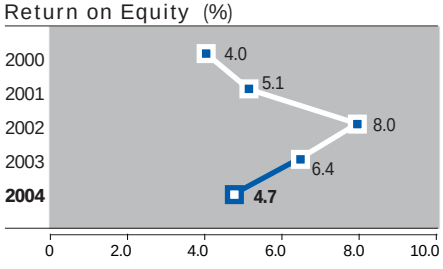
Cash Flows

Net cash provided by operating activities was ¥15,543 million (US$147,132 thousand) compared to ¥5,622 million for the previous year, primarily as a result of the decrease in trade receivables and the range of increase in inventories being lower than the previous year. Net cash utilized in investment activities was ¥12,786 million (US$121,034 thousand) compared to ¥30,108 million for the previous year, primarily because of decreased capital expenditures and purchase of marketable securities during the year under review. Net cash provided by financial activities was ¥10,290 million (US$97,406 thousand) compared to ¥11,301 million for the previous year. Proceeds from long-term debt were ¥6,127 million (US$57,999 thousand) compared to ¥23,598 million for the previous year and proceeds from issuance of bonds were ¥13,922 million (US$131,787 thousand) compared to ¥5,967 million for the previous year. Repayment bonds were ¥2,000 million (US$18,932 thousand) compared to ¥13,122 million for the previous year.

As a result, cash and cash equivalents increased to ¥42,229 million (US$399,744 thousand) at the end of the year from ¥29,393 million at the beginning of the year.







Five-Year Summary

Nipro Corporation and Consolidated Subsidiaries Years ended March 31,	Millions of yen					Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2001	2000	**2004**
Income Statement Data:						
Net Sales	**¥ 188,700**	¥ 180,370	¥ 171,217	¥ 152,072	¥ 143,700	**$ 1,786,255**
Medical	**78,727**	76,009	77,572	66,413	65,718	**745,239**
Pharmaceutical	**25,339**	21,979	15,946	14,120	13,478	**239,862**
Glass and Materials	**11,891**	11,064	11,234	11,784	12,021	**112,561**
Supermarket	**71,357**	69,560	64,764	56,882	51,034	**675,473**
Cost of sales	**137,153**	128,776	122,092	110,608	104,734	**1,298,306**
Selling, general and administrative expenses	**38,990**	36,695	34,690	31,735	30,344	**369,083**
Operating income	**12,557**	14,899	14,435	9,729	8,622	**118,866**
Medical (1)	**12,117**	14,175	15,016	11,913	10,422	**114,701**
Pharmaceutical (1)	**2,471**	1,981	1,104	844	516	**23,391**
Glass and Materials (1)	**1,819**	1,777	1,806	1,773	1,758	**17,219**
Supermarket (1)	**420**	1,109	1,037	20	637	**3,976**
Income before income taxes	**8,044**	8,781	11,617	6,641	5,930	**76,145**
Net income	**4,216**	5,078	5,842	3,401	2,621	**39,909**
Capital expenditures	**14,500**	20,775	17,166	14,295	8,463	**137,259**
Depreciation and amortization	**9,819**	8,767	7,215	6,898	7,124	**92,948**
R&D expenses	**3,074**	2,328	2,553	3,048	2,278	**29,099**
Balance Sheet Data:						
Total assets	**¥ 279,701**	¥ 252,848	¥ 245,403	¥ 228,918	¥ 217,455	**$ 2,647,681**
Property, plant and equipment-net	**94,005**	91,147	81,029	72,061	64,497	**889,862**
Working capital	**28,570**	27,542	9,792	35,770	52,065	**270,448**
Current liabilities	**96,364**	88,889	105,764	74,995	75,008	**912,192**
Long-term liabilities	**86,932**	78,657	61,952	83,260	75,585	**822,908**
Common stock	**28,663**	28,663	23,113	22,563	22,563	**271,327**
Additional paid-in capital	**29,972**	29,972	24,435	23,886	23,886	**283,718**
Shareholders' equity	**94,711**	83,533	76,099	69,196	65,368	**896,545**
	Yen					U.S. dollars (Note 1)
Per share data:						
Basic earnings (2)	**¥ 64.9**	¥ 84.3	¥ 104.4	¥ 60.8	¥ 46.9	**$ 0.61**
Diluted earnings (2)	**—**	78.5	92.4	54.3	42.1	**—**
Cash dividends	**30.5**	32.0	47.0	31.0	34.5	**0.29**
Shareholders' equity	**1,487.5**	1,310.7	1,343.7	1,236.6	1,168.2	**14.08**
Number of common shares issued	**63,878,505**	63,878,505	56,670,149	55,956,987	55,956,987	
Number of employees	**8,132**	8,029	7,835	6,818	6,636	
Selected Data and Ratios:						
Shareholders' equity ratio (3) (%)	**33.9**	33.0	31.0	30.2	30.1	
Return on assets (3) (%)	**4.7**	6.0	6.1	4.4	4.1	
Return on equity (3) (%)	**4.7**	6.4	8.0	5.1	4.0	
Price earnings ratio (times)	**24.1**	21.5	17.4	16.5	18.6	

Note:
(1) Operating income at the operating segment level is not adjusted for intra-segment transactions. See note 13 to the consolidated financial statements.
(2) Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Basic earnings and diluted earnings per share for the year ended March 31, 2003 and thereafter are computed in accordance with the new standard. Basic earnings and diluted earnings per share for the prior years are not restated to reflect the new standard's provision.
(3) Shareholders' equity ratio is the ratio as of the period end of shareholders' equity to total assets. Return on assets is the ratio of operating income for the period to average total assets during the period. Return on equity is the ratio of net income for the period to average shareholders' equity during the period.

Consolidated Balance Sheets

Nipro Corporation and Consolidated Subsidiaries As of March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and cash equivalents (Note 2)	**¥ 42,229**	¥ 29,393	**$ 399,744**
Time deposits	**3,013**	3,147	**28,522**
Trade notes and accounts receivable	**41,524**	42,761	**393,071**
Allowance for doubtful receivables	**(209)**	(201)	**(1,978)**
Inventories (Note 3)	**32,541**	31,214	**308,037**
Deferred income taxes (Note 10)	**1,735**	2,244	**16,424**
Other current assets	**4,101**	7,873	**38,820**
Total current assets	**124,934**	116,431	**1,182,640**
Investments and other assets:			
Investment in unconsolidated subsidiaries and affiliate accounted for by the equity method (Note 2)	**6,113**	6,383	**57,866**
Marketable securities for investments (Notes 2 and 6)	**31,992**	16,061	**302,840**
Other investments (Notes 2 and 6)	**4,418**	4,574	**41,821**
Lease deposits	**11,774**	12,235	**111,454**
Deferred income taxes (Note 10)	**194**	175	**1,836**
Other	**6,271**	5,842	**59,362**
Total investments and other assets	**60,762**	45,270	**575,179**
Property, plant and equipment (Note 7):			
Land	**22,456**	22,459	**212,571**
Buildings	**81,747**	77,004	**773,826**
Machinery and equipment	**73,581**	68,740	**696,526**
Construction in progress	**6,144**	6,852	**58,160**
	183,928	175,055	**1,741,083**
Accumulated depreciation	**(89,923)**	(83,908)	**(851,221)**
Property, plant and equipment-net	**94,005**	91,147	**889,862**
Total assets	**¥ 279,701**	¥ 252,848	**$ 2,647,681**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 4)	**¥ 27,246**	¥ 29,010	**$ 257,914**
Current portion of long-term debt (Note 4)	**18,257**	9,248	**172,823**
Trade notes and accounts payable	**29,048**	27,085	**274,972**
Accrued income taxes	**1,581**	2,620	**14,966**
Accrued expenses	**6,214**	5,372	**58,822**
Commercial paper (Note 4)	**6,500**	7,000	**61,530**
Other current liabilities	**7,518**	8,554	**71,165**
Total current liabilities	**96,364**	88,889	**912,192**
Long-term liabilities:			
Long-term debt (Note 4)	**74,184**	72,821	**702,234**
Accrued pension and severance liabilities (Note 8)	**2,528**	1,977	**23,930**
Deferred income taxes (Note 10)	**6,689**	541	**63,319**
Other long-term liabilities	**3,531**	3,318	**33,425**
Total long-term liabilities	**86,932**	78,657	**822,908**
Minority interests	**1,694**	1,769	**16,036**
Commitments and contingent liabilities (Note 12)			
Shareholders' equity (Note 9):			
Common stock	**28,663**	28,663	**271,327**
Authorized: 200,000,000 shares			
Issued :			
At March 31, 2003-63,878,505 shares			
At March 31, 2004-63,878,505 shares			
Additional paid-in capital	**29,972**	29,972	**283,718**
Unrealized gains on marketable securities for investments (Notes 2 and 6)	**12,462**	2,851	**117,967**
Foreign currency translation adjustments	**(6,490)**	(5,407)	**(61,435)**
Retained earnings	**30,610**	27,905	**289,758**
	95,217	83,984	**901,335**
Less cost of common shares of treasury stock	**(506)**	(451)	**(4,790)**
Total shareholders' equity	**94,711**	83,533	**896,545**
Total liabilities, minority interests and shareholders' equity	**¥ 279,701**	¥ 252,848	**$ 2,647,681**

Consolidated Statements of Income

Nipro Corporation and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥ 188,700**	¥ 180,370	**$ 1,786,255**
Cost of sales	**137,153**	128,776	**1,298,306**
Gross profit	**51,547**	51,594	**487,949**
Selling, general and administrative expenses	**38,990**	36,695	**369,083**
Operating income	**12,557**	14,899	**118,866**
Other income (expenses):			
Interest and dividend income	**345**	398	**3,266**
Interest expenses (Note 4)	**(1,636)**	(1,671)	**(15,487)**
Losses on sales and disposals of property, plant and equipment-net	**(415)**	(337)	**(3,928)**
Exchange losses	**(1,429)**	(1,750)	**(13,527)**
Equity in loss of an affiliated company	**(772)**	(658)	**(7,308)**
Gains on sales of marketable securities for investments (Note 6)	**140**	—	**1,325**
Losses on devaluation of marketable securities for investments	**(103)**	(629)	**(975)**
Compensation for breach of contract	**—**	(1,178)	**—**
Bond issue expenses	**(78)**	(34)	**(738)**
Bad debt loss	**(291)**	—	**(2,755)**
Other, net	**(274)**	(259)	**(2,594)**
Income before income taxes	**8,044**	8,781	**76,145**
Income taxes (Note 10):			
Current	**3,766**	4,958	**35,649**
Deferred	**85**	(1,341)	**805**
Minority interests in income (loss) of consolidated subsidiaries	**(23)**	86	**(218)**
Net income	**¥ 4,216**	¥ 5,078	**$ 39,909**

	Yen		U.S. dollars (Note 1)
Amounts per common share (Note 2):			
Basic earnings	**¥ 64.9**	¥ 84.3	**$ 0.61**
Diluted earnings	**—**	78.5	**—**
Cash dividends	**30.5**	32.0	**0.29**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Nipro Corporation and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Common stock: (Note 9)			
Opening balance (2003-56,670,149 shares; 2004-63,878,505 shares)	**¥ 28,663**	¥ 23,113	**$ 271,327**
Add; Conversion of convertible bonds (2003-7,208,356 shares)	**—**	5,550	**—**
Closing balance (2003-63,878,505 shares; 2004-63,878,505 shares)	**¥ 28,663**	¥ 28,663	**$ 271,327**
Additional paid-in capital: (Note 9)			
Opening balance	**¥ 29,972**	¥ 24,435	**$ 283,718**
Add; Conversion of convertible bonds	**—**	5,537	**—**
Closing balance	**¥ 29,972**	¥ 29,972	**$ 283,718**
Retained earnings: (Note 9)			
Opening balance	**¥ 27,905**	¥ 25,810	**$ 264,152**
Net income	**4,216**	5,078	**39,909**
Cash dividends paid	**(1,400)**	(2,815)	**(13,253)**
Bonuses to directors and statutory auditors	**(111)**	(168)	**(1,050)**
Closing balance	**¥ 30,610**	¥ 27,905	**$ 289,758**
Unrealized gains on marketable securities for investments: (Notes 2 and 6)			
Opening balance	**¥ 2,851**	¥ 6,502	**$ 26,988**
Net change	**9,611**	(3,651)	**90,979**
Closing balance	**¥ 12,462**	¥ 2,851	**$ 117,967**
Foreign currency translation adjustments:			
Opening balance	**¥ (5,407)**	¥ (3,706)	**$ (51,183)**
Net change	**(1,083)**	(1,701)	**(10,252)**
Closing balance	**¥ (6,490)**	¥ (5,407)	**$ (61,435)**
Treasury stock:			
Opening balance	**¥ (451)**	¥ (55)	**$ (4,269)**
Net change	**(55)**	(396)	**(521)**
Closing balance	**¥ (506)**	¥ (451)	**$ (4,790)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Nipro Corporation and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Operating activities:			
Net income	**¥ 4,216**	¥ 5,078	**$ 39,909**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**9,819**	8,767	**92,948**
Equity in loss of an affiliated company	**772**	658	**7,308**
Allowance for doubtful receivables	**(14)**	(16)	**(133)**
Losses on devaluation of marketable securities	**103**	629	**975**
Provision for deferred taxes	**85**	(1,341)	**805**
Exchange losses	**502**	1,039	**4,752**
Losses on sales and disposals of property, plant and equipment-net	**415**	337	**3,928**
Other, net	**461**	383	**4,364**
Changes in operating assets and liabilities:			
Trade receivables	**1,094**	(3,884)	**10,356**
Inventories	**(1,515)**	(4,517)	**(14,341)**
Other current assets	**(982)**	(676)	**(9,296)**
Trade payables	**2,172**	(1,004)	**20,560**
Accrued income taxes	**(1,039)**	(903)	**(9,835)**
Other, net	**(546)**	1,072	**(5,168)**
Total adjustments	**11,327**	544	**107,223**
Net cash provided by operating activities	**15,543**	5,622	**147,132**
Investing activities:			
Purchases of property, plant and equipment	**(13,146)**	(23,853)	**(124,442)**
Proceeds from sales of property, plant and equipment	**579**	143	**5,481**
Purchases of marketable securities	**(15)**	(4,061)	**(142)**
Proceeds from sales of marketable securities	**449**	5	**4,250**
Increase in investments in unconsolidated subsidiaries	**(526)**	—	**(4,979)**
Deposits (Over three months)	**53**	(2,120)	**502**
Other, net	**(180)**	(222)	**(1,704)**
Net cash used in investing activities	**(12,786)**	(30,108)	**(121,034)**
Financing activities:			
Net increase (decrease) in short-term loans	**(1,764)**	3,719	**(16,699)**
Proceeds from long-term debt	**6,127**	23,598	**57,999**
Repayment of long-term debt	**(7,734)**	(8,181)	**(73,211)**
Proceeds from issuance of bonds	**13,922**	5,967	**131,787**
Repayment of bonds	**(2,000)**	(13,122)	**(18,932)**
Reimbursement (deposit) of the repayment money for convertible bonds*	**4,108**	(4,108)	**38,887**
Net increase (decrease) in commercial paper	**(500)**	7,000	**(4,733)**
Cash dividends paid	**(1,400)**	(2,810)	**(13,253)**
Bonuses to directors and statutory auditors	**(111)**	(168)	**(1,050)**
Other, net	**(358)**	(594)	**(3,389)**
Net cash provided by financing activities	**10,290**	11,301	**97,406**
Effect of exchange rate changes on cash and cash equivalents	**(211)**	(207)	**(1,997)**
Net increase (decrease) in cash and cash equivalents	**12,836**	(13,392)	**121,507**
Cash and cash equivalents, beginning of period (Note 2)	**29,393**	42,785	**278,237**
Cash and cash equivalents, end of the period (Note 2)	**¥ 42,229**	¥ 29,393	**$ 399,744**

The accompanying notes are an integral part of these statements.

*The Company had advanced the fund for repayment of convertible bonds to a bank on March 26, 2003. But the fund was reimbursed to the Company on April 15, 2003, because of conversion of convertible bonds.

Notes to Consolidated Financial Statements

Nipro Corporation and its Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued for domestic reporting purposes. Nipro Corporation (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles and practices in Japan. Its foreign subsidiaries maintain their accounts in conformity with those of each country of their domicile.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The presentation of consolidated statements of shareholders' equity is not required for domestic reporting purposes. It is, however, presented herein for the readers' convenience.

In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles and practices in Japan.Certain reclassifications have been made to the 2003 amounts to conform with the 2004 presentation.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥105.64=US$1, the approximate exchange rate on March 31, 2004. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the following significant subsidiaries and an affiliated company accounted for by the equity method;

Nipro Medical Industries, Ltd.
Nipro (Thailand) Corporation Ltd.
Fuzhou Nipro Co., Ltd.
Nipro (Shanghai) Co., Ltd.
Nipro Medical LTDA.
Nipro Europe N.V.
Nipro Medical Corporation
Nipro Medical Panama S.A.
Nipro Medica de Mexico S.A. DE C.V.
Nipro Pharma Corporation
Shinwa Shoji Co., Ltd.
Shanghai Nissho Vacuum Flask Refill Co., Ltd.
Nissho Corporation
Nissho Drug Co., Ltd.
Bipha Corporation*

*Affiliate applied equity method

Investment in unconsolidated subsidiaries and affiliates (20% to 50% owned) are stated at cost and the equity method is not applied for the valuation of such investments since they are considered immaterial in the aggregate. The difference between the cost of investments in consolidated subsidiaries and affiliates accounted for by the equity methood and the equity in their net assets at the dates of acquisition is being amortized over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Company and its consolidated subsidiaries are eliminated.

(b) Translation of Foreign Currencies

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Income statements of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate for the period. Resulting translation adjustments are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to cash.

(d) Marketable Securities

Marketable securities for investments and other investments are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost; and

ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(e) Inventories

Inventories are stated principally at cost. Cost is determined principally by the average method for the medical, pharmaceutical and glass and materials segment, except for certain inventories determined by the first-in, first-out method. Cost of inventories held by the supermarket segment is determined principally by the retail method.

(f) Depreciation

Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed principally by the declining-balance method. The straight-line method is applied to buildings acquired by the domestic companies after April 1, 1998, and is principally applied to the property, plant and equipment of foreign subsidiaries.

The range of useful lives is principally from 31 to 50 years for buildings and from 7 to 12 years for machinery and equipment.

(g) Income Taxes

The provision for income taxes is computed based on income for financial statement purpose. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(h) Leases
Finance leases which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese accounting standards for leases.

(i) Amounts per Common Share
Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted earnings per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. For the year ended March 31, 2004, there was no common stock equivalents that have a dilutive effect.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the period.

(j) Cash Flow
Additional cash flow information is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Non-cash financing activities:			
Conversion of convertible bonds into:			
Common stock	**—**	¥ 5,550	**—**
Additional paid-in capital	**—**	5,537	**—**

3. Inventories

Inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Food and groceries	**¥ 667**	¥ 689	**$ 6,314**
Household goods	**3,275**	2,305	**31,002**
Medicine (in stores)	**1,182**	841	**11,189**
Finished goods	**20,394**	20,413	**193,052**
Raw materials	**3,749**	3,484	**35,488**
Work in process	**2,176**	2,407	**20,598**
Packing and other	**1,098**	1,075	**10,394**
	¥ 32,541	¥ 31,214	**$ 308,037**

4. Short-Term Loans and Long-Term Debt

Short-term loans comprised overdrafts and promissory notes.
The interest rates of short-term bank loans and commercial paper as of March 31, 2004 and 2003 ranged from 0.032% to 1.875% and from 0.058% to 1.875%, respectively.

Long-term debt comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Zero coupon convertible bonds due 2023	**¥ 14,000**	—	**$ 132,526**
2.325% unsecured bonds due 2004	**10,000**	¥ 10,000	**94,661**
3.2% unsecured bonds due 2008	**10,000**	10,000	**94,661**
3.0% unsecured bonds due 2006	**10,000**	10,000	**94,661**
0.82% fixed rate bonds due 2003	**—**	2,000	**—**
0.67% unsecured bonds due 2006	**3,000**	3,000	**28,398**
1.07% unsecured bonds due 2010	**3,000**	3,000	**28,398**
Loans, primarily from banks due 2004-2018, with interest ranging from 0.1500% to 10.64%	**42,441**	44,069	**401,752**
Less current portion of long-term debt	**(18,257)**	(9,248)	**(172,823)**
	¥ 74,184	¥ 72,821	**$ 702,234**

In November 1997, the Company issued ¥10,000 million (US$94,661 thousand) of 2.325% unsecured bonds due 2004.

In June 1998, the Company issued ¥10,000 million (US$94,661 thousand) of 3.2% unsecured bonds due 2008.

In June 1998, the Company issued ¥10,000 million (US$94,661 thousand) of 3.0% unsecured bonds due 2006.

In March 2003, the Company issued ¥3,000 million (US$28,398 thousand) of 0.67% privately placed bonds due 2006.

In March 2003, the Company issued ¥3,000 million (US$28,398 thousand) of 1.07% privately placed bonds due 2010.

In July 2003, the Company issued ¥14,000 million(US$132,526 thousand) of zero coupon convertible bonds due 2023.

The aggregate annual maturities of long-term debt outstanding at March 31, 2004 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
	2004	**2004**
2005	**¥ 18,257**	**$ 172,823**
2006	**10,364**	**98,107**
2007	**15,684**	**148,466**
2008 and thereafter	**48,136**	**455,661**
	¥ 92,441	**$ 875,057**

As is customary in Japan, long-term and short-term bank loans are made under general agreements which provide that additional securities and guarantees for present and future indebtedness will be given under certain circumstances at the request of the bank, and that any collateral so furnished will be applicable to all indebtedness due to the bank.

In addition, the agreements provide that the bank has the right to offset cash deposits against any long-term and short-term bank loan that becomes due, and in case of default and certain other specified events, against all other loans payable to the bank. Such rights have never been exercised by banks against the Company or its Consolidated Subsidiaries.

5. Leases

Information relating to finance leases, except for which the ownership of the leased assets is considered to be transferred to the lessee. The pro forma information of leased assets under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2004 and 2003 was follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Acquisition cost	**¥ 9,435**	¥ 9,687	**$ 89,313**
Accumulated depreciation	**6,456**	4,772	**61,113**
Net leased property	**¥ 2,979**	¥ 4,915	**$ 28,200**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Payments due within one year	**¥ 1,162**	¥ 1,477	**$ 11,000**
Payments due after one year	**2,371**	4,023	**22,444**
	¥ 3,533	¥ 5,500	**$ 33,444**

Lease payments under such leases for the year ended Mach, 2004 and 2003 were ¥2,150 million (US$20,352 thousand) and ¥1,749 million, respectively.

6. Marketable Securities for Investments and Other Investments

Marketable securities for investments and other investments as of March 31, 2004 and 2003 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Non-current:			
Marketable:			
Marketable equity securities	**¥ 31,937**	¥ 15,716	**$ 302,319**
Marketable debt securities	**55**	345	**521**
Sub total	**¥ 31,992**	¥ 16,061	**$ 302,840**
Other investments: non-marketable equity securities	**¥ 4,418**	¥ 4,574	**$41,821**
Total	**¥ 36,410**	¥ 20,635	**$ 344,661**

The fair value of other investments, which are non-marketable securities, was not readily determinable as of March 31, 2004 and 2003.
The carrying amounts and aggregate fair values of marketable securities for investments as of March 31, 2004 and 2003 were as follows:

	Millions of yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities				
Equity securities	¥ 12,415	¥ 19,527	¥ 5	¥ 31,937
Debt securities	60	—	5	55
Total	¥ 12,475	¥ 19,527	¥ 10	¥ 31,992

	Thousands of U.S. dollars (Note 1)			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities				
Equity securities	$ 117,522	$ 184,844	$ 47	$ 302,319
Debt securities	568	—	47	521
Total	$ 118,090	$ 184,844	$ 94	$ 302,840

	Millions of yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities				
Equity securities	¥ 12,402	¥ 4,344	¥ 1,030	¥ 15,716
Debt securities	368	—	23	345
Total	¥ 12,770	¥ 4,344	¥ 1,053	¥ 16,061

Proceeds from sales of securities and gross realized gains on those sales for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Proceeds	¥ 449	¥ 5	$ 4,250
Gains on sales	140	—	1,325

7. Pledged Assets

The following assets were pledged as collateral:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Land	¥ 5,175	¥ 5,175	$ 48,987
Buildings	7,951	8,434	75,265
Notes receivable	2,277	4,245	21,555
Certificate of deposit	392	237	3,710
	¥ 15,795	¥ 18,091	$ 149,517

Bank loans due within one year and due after one year at March 31, 2004 and 2003 as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Bank loans due within one year	¥ 4,015	¥ 5,673	$ 38,006
Bank loans due after one year	5,120	3,863	48,467
	¥ 9,135	¥ 9,536	$ 86,473

8. Accrued Pension and Severance Liabilities

The Company and certain consolidated subsidiaries have defined benefit pension plans and unfunded retirement benefit plans for employees.

Effective April 1, 2000 the Company and its consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥519 million determined as of April 1, 2000 is amortized over five years and presented as other expense in the income statement.

The following table sets forth the changes in projected benefit obligation, plan assets and funded status of the Company and its Consolidated Subsidiaries at March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
1) Projected benefit obligation at end of year	**¥ (8,794)**	¥ (8,678)	**$ (83,245)**
2) Fair value of plan assets at end of year	**5,795**	4,884	**54,856**
3) Projected benefit obligation in excess of plan assets 1)+2)	**¥ (2,999)**	¥ (3,794)	**$ (28,389)**
4) Unrecognized actuarial (gain) loss	**367**	1,609	**3,474**
5) Unrecognized transition obligation at date of adoption	**104**	208	**985**
6) Accrued pension and severance liabilities 3) + 4) + 5)	**¥ (2,528)**	¥ (1,977)	**$ (23,930)**

The breakdown of net pension and severance costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Service cost	**¥ 601**	¥ 535	**$ 5,689**
Interest cost	**215**	231	**2,035**
Expected return on plan assets	**(73)**	(180)	**(691)**
Amortization:			**—**
Retirement benefit obligation at transition	**104**	104	**984**
Actuarial losses	**394**	193	**3,730**
Net periodic benefit cost	**¥ 1,241**	¥ 883	**$ 11,747**

The assumptions used in the accounting for the above benefit plans were as follows:

	2004	2003
Discount rate	**Primarily 2.5%**	Primarily3.0% at start of year and 2.5% at year - end
Expected rate of return on plan assets	**1.5%**	1.5 - 4.0%
Amortization period for transition obligation at date of adoption	**5 years**	5 years
Amortization period for actuarial losses	**5 years**	5 years

9. Shareholders' Equity

(i) In connection with conversion of convertible bonds, 7,208,356 shares of common stock were issued for the year ended March 31, 2003.

The amount of retained earnings available for future dividends under the Japanese Commercial Code was ¥35,927 million (US$340,089 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. The Japanese Commercial Code imposes certain limitations on the amount of retained earnings available for dividends.

(ii) The following appropriation of retained earnings was approved by the Shareholders' Meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends paid	¥ 1,240	$ 11,738
Bonuses to directors and statutory auditors	86	814

10. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income which, in aggregate, resulted in a normal statutory tax rate of approximately 41.9% for the year ended March 31, 2004 and 2003.

An amendment to the Japanese tax regulations was enacted on March 31, 2003, and the nomal statutory rate was reduced from approximately 41.9% to 40.5%, effective from April 1, 2004. As a result of this amendment, for the year ended March 31, 2003, deferred income tax was calculated at the tax rate of 41.9% for current portion of temporary differences and 40.5% for non-current portion. And for the year ended March 31, 2004, deferred income tax was calculated at the tax rate of 40.5%.

The significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Deferred tax assets			
Operating loss carry forwards for tax purposes	**¥ 1,739**	¥ 1,951	**$ 16,462**
Intercompany profits	**430**	517	**4,070**
Accrued for bonuses to employees	**587**	553	**5,557**
Accounts receivable	**247**	570	**2,338**
Accrued pension and serverance liabilities	**901**	612	**8,529**
Other	**1,081**	1,005	**10,233**
Gross deferred tax assets	**¥ 4,985**	¥ 5,208	**$ 47,189**
Less: Valuation allowance	**(1,634)**	(1,645)	**(15,468)**
Total deferred tax assets	**¥ 3,351**	¥ 3,563	**$ 31,721**
Deferred tax liabilities			
Unrealized gains on marketable securities for investments	**¥ 7,910**	¥ 1,354	**$ 74,877**
Other	**201**	331	**1,903**
Total deferred tax liabilities	**¥ 8,111**	¥ 1,685	**$ 76,780**
Net deferred tax assets (liabilities)	**¥ (4,760)**	¥ 1,878	**$ (45,059)**

Reconciliation of the differences between the statutory tax rates and the effective income tax rates was as follows:

	2004
Statutory tax rate	**41.9%**
Expenses not deductible for tax purposes	**2.3**
Non-taxable dividend income	**(0.8)**
Loss in subsidiaries	**3.5**
Other	**1.0**
Effective tax rate	**47.9%**

For the year ended March 31, 2003, there were no significant reconciling items between the statutory tax rate and effective tax rate.

11. Research and Development Expenses

Research and development expenses for the year ended March 31, 2004 and 2003 were ¥3,074 million (US$29,099 thousand) and ¥2,328 million, respectively.

12. Commitments and Contingent Liabilities

The Company and Consolidated Subsidiaries have the following commitments and contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities for guarantees	**¥ 2,728**	¥ 3,273	**$ 25,824**
Export drafts discounted	**51**	35	**483**
	¥ 2,779	¥ 3,308	**$ 26,307**

13. Segment Reporting

The Company and Consolidated Subsidiaries are primarily engaged in the business consisting of four major segments: medical equipment, pharmaceutical products, glass and material products and supermarket. The Company is organized into operating segments based on the market nature of products.

The medical segment manufactures and sells disposable medical equipment. Their medical equipment sold includes dialyzers, dialysis-related devices, and injection-related products.

The pharmaceutical segment manufactures and sells a range of pharmaceutical products and devices, such as prescribed specialized and diagnostic products for hospital use, and medical equipment incorporating solutions and drugs, such as pre-filled syringes and infusion kits.

The glass and materials segment sells internal glass sections for vacuum flasks, glass tubes for ampoule and vial production, glass tube vials and other glass products.

The supermarket segment encompasses a supermarket business and a drugstore business. The supermarket segment sells fresh and daily foods, general grocery, household goods, medicine and other merchandise.

The sales of "Other" include the sales of machinery for manufacture of medical equipment and real estate rental income.

Business segment information for the year ended March 31, 2004 and 2003 was as follows:

	Millions of yen							
	2004							
	Medical	Pharmaceutical	Glass & Materials	Supermarket	Other	Total	Eliminations / Corporate	Consolidated
Net sales:								
Outside	¥ 78,727	¥ 25,339	¥ 11,891	¥ 71,357	¥ 1,386	¥188,700	—	¥188,700
Intersegment	639	—	2,357	—	597	3,593	¥ (3,593)	—
Total	¥ 79,366	¥ 25,339	¥ 14,248	¥ 71,357	¥ 1,983	¥192,293	¥ (3,593)	¥188,700
Cost and expenses	67,249	22,868	12,429	70,937	1,579	175,062	1,081 (1)	176,143
Operating income	¥ 12,117	¥ 2,471	¥ 1,819	¥ 420	¥ 404	¥ 17,231	¥ (4,674)	¥ 12,557
Identifiable assets	¥ 83,785	¥ 54,037	¥ 13,208	¥ 43,103	¥ 1,155	¥195,288	¥ 84,413 (2)	¥279,701
Depreciation	3,834	3,638	630	1,164	32	9,298	521	9,819
Capital expenditures	5,232	6,747	625	1,451	4	14,059	441	14,500

	Thousands of U.S. dollars (Note 1)							
	2004							
	Medical	Pharmaceutical	Glass & Materials	Supermarket	Other	Total	Eliminations / Corporate	Consolidated
Net sales:								
Outside	$745,239	$239,862	$ 112,561	$675,473	$ 13,120	$1,786,255	—	$1,786,255
Intersegment	6,049	—	22,312	—	5,651	34,012	$ (34,012)	—
Total	$751,288	$239,862	$134,873	$675,473	$ 18,771	$1,820,267	$ (34,012)	$1,786,255
Cost and expenses	636,587	216,471	117,654	671,497	14,947	1,657,156	10,233 (1)	1,667,389
Operating income	$114,701	$ 23,391	$ 17,219	$ 3,976	$ 3,824	$ 163,111	$ (44,245)	$ 118,866
Identifiable assets	$793,118	$511,520	$125,029	$408,018	$ 10,933	$1,848,618	$799,063 (2)	$2,647,681
Depreciation	36,293	34,438	5,964	11,018	303	88,016	4,932	92,948
Capital expenditures	49,527	63,868	5,916	13,735	38	133,084	4,175	137,259

	Millions of yen							
	2003							
	Medical	Pharmaceutical	Glass & Materials	Supermarket	Other	Total	Eliminations / Corporate	Consolidated
Net sales:								
Outside	¥ 76,009	¥ 21,979	¥ 11,064	¥ 69,560	¥ 1,758	¥ 180,370	—	¥ 180,370
Intersegment	534	—	2,473	—	668	3,675	¥ (3,675)	—
Total	¥ 76,543	¥ 21,979	¥ 13,537	¥ 69,560	¥ 2,426	¥ 184,045	¥ (3,675)	¥ 180,370
Cost and expenses	62,368	19,998	11,760	68,451	2,278	164,855	616 (1)	165,471
Operating income	¥ 14,175	¥ 1,981	¥ 1,777	¥ 1,109	¥ 148	¥ 19,190	¥ (4,291)	¥ 14,899
Identifiable assets	¥ 84,726	¥ 51,192	¥ 13,604	¥ 41,879	¥ 2,044	¥ 193,445	¥ 59,403 (2)	¥ 252,848
Depreciation	3,650	2,828	559	1,152	40	8,229	538	8,767
Capital expenditures	7,853	9,646	1,476	1,327	70	20,372	403	20,775

Note:
(1)Cost and expenses of "Eliminations/Corporate" for the year ended March 31, 2004 and 2003 included unallocated corporate costs of ¥4,674 million ($44,245 thousand) and ¥4,291 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.
(2)Assets of "Eliminations/Corporate" at March 31, 2004 and 2003 included ¥84,558 million (US$800,435 thousand) and ¥59,673 million of corporate assets, respectively, consisting primarily of cash and cash equivalents, investments in securities, research and development-related equipment and headquarters administration-related assets.

The information by geographic area for the year ended March 31, 2004 and 2003 was as follows:

	Millions of yen					
	2004					
	Japan	America	Europe	Asia	Eliminations / Corporate	Consolidated
Net sales:						
Outside	¥ 176,374	¥ 4,707	¥ 5,922	¥ 1,697	—	¥ 188,700
Intersegment	9,609	378	27	8,471	¥ (18,485)	—
Total	¥ 185,983	¥ 5,085	¥ 5,949	¥ 10,168	¥ (18,485)	¥ 188,700
Cost and expenses	169,172	5,265	5,833	9,756	(13,883) (1)	176,143
Operating income (loss)	¥ 16,811	¥ (180)	¥ 116	¥ 412	¥ (4,602)	¥ 12,557
Identifiable assets	¥ 174,610	¥ 6,081	¥ 3,346	¥ 17,210	¥ 78,454 (2)	¥ 279,701

	Thousands of U.S. dollars (Note 1)					
	2004					
	Japan	America	Europe	Asia	Eliminations / Corporate	Consolidated
Net sales:						
Outside	$1,669,576	$ 44,557	$ 56,058	$ 16,064	—	$1,786,255
Intersegment	90,960	3,578	256	80,187	$ (174,981)	—
Total	$1,760,536	$ 48,135	$ 56,314	$ 96,251	$ (174,981)	$1,786,255
Cost and expenses	1,601,401	49,839	55,216	92,351	(131,418) (1)	1,667,389
Operating income (loss)	$ 159,135	$ (1,704)	$ 1,098	$ 3,900	$ (43,563)	$ 118,866
Identifiable assets	$1,652,878	$ 57,563	$ 31,674	$162,912	$ 742,654 (2)	$2,647,681

	Millions of yen					
	2003					
	Japan	America	Europe	Asia	Eliminations / Corporate	Consolidated
Net sales:						
Outside	¥168,848	¥ 4,545	¥ 5,360	¥ 1,617	—	¥180,370
Intersegment	8,801	419	34	8,235	¥ (17,489)	—
Total	¥177,649	¥ 4,964	¥ 5,394	¥ 9,852	¥ (17,489)	¥180,370
Cost and expenses	159,550	4,711	5,239	8,967	(12,996) (1)	165,471
Operating income	¥ 18,099	¥ 253	¥ 155	¥ 885	¥ (4,493)	¥ 14,899
Identifiable assets	¥172,740	¥ 4,840	¥ 3,076	¥18,119	¥ 54,073 (2)	¥252,848

Note:
(1) Cost and expenses of "Eliminations/Corporate" for the year ended March 31, 2004 and 2003 included unallocated corporate costs of ¥4,674million ($44,245 thousand) and ¥4,291 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.
(2) Assets of "Eliminations/Corporate" at March 31, 2004 and 2003 included ¥84,558 million (US$800,435 thousand) and ¥59,673 million of corporate assets, respectively, consisting primarily of cash and cash equivalents, investments in securities, research and development-related equipment and headquarters administration-related assets.
(2) The main countries of each geographic area are as follows:
America: The United States of America and Brazil
Europe: Belgium
Asia : China and Thailand

Sales to foreign customers were as follows:

	Millions of yen							
	2004				2003			
	America	Europe	Asia	Total	America	Europe	Asia	Total
Export sales and sales by overseas subsidiaries	¥ 21,136	¥ 18,862	¥ 5,425	¥ 45,423	¥ 19,032	¥ 17,364	¥ 5,427	¥ 41,823
Percentage of such sales against consolidated net sales	11.2%	10.0%	2.9%	24.1%	10.6%	9.6%	3.0%	23.2%

	Thousands of U.S. dollars (Note 1)			
	2004			
	America	Europe	Asia	Total
Export sales and sales by overseas subsidiaries	$200,076	$178,550	$ 51,354	$429,980
Percentage of such sales against consolidated net sales	11.2%	10.0%	2.9%	24.1%

14. Subsequent Event

On June 24, 2002, Tomita Pharmaceutical Co., Ltd. (“Tomita”) filed a lawsuit in the Osaka District Court naming the Company and Nipro Pharma Corporation as the defendants, alleging infringement of their Japanese patent no. 2769592 by “Lympack” and “Lympack No. 3”, powdered dialysate solutions, seeking damages and an injunction of manufacture and sale.

On May 27, 2004, a judgement was made by the court, which ordered (1) an injunction of manufacture and sale, (2) disposal of the inventory, and (3) payment of 1,196 million yen and its interest. The judgment did not justify our assertion that the Tomita’s patent was invalid and the Company and Nipro Pharma Corporation did not infringe their patent, and an appeal was made to the Osaka Higher Court on the same day.

Report of Independent Certified Public Accountants on The Consolidated Financial Statements

To the Board of Directors
of Nipro Corporation

We have audited the accompanying consolidated balance sheets of Nipro Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen.
These consolidated financial statements are the responsibility of Nipro Corporation's management.
Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nipro Corporation and consolidated subsidiaries as of March 31, 2004 and 2003 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Osaka, Japan
July 31, 2004

Tomei Audit Corporation

Tomei Audit Corporation

Corporate Information (As of March 31, 2004)

Date of Establishment
July 8, 1954

Head Office
3-9-3 Honjo-nishi, Kita-ku, Osaka 531-8510, Japan
Telephone: +81-6-6372-2331
Facsimile : +81-6-6375-0669
URL: http://www.nipro.co.jp/english/

Tokyo Office
4-3-4 Hongo, Bunkyo-ku, Tokyo 113-0033, Japan
Telephone: +81-3-5684-5611
Facsimile : +81-3-5684-5610

Number of Employees

Parent company	1,830
Consolidated subsidiaries	6,302
Total	8,132

Principal Shareholders

	Number of Shares Held (in thousands)	Percentage of Total Shares in Issue (%)
Sanri Kosan Co., Ltd.	12,920	20.22
Japan Trustee Services Bank, Ltd. (Trust Account)	6,148	9.62
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,984	7.80
Trust & Custody Service Bank, Ltd. (Trust Account)	2,318	3.62
Minoru Sano	1,993	3.12
Resona Bank Limited	1,380	2.16
The Mitsubishi Trust and Banking Corporation (Trust Account)	1,140	1.78
The Dai-ichi Mutual Life Insurance Company	784	1.22
Mizuho Corporate Bank, Ltd.	782	1.22
Kazuo Sano	623	0.97
Total	33,073	51.77

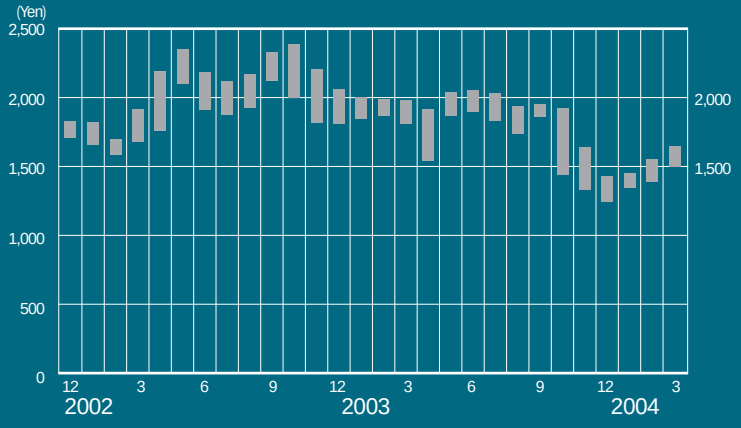
Common Stock

Authorized	200,000,000 shares
Issued	63,878,505 shares
Outstanding	63,613,567 shares
Number of Shareholders	10,408

Stock Listings
Tokyo Stock Exchange, Osaka Securities Exchange
Ticker Codes: 8086

Transfer Agent
The UFJ Trust and Banking Co., Ltd.
6-3, Fushimi-machi 3-chome, Chuo-ku, Osaka 541-8503, Japan

Stock Price Range (Tokyo Stock Exchange)



Subsidiaries and affiliates

Area	Country	Company	Segment	Principal business
Asia	Japan	Nipro Medical Industries, Ltd.	Medical	Manufacturing
		Nipro Pharma Corporation	Pharmaceutical	Manufacturing and Marketing
		Shinwa Shoji Co., Ltd.	Glass & Materials	Manufacturing and Marketing
		Nissho Corporation	Supermarket	Supermarket management
		Nissho Drug Co., Ltd.	Supermarket	Drugstore management
		Nissho Insurance Services Co., Ltd.*	Other	Insurance agency
		Bipha Corporation**	Pharmaceutical	R&D and Manufacturing
	Thailand	Nipro (Thailand) Corporation Ltd.	Medical	Manufacturing and Marketing
	China	Fuzhou Nipro Co., Ltd.	Medical	Manufacturing and Marketing
		Nipro (Shanghai) Co., Ltd.	Medical	Manufacturing and Marketing
		Nipro Trading (Shanghai) Co., Ltd.*	Medical	Marketing
		Shanghai Nissho Vacuum Flask Refill Co., Ltd.	Glass & Materials	Manufacturing and Marketing
	Singapore	Nipro Asia Pte. Ltd.*	Medical	Marketing
America	Brazil	Nipro Medical LTDA.	Medical	Manufacturing and Marketing
	U.S.A	Nipro Medical Corporation	Medical	Marketing
	Panama	Nipro Medical Panama S.A.	Medical	Marketing
	Mexico	Nipro Medica de Mexico, S.A. DE C.V.	Medical	Marketing
	U.S.A.	Nipro Diabetes Systems, Inc.*	Medical	R&D and Marketing
Europe	Belgium	Nipro Europe N.V.	Medical	Marketing

Note:
(1) * Unconsolidated
** Affiliate applied equity method
(2) Sanri Kosan Co., Ltd., an Affiliate Company, manages rental of real property estate.

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