NIPRO®

Medical Supplies for the world population

Annual Report 2006

Year Ended March 31, 2006

Leap higher and further.

To the next phase of growth

Under the brand name “Nipro” (“Nippon product” and “Nippon professional”), we will complete our running start and leap forward into our next phase of growth, establishing our presence as a truly global company.

Nipro has enjoyed continuing growth through the manufacture and sale of medical equipment and high value-added pharmaceuticals that are trusted around the world.

Since its founding in 1954, the Nipro Group has propelled its growth through the dedicated pursuit of technology responsive to the issues/needs of patients’ quality of life (QOL), as well as the issues/needs of medical practitioners, we achieved our goals through the development of original products based on our corporate philosophy of contributing to society through technology-oriented business activities.

Today the Nipro brand of medical equipment is used extensively, both in Japan and abroad. The technological capabilities and quality of this equipment – in particular, dialysis- (artificial kidney-) related products, in which the Nipro Group boasts a leading share of the world market – are highly regarded internationally. We have also steadily improved our business performance with high-value added pharmaceuticals such as injectable kit preparations that incorporate medical equipment technology. Over the past several years, the Pharmaceutical Business has actively sought to expand the scope of its operations with a focus on the generic drugs business, demand for generic drugs being expected to swell as governments reinforce policies to hold down medical costs. The Nipro Group’s efforts in this sector have been rewarded by its ranking in FY2005 (the year ended March 31, 2006) alongside the top-class companies in Japan’s generic pharmaceutical industry in terms of the number of product lines marketed.

Achieving competitive advantage globally

The Nipro Group is engaged in researching and developing highly functional, safe medical equipment, as well as replacement equipment and reconstruction technology for all organs and bodily systems, including artificial kidneys, hearts, lungs, pancreases, skin and blood. Our goal is to become one of the world’s top manufacturers of artificial organs. The Nipro Group will also work to achieve globally competitive leadership in the pharmaceuticals sector, in terms of both quality and cost, and will aggressively expand into overseas markets.

During FY2005, Nipro by and large put in place the business infrastructure needed for these efforts; the time to make the next leap ahead has come at last.

Contents

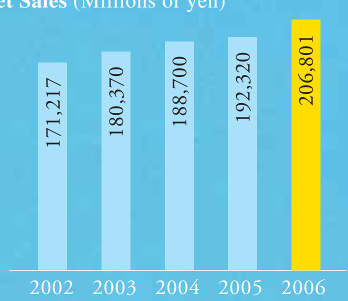
Disclaimer regarding Forward-looking Statements

Consolidated Financial Highlights

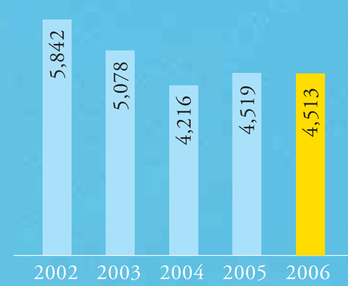
Nipro Corporation and its Consolidated Subsidiaries Years ended March 31, 2006 and 2005	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
For the year:			
Net sales	¥ 206,801	¥ 192,320	$ 1,760,458
Operating income	12,332	10,404	104,980
Net income	4,513	4,519	38,418
Capital expenditures	20,873	16,312	177,688
Depreciation and amortization	12,315	10,266	104,835
R&D expenses	3,760	3,422	32,008
At year-end:			
Total assets	¥ 338,741	¥ 293,749	$ 2,883,638
Total shareholders' equity	112,391	96,700	956,764
Per share data (in yen and U.S.dollars):			
Net income:			
Basic	¥ 69.6	¥ 69.4	$ 0.59
Diluted	-	-	-
Cash dividends	37.5	38.5	0.32
Shareholders' equity	1,767.7	1,519.6	15.05

The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=US$1, the approximate exchange rate on March 31, 2006.

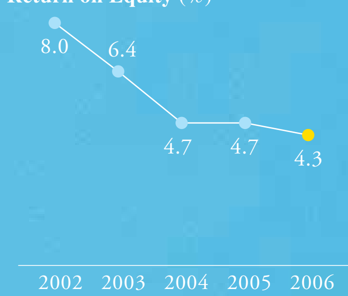
Net Sales (Millions of yen)



Net Income (Millions of yen)



Return on Equity (%)



Conviction

We are on the threshold of an era in which the Nipro Group will rapidly become a global player, in both name and fact.

Solid business performance in FY2005 (the year ended March 31, 2006), for both medical equipment and pharmaceutical

Japan's economy enjoyed a gentle recovery overall during FY2005, supported by robust plant investment, against a background of improved corporate revenues and personal consumption. Nevertheless, the deceleration in overseas economies and the sharp surge in petroleum prices, coupled with bearish foreign exchange indications for the U.S dollar, do not encourage optimism regarding our future operating environment. Government policies to hold down medical care costs, the group consolidation of medical institutions and the pursuit of joint purchasing have exposed the medical equipment industry, on which we rely, to severe price and sales competition. From another aspect, revisions to the Pharmaceutical Business Law and reforms to the medical care system are among noteworthy changes that have put considerable additional pressure on the industry.

Within this context, the Nipro Group has been working to develop new and highly competitive products to enhance its product lineup, actively expand its sales channels and augment sales activities, so as to improve business results. In consequence, consolidated net sales for FY2005 were up 7.5%, to ¥206.8 billion; consolidated operating income was up 18.5%, to ¥12.3 billion on a year-on-year basis.

Overviews of individual businesses begin on page 13. Overseas transaction expanded because Nipro-branded products increased greatly and contribute to these higher figures. Recent expansion of our direct sales structure overseas, our encouragement of local sales activities and our compartmentalization with OEM partners continue to pay off.

Consolidated net income for FY2005 was ¥4.5 billion, down 0.1% from the previous year, due to higher extraordinary losses (impairment loss on fixed assets).

Minoru Sano
President

Moving toward the final stage of setting foundations for change-adaptive growth

Our corporate group has announced targets of ¥300 billion in consolidated net sales, ¥20 billion in consolidated ordinary income and 10% of return on equity (ROE), to be achieved by 2010. The three-year period from FY2003 to FY2005 was stipulated as the period for establishing and reinforcing the business foundations needed to accomplish these objectives; efforts are under way to augment our R&D (productivity), production and sales capabilities. FY2005 represents the last year of this period and, for the most part, the course (framework) for business in an age of change has been set and the foundations for growth have been put in place. Building on these, we will further accelerate our business development toward realizing considerable growth.
(Please refer to the "Business Activity Report," beginning on page 6, for details of the activities involved in establishing these foundations.)

On the verge of becoming the world's top dialyzer manufacturer

Supported by the two pillars of the Medical Equipment and Pharmaceutical Businesses, the Nipro Group will pursue dynamic expansion strategies and technology mergers in both divisions, and will seek future growth by establishing competitive advantages globally, in terms of function, quality and cost.

In laying the groundwork to achieve these aims, our establishment of an in-house manufacturing system, on which we have been working since the year before last, for the hollow fibers used in dialyzers, a mainstay product, was a development worthy of special note in the Medical Equipment Business field during FY2005. This advance has enabled full-scale manufacture, from raw material to finished product, dramatically boosting cost and quality competitiveness. Because we can now offer polyethersulfone synthetic membranes in addition to our regular triacetate synthetic membranes, our broader product lineup puts Nipro on the verge of claiming top share in the world market. Our current annual production capacity for dialyzers is 30 million units; to double this to 60 million, we have undertaken expansion of our Odate factory. At the same time, we will push ahead even more vigorously to enhance our globally expanding sales network by creating sales promotion policies that include sales of systems that employ related products, in order to ensure ourselves an overwhelming advantage in the dialysis market.

The artificial lung business that we purchased in FY2005 from Dainippon Ink and Chemicals, Incorporated is also of great significance for the future development of our Medical Equipment Business, as part of our expansion in the artificial organ sector. Artificial lungs, in which we already hold a 10% share domestically, are small high-performance devices used in open-heart surgery, that utilize hollow fiber membrane with particularly outstanding properties. The Nipro Group intends to make use of this hollow fiber technology to expand into oxygenator systems for use in treating severe respiratory ailments. While the wide range of development issues cannot all be addressed overnight, we intend to cultivate this business so as to put it on a par with our dialysis business.

Adopting a global perspective in the pharmaceutical business

The Nipro Group's Pharmaceutical Business has long been especially proficient in developing injectable kit preparations, including double-bag kits and pre-filled syringes that incorporate medical equipment technology, as well as new formulae for oral drugs. The Nipro Group has a strong record in the contract manufacture of injectable products, a record that is promoted as a pillar of the Nipro Group's business results. Nevertheless, in forecasting future growth for the Pharmaceutical Business, we regard as key elements the expansion of generic drugs (oral and others). Accordingly, over the past few years we have pursued M&A that has added two generic drug companies to our Group. This has swiftly brought the number of generic products we offer to almost 400, ranking us among Japan's top corporate groups in generic drugs. In terms of injectable kit preparations, we have also dramatically engaged in capital investment. In terms of solid-form drugs, we added one contract manufacturing company to enable us to contract manufacture various products.

Generic drugs that can be made and sold anywhere are truly global products. Japan will likely see many market entrants from overseas; Japanese pharmaceuticals as well must be sold worldwide. This requires top-quality products that are inexpensive not only by Japanese standards, but by global standards as well. Achieving competitive advantage in global markets is essential for the Nipro Group's survival and growth. It is true that competitors in India and China may initially have the upper hand in terms of price, but we will endeavor to hold the advantage not only in price, but also in quality. Integrated manufacture, from raw material to finished product, is key to increasing cost competitiveness and improving quality. This is why we established an in-house system for purifying active pharmaceutical ingredients for injectable drugs, and for oral drug production acquired a stake in Yuki Gosei Kogyo Co., Ltd., which offers world-class synthetic technology. It is also why we concluded a business tie-up on developing and supplying active pharmaceutical ingredients, setting the stage for manufacturing system integration, from raw material to finished product. Acquisition of such technology will enable us to engage in R&D-based contract manufacture that begins with the development of new drugs.

Offering products and services unmatchable by other companies

One endeavor we are planning in the area of generic drugs is the development of drugs for cancer treatment. In the field of the anti-cancer drugs, original drug makers and physicians/medical institutions maintains strong bonds from the stage of the development of anti-cancer drugs, that is why the generic anti-cancer drugs had yet to be considered. The Nipro Group would like to explore this path. The first step in doing so will be developing pre-filled syringes for injectable drugs. Preparing and administering anti-cancer drugs are risky tasks requiring considerable technical skill on the part of medical practitioners. However, syringes pre-filled with appropriate doses of medicine can be used safely and immediately by medical practitioners without advanced technical skills, enabling more patients to receive treatment at their local hospitals. Syringes pre-filled with generic drugs are not only less expensive, they also greatly help improve the medical care environment; a good reason to consider them readily marketable.

To all our shareholders and friends

Significant capital investments in property, plant and equipment will naturally be needed, and initial sales will likely be limited, but we are convinced that this approach will give the Nipro Group a competitive edge. Latecomer companies seeking to enter the market will lag far behind, perhaps so far behind as to render economic success unachievable. The advantages of firm size will come into play in this regard, which is another reason for picking up the pace of expansion in our generic drug businesses and contract manufacturing.

Making Nipro a worldwide presence, in name and in fact

The Nipro Group foresees global expansion of its pharmaceutical business. We believe that generic drugs for cancer treatment will sell worldwide. No other company anywhere has seriously undertaken both medical equipment and pharmaceuticals as core businesses; moreover, hybrid products that are a fusion of medical equipment and pharmaceutical technology will be increasingly important in the future. The determining factor will be the acquisition of a world-class competitive edge in terms of function, quality and cost. To this end we will continue our active investment for future growth.

Our company's name and our brand name, Nipro, conceived during our first overseas expansion in the mid-1960s, is an abbreviation of "Nippon products" (products made in Japan) and "Nippon professionals" an allusion to "products perfected by Japanese medical equipment professionals." Although Japanese electrical products were winning popularity at the time, Japanese medical equipment was not yet appreciated overseas. Even so, we adopted the name out of a desire to support, indeed to champion, the acceptance of products "Made in Japan by Japanese medical equipment professionals."

The Nipro Group now has its eye on the global market. We take great pride in the world-class quality of our medical equipment, particularly our mainstay dialyzers. Our future efforts will be directed toward introducing our pharmaceuticals in overseas markets and ensuring that the Nipro brand is disseminated around the globe through our Medical Equipment and Pharmaceutical Business.

Providing shareholders with increased revenues and profit in FY2006

The April 2006 revision of medical treatment fees led to a 3.16% reduction in payments for medical care in Japan, the largest cut ever. In other countries, various governmental policy measures have also been put in place to reduce medical spending. These factors, coupled with increasingly fierce competition among other companies, are expected to maintain an extremely challenging market environment. Nevertheless, we are determined to continue striving to realize higher value-added products and strengthen our manufacturing mechanism, drawing on the solid frameworks and foundations we have established thus far. We intend to expand our sales network outside Japan and strengthen our sales capabilities both at home and abroad, thereby enhancing the added value of the Nipro brand as a comprehensive medical manufacturer, and increasing our market share. In the Medical Equipment Business, we will focus on expanding our sales of dialysis products, as well as on introducing new circulatory-organ-related products and developing safety-oriented medical equipment.

In the Pharmaceutical Business, we will continue focusing on expanding contract manufacture and increasing the number of generic drugs. We will accelerate our efforts to develop new injectable kit preparations and work on improving products with medical error-preventive features. We will also increase our R&D efforts and expand our sales channels for oral drugs, thereby increasing our factory productivity.

For Nipro's Medical Equipment and Pharmaceutical Businesses to continue advancing strongly in this ever-changing, highly challenging market environment, it is imperative that we invest greater managerial resources in all of these areas, and with greater efficiency. Accordingly, FY2006 (the year ending March 31, 2007) will feature selective and solidifying moves by the Nipro Group.

We will use our business-specific sliding scale system measuring performance to reinforce our system for responsibility designation by business sector, and will make every effort to improve and secure single-year profit. We expect that the these approaches will increase Nipro's revenues and profit so as to maintain a dividend payout ratio of 50% in FY2006 and realize satisfactory profit-sharing with all our shareholders.

We hope that our shareholders and friends will continue to lend us their support in the coming years.

2006.8

Minoru Sano

President

M. Sano

Acceleration

Preparations complete for our advance into the next phase of growth

The Nipro Group aspires to become one of the top brands in Japan and the world, in both the Medical Equipment and Pharmaceutical Businesses. In FY2005 (the year ended March 31, 2006), we made considerable progress in our efforts to strengthen and upgrade the research and development, production and sales capabilities that drive our company. In addition, we have put in place the greater part of the framework and foundations needed for our future business development. We will accelerate our business expansion so as to climb higher and advance further toward our medium-term targets and the next step ahead in our growth.

Product quality capabi

So that high quality items can be mass produced at low cost, we have pursued significant qualitative improvements in raw materials and active pharmaceutical ingredients, and have strengthened our production capabilities so as to put in place the foundations necessary for becoming a top manufacturer in both the Medical Equipment and Pharmaceutical Businesses.

Undertaking in-house manufacture of hollow fibers for dialyzers, and substantially bolstering production capabilities

In FY2005 (the year ended March 31, 2006), the decisive developments in our medical equipment business were our establishment of an in-house manufacturing system for hollow fibers used in dialyzers, our mainstay product, and our creation of an integrated development and manufacturing system covering the entire production process, from raw material to finished product. These steps facilitated quality control and enabled our creation of a product lineup optimally suited to market needs, while at the same time giving us a certain cost advantage. Using the opportunities generated by our in-house manufacturing system, we are proceeding with expansion of our production lines and sales, to make Nipro number one in the world, in terms of both quality and quantity. Our annual production capacity as of the end of FY2005 was 30 million units; we plan to raise this to 35 million units by the end of FY2006. Moreover, with plans to increase our production to 60 million units in the near future, we have secured a production site on the premises of the Odate factory in Akita Prefecture.

On the way to becoming Japan's top generic drug company

As the government controls on medical expenditures are becoming tighter, generic drugs have also drawn attention in Japan, where our industry has been experiencing dynamic developments. We have positioned our manufacture/sale of generic drugs, and contract manufacturing, as our pillars for future growth in the Pharmaceutical Business. We will be implementing an aggressive expansion strategy based on our determination that, in an age of global competition in generic products, we will be able to mass-produce high quality but inexpensive products so that we will increase our market share. To that end, over the past several years we have been increasingly focusing on expanding our oral drug infrastructure to complement that for injectable products, which have long been our principal area of expertise. Nearly all the groundwork for this was put in place during FY2005,

lities

so we are now ready to begin full-scale development and advance toward our goal of becoming the top company in the field of generic drug company in Japan.

Reinforcement of production system and expansion of contracted manufacture for the Pharmaceutical Business

We actively pursue M & A to expand our oral drug lineup. Following our April 2004 acquisition of Takeshima Pharmaceutical Co., Ltd. (renamed Nipro Genepha Corporation in April 2005), in June 2005 we took over the Kagamiishi Plant of Chugai Pharmaceutical Co., Ltd., and established Tohoku Nipro Pharmaceutical Corporation. These moves have enabled us to considerably expand our contract manufacture of oral drugs.

Additionally, we acquired shares of Zensei Pharmaceutical Industries Co., Ltd., a mid-sized generic drug company with a strong record of performance, and made it a subsidiary in April 2006. Tohoku Nipro Pharmaceutical Corporation's inclusion brought the Group's overall oral drug production capacity to 2.5 billion pills annually; the inclusion of Zensei Pharmaceutical Industries Co., Ltd. lifted this capacity to a grand total of more than 4 billion pills. We also augmented our injectable product production facilities and undertook new contract manufacturing. In FY2006 we are planning further capital investments in property plant and equipment in excess of ¥10 billion.

In parallel with this expansion in production capacity, we worked during FY2005 to secure contract manufacturing agreements. In that effort, we acquired equity in Tanabe Seiyaku Co., Ltd. in the hope to reinforce the tie between the two companies. In FY2006, Nipro Pharma Corporation is scheduled to begin contract manufacture of that company's injectable products. In future, we will pursue further collaboration in various manners, opening the way to the development of business models enabling us to supply drugs and provide contract manufacturing to pharmaceutical firms new to the generic market.

In 2005 the revised Pharmaceutical Affairs Law came into force, followed by pharmaceutical company actions to concentrate their resources on R & D, transform their manufacturing divisions into separate companies and outsource production to outside companies. Following this background, we still intend to further expand our contract manufacturing of injectable products and oral drugs, regarding whose contracted production we are already among the industry's largest - thereby firmly securing our status.

Toward construction of an integrated manufacturing system, from active pharmaceutical ingredients to finished product

In August 2005 we acquired a stake in Yuki Gosei Kogyo Co., Ltd., and in October 2005 we agreed to a business tie-up regarding the development and manufacture of active pharmaceutical ingredients/intermediates. This company, with its unique synthetic technology, boasts impressive business results and experience worldwide in the manufacture of high-value added active pharmaceutical ingredients/intermediates. We at Nipro have been enhancing our integrated injection drug manufacturing system, from purification of active pharmaceutical ingredients to finished product; this tie-up permits the construction of a similarly integrated manufacturing system, from active pharmaceutical ingredient preparation to finished product for oral drugs. This will ensure us a huge advantage in future business expansion, not least in differentiating our products from those of other companies, in terms of quality and cost.

Sales & Marketing

Responsiveness

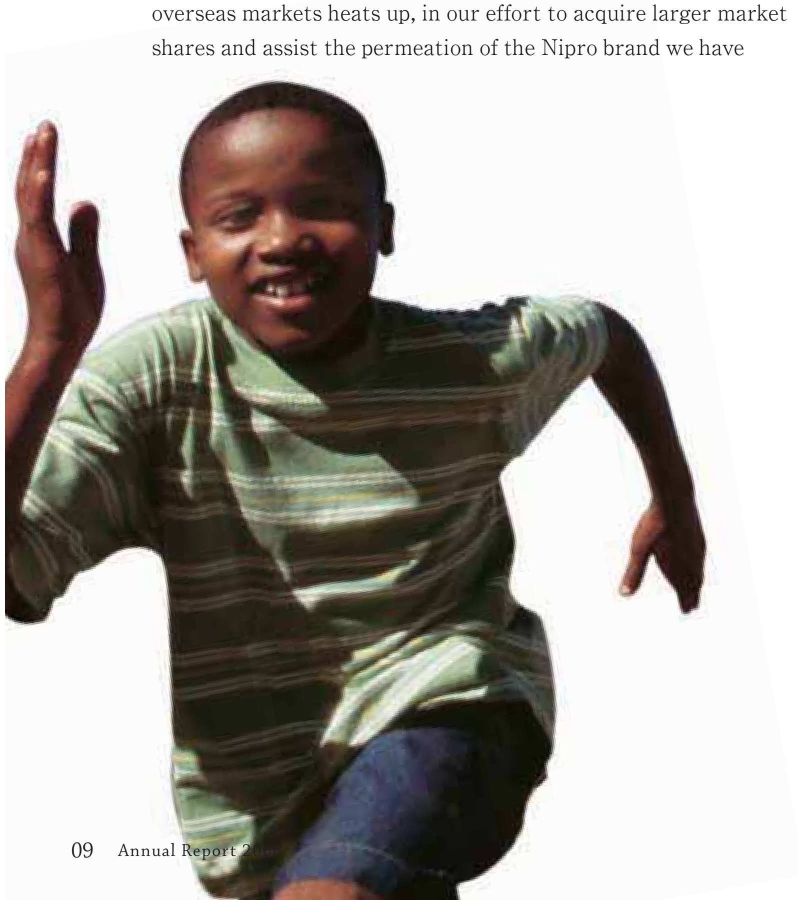
As worldwide price competition intensifies in the wake of efforts to hold down medical costs, we are committed to expanding our sales network and strengthening our marketing capabilities, and are building a robust sales structure for the principal purpose of increasing our market share both in Japan and abroad.

Active sales network expansion in BRIC (Brazil, Russia, India, China), Europe and developing countries

In FY2005 (the year ended March 31, 2006), the Nipro Group opened new sales locations in the UK, Russia and Guatemala. In FY2006 (the year ended March 31, 2007) we have already opened a new sales branch in France (May) and upgraded the sales branch in UAE to the local corporation (April) and plan within the fiscal year to open additional locations in Germany and Poland. Our Group's overseas network has now grown to 37 locations in total, consisting of 3 production sites each in Thailand, Brazil and China, and 34 sales locations including a new sales location in France.

The Group's overseas business has expanded for both OEM and our own brand, but during the past several years we have bolstered sales of our own brand, upgraded representative offices to branches or local corporations, established new branches/local corporations and rapidly advanced our shift from dependence on distributors direct sales. As price competition in overseas markets heats up, in our effort to acquire larger market shares and assist the permeation of the Nipro brand we have been developing and providing services closely rooted in communities, as well as high-quality products tailored to consumer needs through integrated production and sales. In FY2005, the rewards of these policies were vividly apparent in the Latin American region; the penetration of our brand has also had a positive impact on OEM expansion.

Having been quick to expand into India, Brazil and China and acquire the top share in dialysis machine, we set up a local corporation in Russia in FY2005 to further expand the sales network for Nipro brand products in the rapidly growing BRIC countries. In future, we will expand into developing countries so as to contribute to market development and improve the medical care environment.



Establishing a two-route system for our domestic pharmaceuticals sales network

Pharmaceutical distribution channels in Japan are divided into nationwide distributor route, targeting mainly university hospitals and other major medical facilities, and local distributor route, focusing on small to medium hospitals and clinics.

In Japan, we have made pharmaceutical sales network construction a priority issue, making Takeshima Pharmaceutical Co., Ltd. a subsidiary in 2004 and thereby paving the way for a local distributor route that Nipro previously lacked. Nipro Pharma Corporation is the Nipro Group's key player in terms of the nationwide distributor route, whereas Takeshima Pharmaceutical Co., Ltd. specializes in local distributor routes and has dealings with over 200 companies. In April 2005 the latter company was renamed Nipro Genepha Corporation, and comprehensive expansion efforts were begun under the Nipro brand. This gave the Nipro sales network a two-route system covering nationwide distributor and local distributor routes. We will also be collaborating on local distributor route with Zensei Pharmaceutical Industries Co., Ltd., which was made a subsidiary in April 2006, and will pick up the pace of our generic drugs sales offensive.

Building up direct sales and improving our brand image

Personnel qualified as Medical Representatives (MRs) are crucial in selling pharmaceutical products. Ever since the MR certification system was first introduced in Japan, the Nipro Group has sought to secure MR qualification for all its sales personnel - not only those engaged in pharmaceutical product sales, but also in medical equipment sales - thereby nurturing human resources with specialized knowledge. We have been putting this strength to use in medical equipment sales by supplementing agent sales with direct visits by sales personnel, mainly to large hospitals, to acquire new customers. In view of the growing importance of products that combine medical equipment and pharmaceutical products, we will conduct further MR training and reinforce our academic efforts to support future sales.

In FY2005 we also began promoting sales via new television commercials that stress Nipro's appeal as a pharmaceutical company, in place of earlier commercials that focused on medical equipment. Our attempts to improve the penetration of Nipro pharmaceuticals and enhance our brand image have been well received.

Research and Development

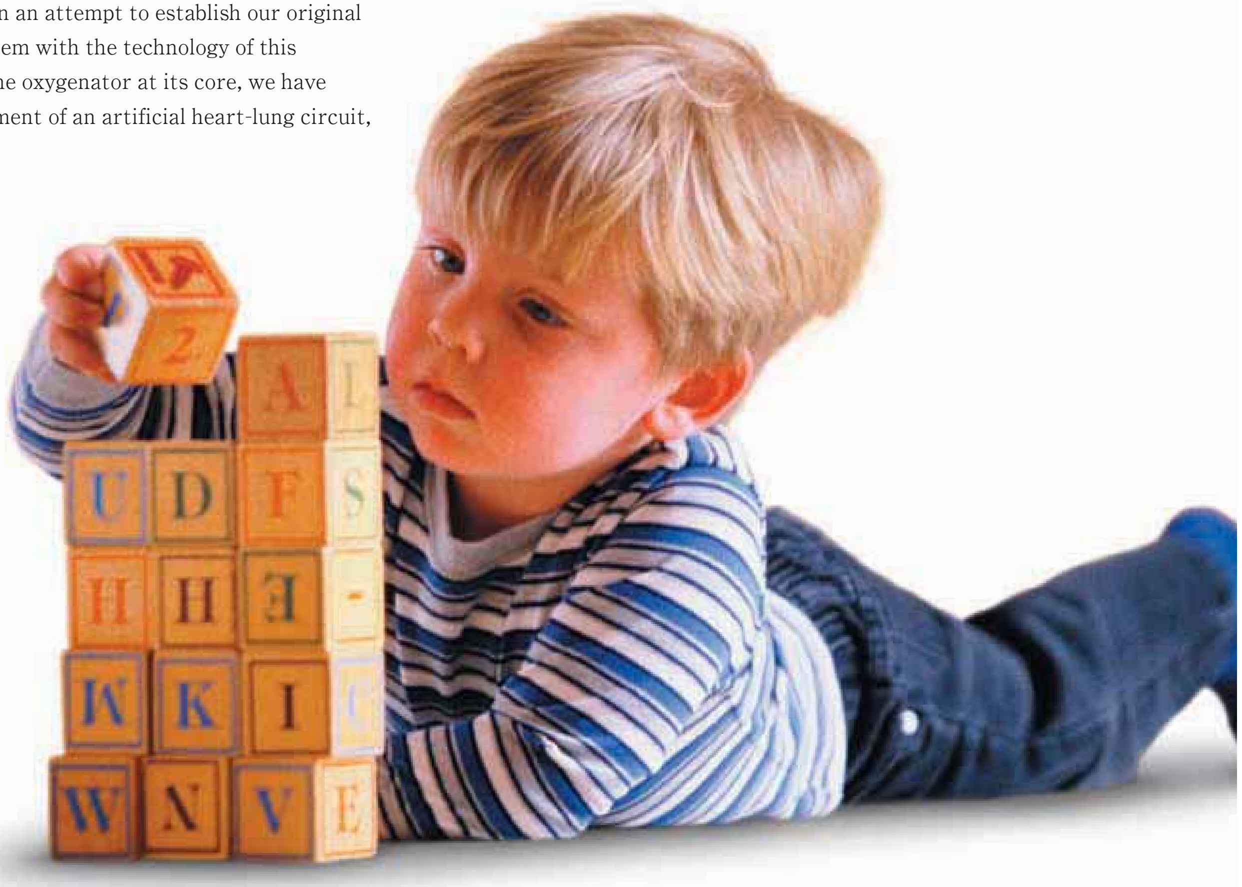
Creativity

As an integrated supplier of medical equipment and pharmaceuticals, the Nipro Group uses its strengths in these two fields to accelerate the development of high value-added products by means of technical integration. Furthermore, the Nipro Group actively promotes the expansion of research and development areas and strengthens its research system.

Development of full range product lines; artificial lung-based artificial heart-lung system

In the expectation of being a world-leading manufacturer of artificial organs, the Nipro Group, which holds the dominant world market share of dialysis-related products, promotes the marketing of extracorporeal left ventricular assist devices as well as the development of insulin pumps, artificial blood vessels and artificial heart membrane. In April 2005, as part of our project to expand the field of artificial organs, we acquired the extracorporeal membrane oxygenator department of Dainippon Ink and Chemicals, Incorporated. This extracorporeal membrane oxygenator, which was developed in collaboration with the National Cardiovascular Center, is characterized by increased gas exchange capability and the use of special hollow fiber membrane that rarely allows leakage of blood component (plasma). Heart surgeons use this extracorporeal membrane oxygenator in open-heart surgery. It has already taken a market share of 10% in Japan. In an attempt to establish our original artificial heart-lung system with the technology of this extracorporeal membrane oxygenator at its core, we have already started development of an artificial heart-lung circuit, including reservoir, centrifugal pump and related cannulae. In the future, we will promote the development of a compact artificial heart-lung system as an easy-to-use oxygenator-and-pump-combined system that serves as auxiliary respiratory (pulmonary) treatment equipment for serious respiratory disorder and emergency medical care.

During FY2005 (the year ended March 31, 2006), we established the Artificial Organ Development Center in our Research & Development Laboratory, to speed up the research and development of artificial organs. Hisateru Takano, M.D., Ph.D., who served as the first director of the Advanced Medical Engineering Center at the National Cardiovascular Center, joined our project as director of the new center. We intend to practically apply our sophisticated regenerative medical technology to the development of hybrid artificial organs, as well as mechanical artificial organs such as left ventricular assist devices and artificial heart-lung systems. We promote activities focusing on such development and product introduction to the market.



Development of pharmaceuticals reflecting Nipro's originality

The Nipro Group has developed kit-form preparations that can be safely and easily injected, and tablets of new dosage form that can be taken safely and easily. In this manner, the Nipro Group has demonstrated its originality and competitiveness in developing high value-added products that help assure safety in the medical setting, reduce the burden on health care professionals and improve patients' quality of life. Currently, we are actively promoting the development of generic drugs, especially generic oral drugs. We make efforts to manufacture original products by making use of our unique technology, so as to take the lead in this field. To help encourage greater patient compliance in drug treatment, we provide and package our drugs so as to make them easy to take, accommodate different dosages for different patients, including the elderly, and prevent incorrect usage. We continue to exhibit our true originality in each product by manufacturing products characterized by unique functions, high quality and remarkable efficacy, which cannot be found in the products of other manufacturers.

During FY2005, we have released eight pre-filled syringe kit preparations, which eliminate the need for transfer from a vial or ampoule; obtained approval for manufacturing and marketing four of the new items; and applied for approval of the other four items. We are also promote the development of pre-filled syringe kit preparations of double-chamber type (a drug unstable in solution is kept in powder form separately from the solution, yet in the same syringe, to be dissolved only when needed for use) and plan to apply for approval of the two items during FY2006 (the year ending March 31, 2007). We have already released the antibiotic in dissoluble "liquid/powder" double bag kit preparation as a new product, and have obtained approval for three other new items scheduled for marketing in FY2006. We have obtained approval for three low-dose standard tablets of new dosage form (two ingredients) and have applied for approval of one additional item. We have also applied for approval of five generic oral drugs (three ingredients). Our application for approval of eight generic oral drugs (four ingredients) is scheduled for FY2006.

Steady progress of research and development in the field of highly advanced medical technology

In the field of kit-form preparations, we have actively worked on developing pre-filled systems that are highly operable and effective in preventing medical error, and research projects to establish the materials, functions and on mechanisms that appropriately correspond to each drug. In the cardiological field, in order to enhance the safety of interventional therapy, we developed and marketed the first distal protection catheter in Japan. The new catheter prevents the vascular obstruction that usually results from peripheral migration of a clot formed in the process of treatment. We are also involved in developing sustained-release stents in great demand. Our attention has been directed to the field of regenerative medicine, where there is steady progress has been made in developing a medium-filled culture bag for the cell-culture system, nerve-regeneration tube and pericardial regeneration membrane.

Bipha Corporation, an affiliate company accounted for by the equity method, has been involved in preparations for the marketing of recombinant human serum albumin (rHSA). We expect that rHSA will find broad application in DDS preparations, including anti-cancer drugs. We have taken the approach of academic-industrial co-operation to promote hematological research projects. As a result of these efforts, our joint project for developing an artificial oxygen carrier comprising hemoglobin-encapsulating liposomes has made steady progress, to the point that a production facility has been established for its clinical trial drugs. Clinical trials will commence in 2007. We are also promoting a joint research project with university institutes, to develop artificial oxygen carriers using synthetic heme and recombinant hemoglobin not derived from human blood.

Medical Equipment Business

We will continue to expand our direct sales system overseas and increase our global market share.

[FY2005 Overview]

Increased business in Nipro brand products contributed to higher revenues and profit

Our Japanese operations faced a difficult environment, as additional medical cost-cutting and joint purchasing efforts among hospitals sparked fierce sales and price cutting competition. The Nipro Group nevertheless sought to expand its sales and market share by further increasing sales efficiency and improving sales locations/personnel, pursuing sales promotion policies, such as developing new products for dialysis, injection/infusion, circulatory organ therapy, and testing, developing new markets, and offering a systematized product package for each medical treatment. Although quantity of sale of our mainstay dialyzers were on a par with those of the previous year, sale of dialyzers declined due to a drop in unit price. With our effort to expand the sales, we achieved an overall increase in domestic sale of medical equipment.

Internationally, our vigorous efforts to strengthen our direct sales systems in Europe, Latin America and BRIC bore fruit. The traditional OEM business remained firm, with sales of Nipro-brand products growing almost in tandem. Dialysis-related products saw steady growth despite tough conditions in the US, due to the impact of the reorganization and integration of clinic groups, but bids won in Latin America contributed to more positive numbers outside the US. We are convinced that these results reflect the reputation earned by the quality of our products and are an acknowledgement of outstanding biocompatibility. Despite a distinct tendency towards oligopoly in our industry, the Nipro Group has managed to steadily expand its sales through independent manufacture and sale of dialyzers using materials different from those used by competitors, and has endeavored to expand its market share by launching products of improved quality in the synthetic membrane market. Direct sales of medical equipment with safety functions have been vigorously pursued, and sales of injection/infusion-related products have seen considerable growth.

As a result, net sales in this business were ¥90.9 billion, 10.1% higher than the preceding year, while operating income climbed a substantial 21.7% year-on-year, to ¥13.4 billion.

[Outlook]

Expanding market share by strengthening comprehensive product and sales capabilities

The market environment in Japan is expected to grow even more difficult, as increasingly fierce sales and price competition and substantial downward revisions to reimbursement price of medical materials reduce income. In response, we will establish sales and logistics/product management systems that integrate operations from distributors to hospital sales, and will reinforce our sales offensive.

In dialyzers and dialysis-related products, we will endeavor to develop new products, improve quality, respond in depth to market needs and strengthen sales, with the aim of further expanding market share. In injection/infusion products as well, we will work to expand our market share in infusion sets and syringes, and will actively develop and more widely market injection/nutrition-related products to improve sales. In circulatory-organ-related products, we will seek to develop PTCA balloon catheters, distal protection products, and stents, enhancing our product lineup with new products. In medical testing products, we will pursue increased sales and market development for blood collection tubes for blood tests, with the aim of winning greater market share.

Internationally, the Nipro Group is experiencing intensifying competition for market share, with medical cost-cutting efforts in many countries adding to the challenges we face. Business approaches are also changing, and matrix-like product groups are increasingly being sold and supplied in units for individual diseases and treatments. Fortunately, the Nipro Group manufactures and sells a comprehensive range of dialysis-related products; we regard this as a favorable opportunity to boost our market share.

Better distribution is essential to maintaining and expanding markets, so we will endeavor to increase the number of locations capable of direct sales, and will commit to improving customer service. In anticipation of future market expansion in developing countries, we will time our efforts to improve our services and sales so as to coincide with the expansion of medical care systems. Particularly in regard to artificial organ-related products we will introduce artificial lung-related products in overseas markets, while for the medical business as a whole we will push ahead with developing, marketing and expanding the sales of safety products.

Dialyzer

Nipro has been recognized as one of the world largest dialyzer manufacturers for many years. For over 25 years Nipro has been manufacturing CDA/CTA dialyzers,FB/Sureflux Series, and in the recent years Nipro has launched the new PES dialyzer family, "SURELYZER™ Series", and have steadily developed the market share of the synthetic dialyzers all over the world.

In the summer of 2006, Nipro has launched a new series of PES dialyzers, PUREFLUX™-H Series. The PUREFLUX™-H Series are the ideal dialyzers with sharper cut off behaviour to maximize the removal of low molecular proteins such as beta 2 microgloblin and to minimize loss of albumin through dialysis therapy.

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 staffs engaged in dialysis treatment. DIAMAX™ has already been marketed in Asian and Latin America markets and will be approved for CE marking by the end of 2006.

Pharmaceutical Business

Working to take the lead in injectable drugs as well as in oral generic drugs and in pharmaceutical contract manufacturing

[FY2005 Overview]

Steady growth in injectable kit preparations

The Pharmaceutical Business has been experiencing in a quite severe market environment made by the reform efforts of medical authorities to promote Diagnosis-Procedure Combination (DPC) and other policies to hold down medical costs, as well as by the growing intensity of price competition from other companies.

In this difficult environment, the Nipro Group sought to expand sales of powdered dialysate solutions and of substitution fluid for HF (hemofiltration) and HDF (hemodiafiltration), as well as sales of injectable kit preparations including “liquid/powdered” double-bag kit preparations, prefilled syringe kit preparations and injectables in plastic ampoules. The enhanced lineup of injectable kit preparations, one of the Company’s strengths, and the start of new contract manufacturing contributed to steady growth in sales. Nipro Genepha Corporation, which primarily handles the manufacture and sale of generic oral drugs, and Tohoku Nipro Pharmaceutical Corporation, whose principal mission is the contract manufacturing of solid-form drug, became consolidated subsidiaries during FY2005 (the year ended March 31, 2006); this change, combined with new contract manufacturing, generated substantial growth in the sales of solid-form drugs.

Net sales for this business rose 34.4% year-on-year to ¥35.2 billion, but the expansion of selling, general and administrative expenses accompanying new consolidation and other factors, pushed operating income down to ¥2.1 billion, 6.6% lower than the previous year.

[Outlook]

Full-scale entry into generic drug business

FY2006 (the year ended March 31, 2007) is expected to bring a continuance of challenging market conditions, as medical cost-cutting efforts intensify and drug prices are substantially revised. The Nipro group will respond by accelerating its sales expansion strategies for generic drugs and contract manufacturing, and by pursuing further investment and business development. With those objectives in mind, in April 2006 the Nipro Group acquired 50.1% of shares in Zensei Pharmaceutical Industries Co., Ltd., Zensei is a company with its own formulation and manufacturing technologies and a long history as a producer of generic oral drugs and as a contracted pharmaceutical manufacturer, to make it a subsidiary. This will bring the number of generic products offered by the Nipro Group to 400 in FY2006, making the Nipro Group one of the top five generic drug companies in Japan. We have applications pending for another 18 products, with 62 products currently under development. The expansion of the Nipro Group's production system on the order of ¥100 billion on a National Health Insurance drug price basis has enabled broad variety in our contract manufacturing. Nipro Pharma Corporation will handle new contract manufacturing and augmented its injectable drug production facilities. With this enhanced product lineup and production system, we will endeavor to expand sales and further develop markets by increasing MR personnel, expanding sales routes and strengthening contract manufacturing, in order to enhance our sales and market share.

First and foremost, we will accelerate the development of new products – including "liquid/powdered" double-bag antibiotic kit preparations and pre-filled syringe kit preparations – at the Nipro Group's Pharmaceutical Research Center, and will seek to introduce product improvements and policies to prevent errors in medical treatment. We will also work to substantially expand our range of oral drugs by, for example, developing new drug-forms incorporating pharmaceutical innovations that facilitate drug administration. We will also redouble our efforts to quickly bring to market pharmaceuticals employing recombinant human serum albumin, such as artificial blood and DDS preparations, protein-based pharmaceuticals for treating renal diseases, parenteral nutrition, electrolyte solution, and others.

Kit preparations

Kit preparations are the pharmaceutical products that enable provision of safe and reliable medical care in a simple form. They contribute to prevention of contamination of preparation process, avoidance of medical errors and saving of the labor of medical staffs.
One of the reasons why the Nipro Group has been highly evaluated in the field of kit preparations is that it has not only its own research institutes of medical devices and pharmaceuticals but also its own production plant. The Nipro Group has the integrated system from development of containers and pharmaceuticals to their production. This self-development and production system enables the Nipro Group to provide high-quality products rapidly at low costs.

Pre-filled syringe

Double-bag kit (Liquid-and-Powder)

Half-type kit

Glass & Materials Business

Seeking new uses and developing markets through continual technological innovation

[FY2005 Overview]

Glass for lighting purposes continues in strong demand

Sales of glass for pharmaceutical purposes descended since ampoule glass saw diminishing sales due to a shift toward ampoules made of plastic, while nursing bottles and other large bottles remained selling well. Although sales of thermos bottle glass declined in a challenging domestic market, glass for lighting purposes enjoyed continuing demand, with small light bulbs for use in vehicles and glass for the liquid crystal dysplay (LCD) backlights seeing steadily rising sales.

As a result, net sales for this business were ¥11.9 billion, an increase of 2.3% over the previous year, while operating income was down year-on-year by 2.8%, to ¥1.8 billion.

[Outlook]

Active expansion into overseas markets

We will aggressively expand overseas market sales of glass for pharmaceutical purposes, as we continue to pursue innovation in glass processing technology and develop new uses for tubes and bottles. Although sales of thermos bottle glass have slumped domestically, exports have made a strong showing, renewed recognition of the excellent quality of our inner bulbs for thermos bottles has boosted sales for Hong Kong and the US. As regards glass for lighting purposes, the flat panel display (FPD) market is seeing sustained growth; we will endeavor to increase our sales of glass for LCD backlights and related commercial materials.

Store Business

[FY2005 Overview]

Securing higher income by improving profitability structure

Although the economy underwent gradual recovery on the whole, the Store Business continued to operate in a challenging environment.

Our supermarkets addressed improved customer satisfaction as their top priority, sharing information through better in-house communication, improving sales points through an opinion/suggestion scheme, and retaining customers by effectively using card member data. The closing of unprofitable stores to help boost revenue complemented these efforts, but in the end, income fell.

Our drugstores achieved higher profits as a payoff for their efforts toward improving profitability, but the closure of 8 stores at the end of last fiscal year and opening only 2 new stores caused a decrease - albeit a small one - in income.

As a result, net sales in this business were ¥67.3 billion, a 5.1% decrease from the previous year; however, operating income of ¥0.6 billion, a year-on-year increase of 403.5%, was secured due to the closing of unprofitable stores and the thorough management of operating expenses.

[Store business hereafter]

In the supermarket business, we have consistently secured proifit despite the severe business environment. It has been an important agenda, however, to propel the dominant strategy in order to expand the business further under intense competition among major stores, including entrants from outside the industry. At the same time, the environment surrounding the Medical Equipment and Pharmaceutical Business of our group is also changing very rapidly due to various factors. Under the circumstances, it has been necessary to concentrate more management resources on reinforcing production capacity and R&D, and to manage them more efficiently so as to respond quickly to various changes and powerfully advance our business.

After reviewing the above situation, we decided to sell out our supermarket business to a company with a clear growth strategy. Nissho Corporation, which operates supermarket, was already transferred to Hankyu Department Stores, Inc. on July 31, 2006. As regards drugstores, a basic agreement has been made with Kirindo Co., Ltd. for selling the shares of Nissho Drug Co., Ltd.

Nipro Group Network

[Japan]

Factories

Nipro Corporation Odate Factory
Nipro Medical Industries, Ltd.
Nipro Pharma Corporation Shirokita Factory
Nipro Pharma Corporation Shiki Factory
Nipro Pharma Corporation Ise Factory
Nipro Pharma Corporation Odate Factory
Nipro Genepha Corporation
Tohoku Nipro Pharmaceutical Corporation
Zensei Pharamaceutical Industries Co., Ltd.

R&D

Nipro Corporation Research & Development Laboratory
Nipro Corporation Pharmaceutical Research Center

[Overseas]

Sales Locations

Asia
12 locations

America
13 locations

Europe
8 locations

Factories

Asia
2 locations

America
1 location

R&D

America
1 location

Subsidiaries and affiliates (As of June 30, 2006)

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

Note: (1) * Affiliate accounted for by the equity method
(2) ** On July 31, 2006 all the shares of Nissho Corporation were sold to Hankyu Department Stores, Inc.
(3) *** Fuzhou Nipro Co., Ltd. is under the process of company liquidation.
(4) Sanri Kosan Co.,Ltd., an Affiliate Company, manages rental of real property.

Corporate Governance/Compliance

The Nipro Group's priority tasks are to establish fair and highly transparent corporate governance and enforce thorough compliance. To these ends, appropriate organizational frameworks and control systems have been created and are being constantly improved.

Management control system

In compliance with Japan's Corporate Law, the Nipro Group has the following bodies in place, in addition to the Meeting of Shareholders and Directors. The Board of Directors, Auditors, the Board of Auditors and Accounting Auditor.

The management control systems that relates to management decision-making, execution and supervision basically operates through the Board of Directors and the Auditors. This entails a management control systems that oversees autonomous corporate business divisions. The systems endeavor to ensure clear assignment of responsibilities and to reinforce systems of control.

The Nipro Group's Board of Directors meets at least once a month, in principle, to make important decisions, report on operational execution and hold discussions. At present, two of the three Auditors are external auditors, as stipulated by the Corporate Law. No external director is in office at present. There is no staff exclusively assigned to external auditors.

Internal control systems and auditing

The Group Management Meeting, held regularly once a month, discusses important operational execution and makes decisions. The Nipro Group's Directors and Auditors, as well as representatives of major Group companies, attend this Meeting to discuss the progress of business activities and any issues pending, so as to make dynamic management decisions.

In accordance with the auditing policy and the division of labor as agreed upon by the Board of Auditors, each Auditor attends important meetings, including Board of Directors meetings, and receives reports from Directors and employees, in addition to inspecting important documents and undertaking other auditing duties. The Auditors hold Board of Auditors Meeting regularly, or as necessary, in order to exchange views and hold discussions.

An Auditing Section has been set up, independent from the operational organization. It implements auditing policy and conducts impartial internal audits based on the annual plan. Mutual coordination takes place between the Auditors' audit and the accountant's audit, ensuring the management director's compliance with the law, preventing of illegal practices and errors and improving of the internal control systems.

Adoption of the "Basic Policy on Internal Control"

The Nipro Group endeavors to constantly improve its internal control systems. In April 2006, the Nipro Group announced its adoption of the "Basic Policy on Internal Control," under which the various mechanisms listed below would be created.

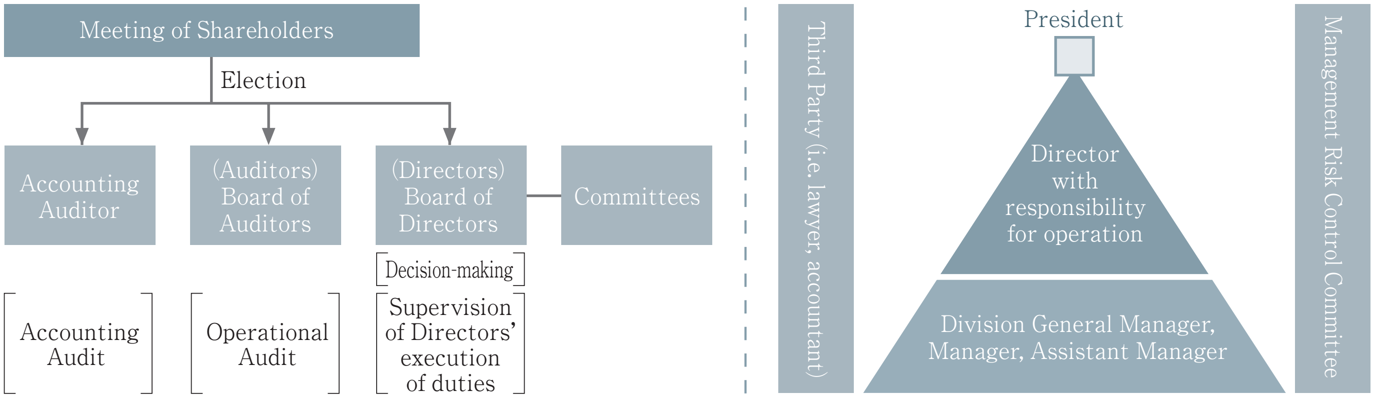
(1) A system to ensure that the execution of duties by Directors and employees is in compliance with legislation and the Company Statutes
(2) A system to deal with the storage and control of information concerning the execution of duties by the Directors
(3) Regulation and other systems that deal with loss-related risk management
(4) A system to ensure efficient execution of duties by the Directors
(5) A system to ensure the existence of a suitable control system within the corporate group
(6) A system to ensure the trustworthiness of disclosures relating to financial reports
(7) A system to deal with reports to Auditors
(8) A system to ensure effective execution of the Auditors' audit

Status of the compliance/ management risk control system

The Nipro Group set up a Management Risk Control Committee in an effort to control management risks and further strengthen systems that promote legal compliance and observation of corporate ethics.

To deal with the recent revision of the law, the Nipro Group will endeavor to create an organizational system in line with the revised legislation, and will draft and distribute the revised edition of its "Standards of Conduct for Compliance with Legislation and Corporate Ethics." In addition, regular features in the house organ will ensure the thorough awareness and education of each and every employee regarding relevant issues.

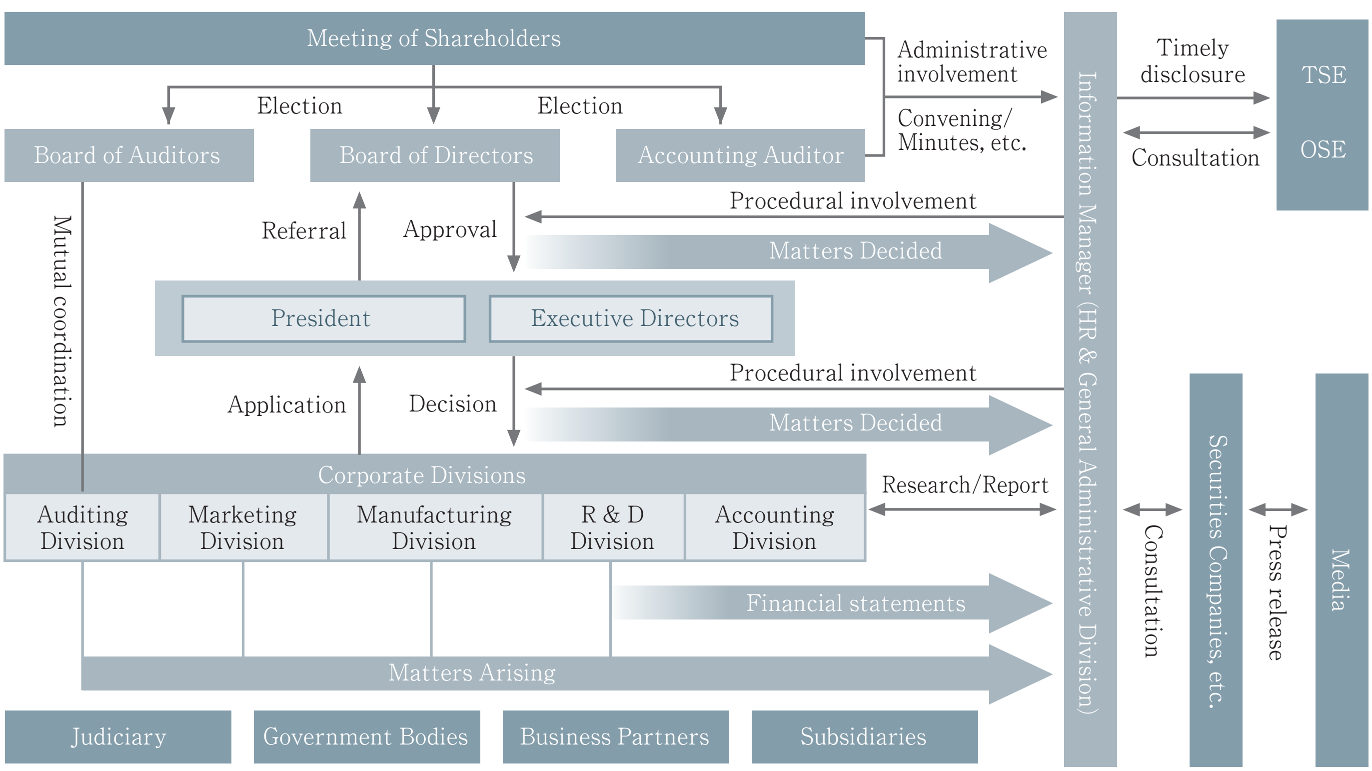
Conceptual Diagram of Corporate Governance



With respect to the timely disclosure of corporate information, the Nipro Group aims to disclose important company information to its investors speedily, accurately and fairly. An Information Manager has been appointed in the Human Resources and General Administration Division, as part of the Nipro Group's drive to improve the corporate information control system.

- Should persons not belonging to the company observe the Nipro Group employee commit an illegal act, or should they be adversely affected by the Nipro Group employee, a similar alarm-raising facility for external use is in place so that the Management Risk Control Committee can be alerted directly.

Conceptual Diagram of the Internal Information Control System Relating to Timely Disclosure



As a Good Corporate Citizen

While working on our primary corporate mission of developing medical products that help improve patients' quality of life (QOL) as well as medical techniques, technology and environment, Nipro remains an active corporate citizen engaged in a variety of community service endeavors.

Contribution to society through our business

Contributing to society through our business is one of the Nipro Group's business management principles; putting that principle into action is one of our social responsibilities. Accordingly, we develop our products not only with a view toward enhancing medical care quality and efficiency, but also reducing the mental and physical burden borne by the medical practitioners, thereby preventing on-site errors in medical institutions and attenuating the mental and physical suffering of patients. Our pioneering approach, of incorporating safety and comfort into products as systems, has imparted to Nipro products their signature characteristic, which is increasingly being very favorably acknowledged.

Safety-assured products prevent medical accidents

One way to prevent medical accidents is to build in an error-proof mechanism into medical equipment and drugs themselves, as is well demonstrated by the Nipro Group's double-bag kit preparations and pre-filled syringe kit preparations, which eliminate the need for drug preparation. Ingenious safety mechanisms are also found in the Nipro Group's dialysis-related products, which include dialysis needles with a safety mechanism that obviates the need for recapping and prevents needle injuries (and consequent infections); and blood lines with needle-less injection port. In other fields as well, expanding lineups of safety-assured products is one of the Nipro Group's priority themes.

One of our latest products, launched in FY2005 (the year ended March 31, 2006) and already very well received by the medical profession, is called Tentoh-mushi. (Tentoh means a fall or tumble, and tentoh-mushi means ladybug in Japanese.) This is an intelligent system that activates the nurse call button when a physically disabled inpatient has left the bed, to notify nurses and protect the patient against falls or unsafe displacements. When we have the opportunity to develop products that contribute to hospital safety, we break through the conventional boundaries of medical equipment to exert our utmost effort, as when the Nipro Group developed and marketed an air purifier useful for preventing nosocomial infections.

Tentoh-mushi

Universal design for tablet packages

The Nipro Group is active in developing products that enhance patient QOL. In FY 2005, our efforts in this regard yielded major progress. For example, the blood glucose self-monitoring system Nipro Meter requires only a tiny 0.3 microliters of blood to measure blood glucose, enabling simple blood sampling from a fingertip, palm of the hand, or relatively painless forearm and thigh. In addition to this feature, available in some conventional models, Nipro Meter is far more compact and lightweight, has a larger display with larger characters, enabling easy reading, and requires only about 5 seconds for measurement, one-third the time required with conventional models. The Nipro Group has also expanded the line of new drug packages, such as half-dose tablets, enabling more precise dosage setting and easier use by patients. Particularly well received as a highly innovative move is the adoption of a universal design for tablet containers.

In 2005, we adopted a universal PTP as container for half-dose oral anticoagulants (warfarin potassium tablets, 0.5 mg [HD]), which the Nipro Group has been manufacturing and marketing since 2002. Universal PTP means "press-through package" (tablet or capsule container made of plastic sheet and aluminum foil) with a protruding Braille-like indication on tablet pockets. This packaging has been chosen so as to enable visually impaired patients, including elderly patients with

universal PTP

deteriorated vision, to easily identify and distinguish drugs by touching the protruded areas. The Nipro Group's concept behind this package design was highly evaluated and received various awards, including the Good Design Award 2005 of the Japan Industrial Design Promotion Organization, the Good Design designation by the Osaka Design Center, Japan Packaging Contest, and the Asia Star Award of the Asian Packaging Federation. The Nipro Group is determined to continue actively applying universal designs to our products, in line with our commitment to user-friendly product development.

Contributing to society from a global perspective, starting with small steps...

For the victims of the Sumatra Earthquake and Tsunami Disaster, which occurred at the end of 2004, the Nipro Group offered a gift of double-bag kits preparations and syringe kit preparations, provided support for medical care, including the restoration of local dialysis, and organized a Group-wide fund-raising campaign and charity bazaars by employees, on a voluntary basis. Likewise in FY2005, we organized Group-wide support activities for victims of the major earthquake in Pakistan. More recently, we started a fund-raising campaign to support the victims of the central Java earthquake in May 2006. Just as the Nipro Group's operations advance across the world, we are becoming increasingly active as a global corporate citizen committed to activities that contribute to society around the globe.

Contributing to society through cultural and sports events

The Nipro Group's corporate action principles state that a corporation's relationship with the local community where its employees and customers live comprises part of the foundation of its existence; we therefore take care to maintain active communication with local society and strive to contribute to regional and social development. Accordingly, the Nipro Group maintains and reinforces communication with local communities and society in general, so as to fulfill our responsibility as a corporate citizen.

Akita Prefecture, where Nipro Group's representative Odate factory is located, organizes a "100-km Challenge Marathon" every autumn as part of its regional revitalization program, soliciting participants from all over Japan. In 2005 Nipro, which enjoys privileged ties with this locale, joined the 17-year-old event as a corporate sponsor and was very much appreciated by the local community. Moreover, to contribute to local community vitalization and the promotion of sports and cultural activities, the Nipro Group has become the uniform sponsor of the professional football team Ventforet Kofu, which was upgraded to the J1 League in the 2006 season. In addition to these sporting events, the Nipro Group continues its health awareness-raising activities for the general public, including TV commercials about umbilical cord-blood transplants for leukemia treatment, and health-related information service offered on the Nipro Group's website.

The Nipro Group is committed to continuing its contribution to society through business and various other activities.

VENTFORET KOFU

vfk

YAMANASHI EST. 1965

Board of Directors and Auditors (As of June 29,2006)

President
Minoru Sano *

Senior Managing Director
Shigeki Tanaka *
Manufacturing technology /R&D division

Managing Director
Seiya Ishida
International division

Managing Director
Yoshihiko Sano
Domestic division

Managing Director
Makoto Sato
Pharmaceutical R&D Dept

Director
Masato Naganami
Glass & material development division

Director
Kazuo Wakatsuki
International division

Director
Akihiko Yamabe
Accounting & corporate planning division

Director
Hiroshi Ikeuchi
Human resources / general affairs division

Director
Masataka Yanai
Medical administration division

Director
Noriaki Watanabe
International division

Director
Hiroyuki Hattori
Research & Development Laboratory

Director
Kiyotaka Yoshioka
Domestic division

Standing Statutory Auditor
Hiroshi Kobayashi

Statutory Auditor
Shuichi Tsuzuki

Statutory Auditor
Masamichi Wada

* Representative Director

Financial Section 2006

Nipro Corporation and its Consolidated Subsidiaries
FY 2005 (the year ended March 31, 2006)

Financial Review

Overview

In the fiscal year that ended March 31, 2006, the Japanese economy appeared to be slowly recovering led by robust capital investment and individual consumption due to the improvement of corporate earnings. Unpredictable business environment, however, has been observed in terms of decelerating global economy and jump in crude oil price as well as signs of a weak U.S .dollar in the foreign exchange market.

In the medical equipment and pharmaceutical industries where we hold our main businesses, the government has been pressing further ahead with revisions to the medical care system with the aim of holding down the cost of medical care and improving the quality and efficiency of medical treatment. In addition, efforts to ensure safer medical care are being enhanced, including measures to prevent medical accidents. Large-scale corporate restructuring is also underway overseas, causing intensified global-level sales competition.

In this situation, the Nipro Group continued to strive to develop new products and to strengthen both its productivity and sales capabilities.

Net Sales

In the fiscal year that ended March 31, 2006, consolidated net sales were ¥206.8 billion (US$1,760.5 million), an increase of 7.5% compared with the previous year as a result of increased revenue from the Medical Equipment and Pharmaceutical Businesses.

Net Sales by Business Segment

Medical Equipment

Net sales in the Medical Equipment Business rose by 10.1% compared with the previous year to ¥90.9 billion (US$773.5 million).

Sales of artificial organs including dialysis products, rose by 15.7% to ¥44.1 billion (US$375.7 million) and that of injection and infusion related devices rose by 5.4% to ¥46.7 billion (US$397.9 million).

In the domestic business, its environment remained severe due to various factors such as increasingly intensifying marketing battle and price competition led by the government promotion of holding down medical costs and acceleration of joint purchasing among medical institutes. Under such circumstances, we sought to enhance our sales force and to develop and launch the new products in the field of dialysis, injection and infusion, circulatory-organ treatment and examination.

In the overseas business, we sell Nipro-branded products as well as handle OEM. Dialysis business including dialyzer which is our core product is getting oligopolized, and in the US, the largest market, grouping of clinic is in progress by a buyout and other, which encouraged fiercer competition. Under such circumstances, we have expanded our sale bases and promoted market cultivation. These activities produced good results and sales of Nipro-branded products of both artificial organs and injection and infusion related devices substantially increased. Especially, sales of dialysis-related products greatly increased in America and Asia areas. OEM business also showed firm growth in both artificial organs and injection and infusion related devices. Increase in overseas sales highly contributed to the increase in the sales of Medical Equipment Business. In addition, we also advanced reinforcement of the production capacity of dialyzer and improvement of production technology of high-quality injection and infusion related devices in Japan as well as strengthening of the production capacity and enhanced production efficiency in Asia area and Brazil.

Pharmaceutical

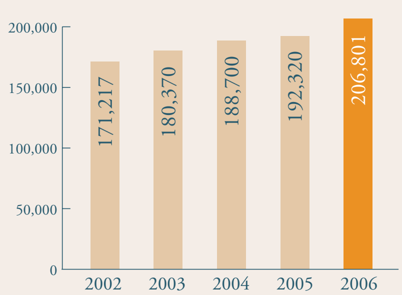
Net sales in the Pharmaceutical Business rose by 34.4% compared with the previous year to ¥35.2 billion (US$299.8 million).

We operate contract manufacturing of injectable kit preparations, transfusion and solid-form drugs and also manufacture and sell a wide variety of generic drugs including injectable kit preparations, transfusion and solid-form drugs, and dialysis-related preparations and diagnosis products.

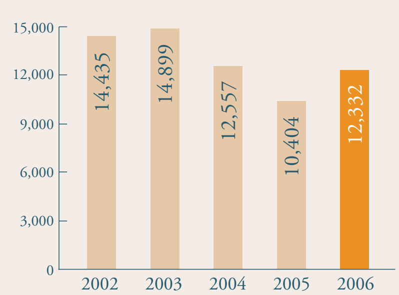
With increased sales of contract manufacturing from other pharmaceutical companies, our sales of Pharmaceutical Business were growing every year. Recently, we focus on expansion of our solid-form drug business.

In the Pharmaceutical Business, its environment is changing dramatically, caused by the progress of the government promotion of holding down medical costs

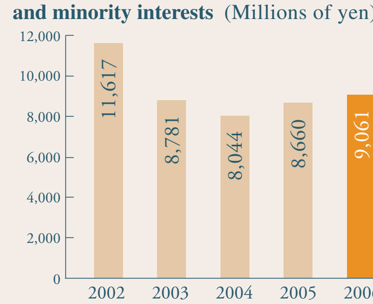
Net Sales (Millions of yen)



Operating income (Millions of yen)



Income before income taxes and minority interests (Millions of yen)



and the implementation of the revised Pharmaceutical Affairs Law that promotes outsourcing the manufacture of pharmaceuticals.

Under such circumstances, we continued to expand our production capability, to enhance our sales force and to develop new products aiming our future growth.

In terms of injectable kit preparations, in line with increase in our production capability, our sales of contract manufacturing products increased. We also worked aggressively to expand sales of generic injectable kit products such as pre-filled syringe kit preparations and liquid/powdered double-bag antibiotic kit preparations. As a result, sales of injectable kit preparations increased by 16.5% to ¥13.1 billion (US$111.2 million). In terms of solid-form drugs, the inclusion of two companies, Nipro Genepha Corporation and Tohoku Nipro Pharmaceutical Corporation, in our consolidated group brought its sales drastically up by 353.3% to ¥8.2 billion (US$69.8 million).

Glass & Materials

Net sales in the Glass & Materials Business rose by 2.3% compared with the previous year to ¥11.9 billion (US$101.6 million). Sales of glass for pharmaceutical purposes declined by 8.9% to ¥3.6 billion (US$30.6 million). Sales of glass for pharmaceutical purposes are in the declining trend due to the change of container form and material. Sales of other glass & materials such as internal glass section for vacuum flask, light bulb and rubber item rose by 8.0% to ¥8.3 billion (US$71.0 million) thanks to the increase in sales of small light bulb for vehicle and LCD backlight.

Store

Net sales in the Store Business declined by 5.1% compared with the previous year to ¥67.3 billion (US$572.6 million).

Although Japanese economy has been heading for recovery as a whole, individual consumption still remained severe. Under such circumstances, our Store Business worked hard to enhance the business performance, focusing on customer satisfaction as a top priority issue. Sales of both supermarket and drugstore, however, decreased due to the fiercer competition under severe environments and the impact of closing unprofitable stores; Sales of supermarket decreased by 4.3% to ¥38.6 billion (US$328.8 million) and sales of drugstore decreased by 6.1% to ¥28.6 billion (US$243.7 million).

Other

Other sales are mainly of machinery for manufacturing medical equipment and real estate rental income. This portion of net sales increased by 37.9% compared with the previous year to ¥1.5 billion (US$12.9 million).

Cost of Sale

Due to the increase in the net sales, the cost of sales increased by a similar order, by 7.1% to ¥150.0 billion (US$1,276.7 million). The cost of sales ratio was 72.5%, down 0.3 percentage points from the previous year. This was mainly owing to the enhancement of production efficiency in the Medical Equipment Business as well as the effect of exchange rate of U.S. dollar that was generally favorable for our export business. As a result, gross profit increased by 8.8% compared with the previous year to ¥56.8 billion (US$483.8 million).

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose by 6.3% compared with the previous year to ¥44.5 billion (US$378.8 million), mainly reflecting our efforts for our sales promotions and R&D in the Medical Equipment and Pharmaceutical Businesses. Addition of two newly consolidated subsidiaries in the Pharmaceutical Business also pushed up the selling, general and administrative expenses.

Operating Income

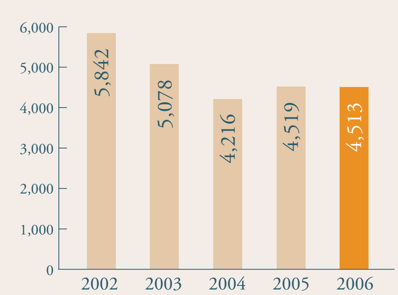
As a result of the factors outlined above, operating income rose by 18.5 % compared with the previous year to ¥12.3 billion (US$105.0 million). Operating income for each business segment are given below.

Operating Income by Business Segment

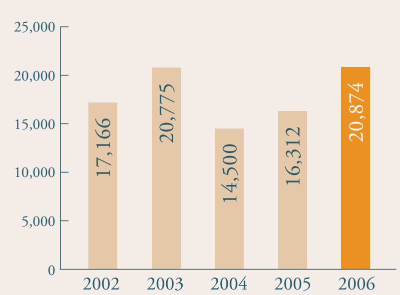
Medical Equipment

Operating income in the Medical Equipment Business increased by 21.7% compared with the previous year to ¥13.4 billion (US$114.3 million). Main reason of this increase was the increase of overseas sales of dialysis-related products and the enhanced production efficiency.

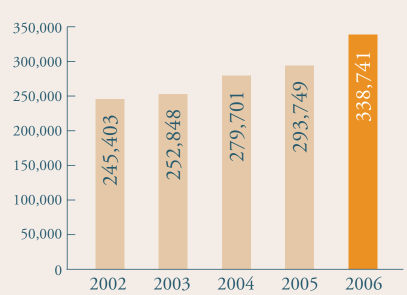
Net income (Millions of yen)



Capital expenditures (Millions of yen)



Total assets (Millions of yen)



Pharmaceutical

Within the Pharmaceutical Business, operating income declined by 6.6% compared with the previous year to ¥2.1 billion (US$18.0 million), due mainly to the new consolidated subsidiaries that caused operating losses from the initial expenditures.

Glass & Materials

Operating income declined by 2.8% compared with the previous year to ¥1.8 billion (US$15.6 million), reflecting the decrease in sales of glass for pharmaceutical purposes that showed relatively higher profit margin.

Store

The food supermarket business saw a decline in net sales, but thanks to our efforts to rationalize expenses we secured an operating income in the same way as the previous year. In the drugstore business, we improved profitability by concentrating on profitable items such as drugs and cosmetics, and by closing unprofitable stores. As a result, operating income increased by 403.5% compared with the previous year to ¥0.6 billion (US$4.9 million).

Other

The operating income of "Other" increased by 83.6 % compared with the previous year to ¥0.5 billion (US$4.5 million) owing to the increased revenue.

Eliminations/Corporate

Eliminations/Corporate expenses, which consist mainly of our R&D costs and headquarters administration costs, increased by 18.6% compared with the previous year to ¥6.2 billion (US$52.4 million), due mainly to the increased R&D costs.

Other Income (Expenses)

Other expenses, net of other income, increased by 87.6% compared with the previous year to ¥3.3 billion (US$ 27.8 million). The two primary reasons for this increase were loss on impairment of fixed assets of ¥2.0 billion (US$17.0 million) due to the adoption of new accounting standards and decrease in gain on sales of available-for-sale securities that amounted to only ¥16.0 million compared with ¥1.1 billion in the previous year. On the other hand, we recorded exchange gain of ¥1.5 billion (US$12.6 million) compared with ¥0.2 billion in the previous year.

Income before Income Taxes

As a result of the factors outlined above, income before income taxes and minority interests rose by 4.6% compared with the previous year to ¥9.1 billion (US$77.1 million).

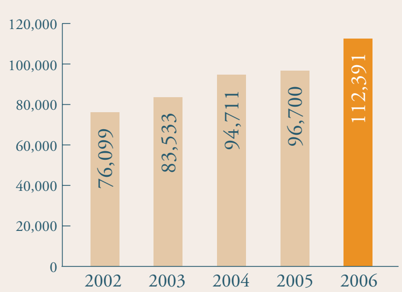
Net Income

The effective tax rate for corporate taxes following deferred tax accounting was 51.9% this fiscal year compared with 49.0% for the previous year. Minority interests saw a loss of ¥0.2 billion (US$1.3 million) this fiscal year. As a result, net income decreased by 0.1% compared with the previous year to ¥4.5 billion (US$38.4 million).
Basic earnings per common share was ¥69.6 (US$0.59) compared with ¥69.4 for the previous year. Cash dividends per common share were ¥37.5 (US$0.32) compared with ¥38.5 for the previous year.

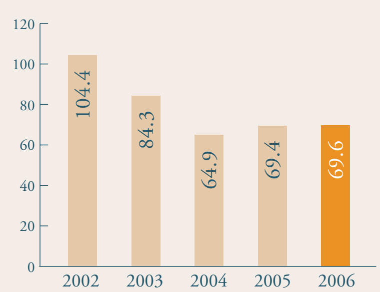
Net Sales and Operating Income by Geographic Segment

In Japan, net sales increased by 5.0% compared with the previous year to ¥184.2 billion (US$1,567.7 million). This was mainly caused by the increase of sales of dialysis-related products in the Medical Equipment Business and injectable kit preparation and solid-form drugs in the Pharmaceutical Business, despite the decrease of sales of the Store Business. Operating income increased by 19.6% compared with the previous year to ¥18.9 billion (US$160.5 million), due to the increase of the sales and the improvement of productivity in the Medical Equipment Business, and the improvement of profitability in the Store Business.
In America, net sales increased by 50.0% compared with the previous year to ¥14.7 billion (US$125.0 million), due to the increase of the sales of dialysis-related products. Operating loss amounted to ¥0.6 billion (US$ 4.9 million), compared with the operating loss of ¥0.5 billion in the previous year, due to the increase of operating loss of the subsidiary which take charge of developing medical equipments.
In Europe, net sales increased by 8.5% compared with the previous year to ¥6.3 billion (US$53.7 million) by promoting the new sales network. Operating loss amounted to ¥0.2 billion (US$2.1 million),

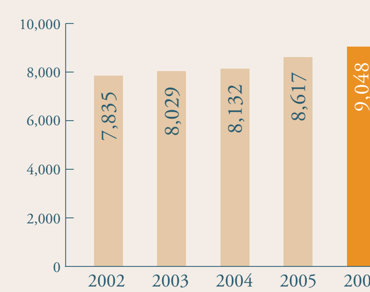
Shareholders' equity (Millions of yen)



Basic earnings per share (yen)



Number of employees



compared with the operating loss of ¥0.3 billion affected by the initial cost for opening new sales network.
In Asia, net sales increased by 19.3% compared with the previous year to ¥1.7 billion (US$14.1 million), due to the increase of sales of dialysis-related products and injection devices. Operating income increased by 12.5% compared with the previous year to ¥0.9 billion (US$7.3 million), reflecting the increase of sales and effect of boosted production.

Financial Position

Total assets as at March 31, 2006 stood at ¥338.7 billion (US$2,883.6 million), a 15.3% increase compared with the previous year. Current assets increased by 7.8% compared with the previous year to ¥145.9 billion (US$1,241.7 million), due mainly to the increase of trade notes and account receivables and inventories resulted from increased transactions in the Medical Equipment Business and new consolidation of two subsidiaries in the Pharmaceutical Business. Property, plant and equipment-net increased by 7.5% compared with the previous year to ¥106.2 billion (US$904.0 million). We made capital investments in property, plant and equipment of ¥19.5 billion (US$166.1 million). Capital investments amounted to ¥7.8 billion (US$66.5 million) in the Medical Equipment Business, ¥10.5 billion (US$89.6 million) in the Pharmaceutical Business, ¥0.2 billion (US$2.0 million) in the Glass & Materials Business, ¥0.3 billion (US$2.2 million) in the Store Business, and ¥0.7 billion (US$5.8 million) in other areas.
Investments and other assets increased by 45.4% compared with the previous year to ¥86.7 billion (US$737.9 million). This was mainly because of the increase of investment securities resulted from the rise of market price and the acquisition.
Current liabilities increased by 15.6% compared with the previous year to ¥111.3 billion (US$947.3 million), due to the increase of current portion of long term debt.
Long-term liabilities rose by 14.4% compared with the previous year to ¥113.5 billion (US$965.8 million). The main factors underlying this increase were an issuance of new bonds and an increase of in deferred tax liabilities for the unrealized gain on available-for-sale securities.
Shareholders' equity rose by 16.2% compared with the previous year to ¥112.4 billion (US$956.8 million). The main reason for this rise was the increase of retained earnings and unrealized gain on available-for-sale securities.

Cash Flow

Net cash and cash equivalents decreased by ¥3.8 billion compared with the previous year to ¥49.9 billion (US$ 424.9 million).
Net cash provided by operating activities decreased by ¥10.7 billion compared with the previous year to ¥6.8 billion (US$58.0 million), mainly reflecting the increase in trade receivables and inventories.
Net cash used in investing activities increased by ¥14.9 billion compared with the previous year to ¥27.6 billion (US$234.6 million). Purchase of property, plant and equipment and purchase of available-for-sale securities increased as a result of reinforcement of our Medical Equipment and Pharmaceutical Business.
Net cash provided in financing activities increased by ¥8.6 billion compared with the previous year to ¥15.6 billion (US$132.8 million). Proceeds from long-term loans decreased, but proceeds from issuance of bonds increased. We issued ¥15 billion of bonds so as to allocate for redemption of bonds and operating funds.

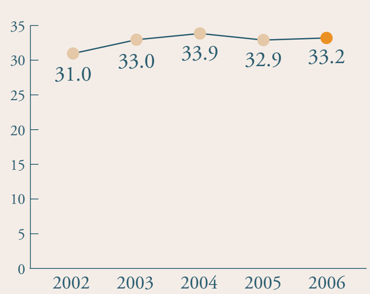
Staff

The total number of staff (employees) as at March 31, 2006 increased by 431 compared with the previous year to 9,048. The number of staff in Japan increased by 418 to 4,612 and the number overseas increased by 13 to 4,436.

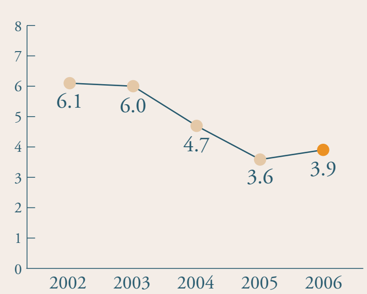
Basic Policy on Distribution of Profits

Our policy is that 50% of non-consolidated net income is to be distributed to shareholders. Employees' bonuses are determined according to the business performance of the division to which the employees belong, and bonuses for directors and statutory auditors are determined on the basis of the corporate business performance.
Retained earnings are to be invested in sales and production facilities as well as in research and development, with a view to establishing the firm management basis and long-term business developments, so as to ensure stable profits for the future.

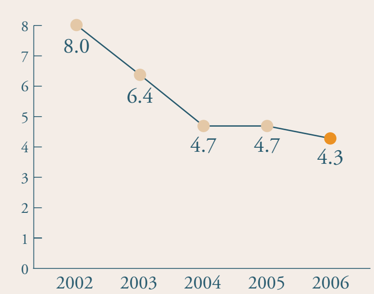
Shareholders' equity ratio (%)



Return on assets (%)



Return on equity (%)



Risk Factors

The following are risks that may have an effect on the Nipro Group's results of operations or its financial condition. The items concerned were so adjudged as at March 31, 2006.

(1) Risks Related to Product Safety

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

To cover these risks, we therefore maintain general liability and product liability insurance. In the unlikely event of a successful claim in excess of the insurance coverage, however, there could be a material adverse effect on our results of operations and financial condition.

(2) Risks Related to Supplier Concentration

The Nipro Group procures materials and parts for its operations from a large number of suppliers. Some key materials or 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 or parts to meet our production needs in a timely and cost-effective manner, there could be a material adverse effect on our results of operations and financial condition.

(3) Risks Related to Changes in Government Healthcare Policies

The business sector to which the Nipro Group belongs is intimately connected with the healthcare system and is subject to the regulations laid out by government organizations, including the National Health Insurance System and the Pharmaceutical Affairs Law. Should circumstances arise in which we were unable to respond to changes in the environment brought about by unforeseeable wholesale changes in government healthcare policies, there could be a material adverse effect on our results of operations and financial condition.

(4) Risks Related to Changes in Sale Prices

The products sold by the Nipro Group include some that are, in general, subject once every two years to the effect of price reductions in the system of payment for medical care, drug prices and reimbursement prices for medical materials and supplies. Should measures to hold down medical costs also become pervasive worldwide, resulting in intensified competition between corporations and leading to prices falling to a greater degree than anticipated, there could be a material adverse effect on our results of operations and financial condition.

(5) Risks Related to Changes in Prices of Raw Materials

The products manufactured by the Nipro Group include some that are made from petrochemical products such as plastics. Should the cost of raw materials such as petrochemical products rise, leading to increased procurement costs, there could be a material adverse effect on our results of operations and financial condition.

(6) Risks Related to Overseas Expansion

The Nipro Group maintains manufacturing bases and sales offices around the world for the production and supply of our products. Should there be unexpected revisions to legal regulations or political or economic changes in these countries or regions, there could be a material adverse effect on our results of operations and financial condition.

(7) 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 take all possible measures to avoid infringing the patents and proprietary rights of any third party, and to avoid breaching any license agreements we have concluded concerning technologies. Nevertheless, if an unanticipated claim for damages were to be made by a third party and the defense of the Nipro group were to be rejected, there could be a material adverse effect on our results of operations and financial condition.

(8) Risks Related to Environmental Regulations

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

(9) Risks Related to Exchange Rate Fluctuations

The Nipro Group, including its overseas subsidiaries, carries out its foreign currency transactions primarily in U.S dollars and euro, but calculates financial statements for its overseas subsidiaries using Japanese yen for the purpose of producing consolidated financial statements. Fluctuations in exchange rates may therefore have a material adverse effect on our results of operations and financial condition.

(10) 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 such securities, or for gathering useful information for the development of new products or for new business opportunities. Should the value of these investments decline significantly owing to fluctuations in the stock market, circumstances at an issuer, or a change in the accounting methods used to deal with these investments, there could be a material adverse effect on our results of operations and financial condition.

(11) Risks related to controls on Personal Information

The Nipro Group set the strict precautions to protect the confidential personal information that the group possesses. In the unforeseen events or accident that the personal information is leaked outside the Group, causing loss of trust or customers, there could be a material adverse effect on our results of operations and financial condition.

(12) Other Risks

Fire, earthquake, terrorist act, war, epidemic, or other unforeseen man-made or natural disasters affecting areas or facilities where the Nipro Group conducts its business activities may possibly cause a delay or interruption in production, sales, distribution, or provision of services. Should such a delay or interruption become extended, there could be a material adverse affect on our results of operations and financial condition.

Five year summary

Nipro Corporation and its Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S.dollars (Note 1)
	2006	2005	2004	2003	2002	2006
Income Statement Data:						
Net sales	¥ 206,801	¥ 192,320	¥ 188,700	¥ 180,370	¥ 171,217	$ 1,760,458
Medical Equipment	90,868	82,504	78,727	76,009	77,572	773,542
Pharmaceutical	35,220	26,207	25,339	21,979	15,946	299,821
Glass and Materials	11,934	11,667	11,891	11,064	11,234	101,592
Store	67,261	70,841	71,357	69,560	64,764	572,580
Cost of sales	149,971	140,072	137,153	128,776	122,092	1,276,675
Selling, general and administrative expenses	44,498	41,844	38,990	36,695	34,690	378,803
Operating income	12,332	10,404	12,557	14,899	14,435	104,980
Medical Equipment(1)	13,430	11,039	12,117	14,175	15,016	114,327
Pharmaceutical(1)	2,111	2,261	2,471	1,981	1,104	17,970
Glass and Materials(1)	1,836	1,889	1,819	1,777	1,806	15,630
Store(1)	578	115	420	1,109	1,037	4,920
Income before income taxes	9,061	8,660	8,044	8,781	11,617	77,135
Net income	4,513	4,519	4,216	5,078	5,842	38,418
Capital expenditures	20,874	16,312	14,500	20,775	17,166	177,696
Depreciation and amortization	12,315	10,266	9,819	8,767	7,215	104,835
R&D expenses	3,760	3,422	3,074	2,328	2,553	32,008
Balance Sheet Data:						
Total assets	¥ 338,741	¥ 293,749	¥ 279,701	¥ 252,848	¥ 245,403	$ 2,883,638
Property, plant and equipment-net	106,195	98,788	94,005	91,147	81,029	904,018
Working capital	34,579	39,123	28,570	27,542	9,792	294,365
Current liabilities	111,285	96,242	96,364	88,889	105,764	947,348
Long-term liabilities	113,453	99,198	86,932	78,657	61,952	965,804
Common stock	28,663	28,663	28,663	28,663	23,113	244,003
Capital surplus	29,972	29,972	29,972	29,972	24,435	255,146
Shareholders' equity	112,391	96,700	94,711	83,533	76,099	956,764
	Yen					U.S.dollars (Note 1)
Per Share Data:						
Basic earnings(2)	¥ 69.6	¥ 69.4	¥ 64.9	¥ 84.3	¥ 104.4	$ 0.59
Diluted earnings(2)	-	-	-	78.5	92.4	-
Cash dividends	37.5	38.5	30.5	32.0	47.0	0.32
Shareholders' equity	1,767.7	1,519.6	1,487.5	1,310.7	1,343.7	15.05
Number of common shares issued	63,878,505	63,878,505	63,878,505	63,878,505	56,670,149	
Number of employees	9,048	8,617	8,132	8,029	7,835	
Selected Data and Ratios:						
Shareholders' equity ratio(3) (%)	33.2	32.9	33.9	33.0	31.0	
Return on assets(3) (%)	3.9	3.6	4.7	6.0	6.1	
Return on equity(3) (%)	4.3	4.7	4.7	6.4	8.0	
Price earnings ratio(3) (times)	26.0	25.6	24.1	21.5	17.4	

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 per share for the prior years are not translated to reflect the new standard's provision, based on the weighted average number of outstanding shares for the period.
(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. Price earnings ratio is the ratio of the closing price of the Company's shares listed on the First Section of the Tokyo Stock Exchange on the last trading day in March of each year to basic earnings per share.

Consolidated Balance Sheets

Nipro Corporation and its Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2006	2005	2006
Current assets:			
Cash and cash equivalents (Note 2)	¥ 49,915	¥ 53,735	$ 424,917
Time deposits (Over three months)	3,481	2,418	29,633
Trade notes and accounts receivable (Note 11)	45,795	40,145	389,844
Allowance for doubtful receivables	(358)	(210)	(3,048)
Inventories (Note 2 and 3)	40,559	33,649	345,271
Deferred income taxes (Note 2 and 4)	2,152	2,204	18,320
Other current assets	4,320	3,424	36,776
Total current assets	145,864	135,365	1,241,713
Property, plant and equipment (Note 2, 5 and 6):			
Land	23,080	22,839	196,476
Buildings and structures	91,154	84,930	775,977
Machinery and equipment	91,367	80,545	777,790
Construction in progress	8,210	7,232	69,890
	213,811	195,546	1,820,133
Accumulated depreciation	(107,616)	(96,758)	(916,115)
Property, plant and equipment-net	106,195	98,788	904,018
Investments and other assets:			
Investment in unconsolidated subsidiaries and an affiliate accounted for by the equity method (Note 2)	4,094	5,407	34,851
Investment securities (Note 2 and 7)	64,219	36,300	546,684
Lease deposits	11,003	11,514	93,666
Deferred income taxes (Note 2 and 4)	431	238	3,669
Other	6,935	6,137	59,037
Total investments and other assets	86,682	59,596	737,907
Total	¥ 338,741	¥ 293,749	$ 2,883,638

The accompanying notes are an integral part of these statements.

Liabilities and shareholders' equity	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans (Note 9)	¥ 31,653	¥ 28,730	$ 269,456
Current portion of long-term debt (Note 9)	22,542	14,714	191,896
Trade notes and accounts payable	31,425	29,084	267,515
Accrued income taxes	3,332	3,493	28,365
Accrued expenses	6,233	6,021	53,060
Commercial paper (Note 9)	9,000	7,000	76,615
Other current liabilities	7,100	7,200	60,441
Total current liabilities	111,285	96,242	947,348
Long-term liabilities:			
Long-term debt (Note 9)	92,069	86,183	783,766
Accrued pension and severance liabilities (Note 10)	2,979	2,868	25,360
Deferred income taxes (Note 2 and 4)	15,055	6,753	128,160
Other long-term liabilities	3,350	3,394	28,518
Total long-term liabilities	113,453	99,198	965,804
Minority interests	1,612	1,609	13,722
Commitments and contingent liabilities (Note 11)			
Shareholders' equity (Notes 2, 7 and 12):			
Common stock	28,663	28,663	244,003
Authorized : 200,000,000 shares			
Issued : 63,878,505 shares			
Capital surplus	29,972	29,972	255,146
Retained earnings	34,546	32,182	294,084
Unrealized gain on available-for-sale securities	25,564	12,760	217,622
Foreign currency translation adjustments	(5,705)	(6,290)	(48,566)
	113,040	97,287	962,289
Less cost of common shares of treasury stock			
(349,589 shares in 2006 and 312,968 shares in 2005)	(649)	(587)	(5,525)
Total shareholders' equity	112,391	96,700	956,764
Total	¥ 338,741	¥ 293,749	$ 2,883,638

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 13)	¥ 206,801	¥ 192,320	$ 1,760,458
Cost of sales (Note 15)	149,971	140,072	1,276,675
Gross profit	56,830	52,248	483,783
Selling, general and administrative expenses (Note 14 and 15)	44,498	41,844	378,803
Operating income (Note 13)	12,332	10,404	104,980
Other income (expenses):			
Interest and dividend income	688	329	5,857
Interest expense (Note 9)	(1,552)	(1,594)	(13,212)
Loss on sale and disposal of property, plant and equipment - net	(385)	(348)	(3,277)
Exchange gain	1,476	174	12,565
Equity in loss of an affiliated company	(703)	(741)	(5,985)
Gain on sale of available-for-sale securities (Note 7)	16	1,108	136
Loss on impairment of fixed assets (Note 6)	(1,998)	-	(17,009)
Abnormal manufacturing cost	(158)	(344)	(1,345)
Bond issue expense	(79)	(20)	(673)
Other income(loss)-net	(576)	(308)	(4,902)
Income before income taxes and minority interests	9,061	8,660	77,135
Income taxes (Note 2 and 4):			
Current	5,241	4,901	44,616
Deferred	(541)	(654)	(4,605)
Minority interests in net income(loss) of consolidated subsidiaries	(152)	(106)	(1,294)
Net income	¥ 4,513	¥ 4,519	$ 38,418

	Yen		U.S. dollars (Note 1)
Amounts per common share (Note 2):			
Basic earnings	69.6	69.4	0.59
Diluted earnings	-	-	-
Cash dividends	37.5	38.5	0.32

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Common stock:			
Opening balance-63,878,505 shares	¥ 28,663	¥ 28,663	$ 244,003
Closing balance-63,878,505 shares	¥ 28,663	¥ 28,663	$ 244,003
Capital surplus:			
Opening balance	¥ 29,972	¥ 29,972	$ 255,146
Closing balance	¥ 29,972	¥ 29,972	$ 255,146
Retained earnings:			
Opening balance	¥ 32,182	¥ 30,610	$ 273,959
Net income	4,513	4,519	38,418
Increase(decrease) in retained earnings due to inclusion of new subsidiaries in consolidation	(198)	1	(1,685)
Cash dividends	(1,843)	(2,862)	(15,689)
Bonuses to directors and statutory auditors	(108)	(86)	(919)
Closing balance	¥ 34,546	¥ 32,182	$ 294,084
Unrealized gain on available-for-sale securities:			
Opening balance	¥ 12,760	¥ 12,462	$ 108,623
Net change	12,804	298	108,999
Closing balance	¥ 25,564	¥ 12,760	$ 217,622
Foreign currency translation adjustments:			
Opening balance	¥ (6,290)	¥ (6,490)	$ (53,546)
Net change	585	200	4,980
Closing balance	¥ (5,705)	¥ (6,290)	$ (48,566)
Treasury stock:			
Opening balance	¥ (587)	¥ (506)	$ (4,997)
Net change	(62)	(81)	(528)
Closing balance	¥ (649)	¥ (587)	$ (5,525)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities:			
Net income	¥ 4,513	¥ 4,519	$ 38,418
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,315	10,266	104,835
Loss on impairment of fixed assets	1,998	-	17,009
Equity in loss of an affiliated company	703	741	5,985
Allowance for doubtful receivables	132	57	1,124
Gain on sale of available-for-sale securities	(16)	(1,108)	(136)
Provision for deferred taxes	(541)	(654)	(4,605)
Exchange loss(gain)	(1,377)	413	(11,722)
Loss on sale and disposal of property, plant and equipment-net	385	348	3,277
Other, net	858	135	7,304
Changes in operating assets and liabilities:			
Trade receivables	(4,894)	1,330	(41,662)
Inventories	(5,754)	(1,159)	(48,983)
Other current assets	(1,372)	(191)	(11,680)
Trade payables	1,118	76	9,517
Accrued income taxes	(190)	1,913	(1,617)
Other, net	(1,069)	776	(9,099)
Total adjustments	2,296	12,943	19,547
Net cash provided by operating activities	6,809	17,462	57,965
Investing activities:			
Purchase of property, plant and equipment	(20,052)	(14,957)	(170,699)
Proceeds from sale of property, plant and equipment	376	206	3,201
Purchase of available-for-sale securities	(9,414)	(13)	(80,140)
Proceeds from sale of available-for-sale securities	3,126	1,737	26,611
Investment in subsidiaries	(117)	(108)	(996)
Deposits(Over three months)	(822)	564	(6,998)
Other, net	(653)	(57)	(5,558)
Net cash used in investing activities	(27,556)	(12,628)	(234,579)
Financing activities:			
Net increase(decrease) in short-term loans	2,888	1,484	24,585
Proceeds from long-term loans	13,384	24,600	113,935
Repayment of long-term loans	(12,261)	(9,144)	(104,376)
Proceeds from issuance of bonds	14,922	2,980	127,028
Repayment of bonds	(3,020)	(10,000)	(25,709)
Net increase(decrease) in commercial paper	2,000	500	17,026
Cash dividends paid	(1,840)	(2,858)	(15,664)
Bonuses to directors and statutory auditors	(108)	(86)	(919)
Other, net	(361)	(474)	(3,074)
Net cash provided by financing activities	15,604	7,002	132,832
Effect of exchange rate changes on cash and cash equivalents	1,181	(350)	10,054
Net increase(decrease) in cash and cash equivalents	(3,962)	11,486	(33,728)
Cash and cash equivalents, beginning of period (Note 2)	53,735	42,229	457,436
Cash and cash equivalents of newly consolidated subsidiary, beginning of period	142	20	1,209
Cash and cash equivalents, end of period (Note 2)	¥ 49,915	¥ 53,735	$ 424,917

The accompanying notes are an integral part of these statements.

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 Securities and Exchange Law and its related accounting regulations, 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. 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 2005 amounts to conform with the 2006 presentation.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥117.47=US$1, the approximate exchange rate on March 31, 2006. 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 significant subsidiaries and an affiliated company accounted for by the equity method.

Investment in unconsolidated subsidiaries 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.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Company and its consolidated subsidiaries is eliminated.The difference between the cost of investments in subsidiaries and affiliates and the equity in their net assets at dates of acquisition is amortized over five years.

All accounts herein have been presented on the basis of the twelve months ended March 31, 2006 for the Company and for domestic consolidated subsidiaries except for Tohoku Nipro Pharmaceutical Corporation, and December 31, 2005 for all overseas consolidated subsidiaries. Tohoku Nipro Pharmaceutical Corporation is included in the consolidated financial statements for nine months, from June 30, 2005, to March 31,2006, due to the acquisition of shares on that day. Adjustments have been made for any significant intercompany transactions which took place during the period between the end of accounting period of the overseas subsidiaries and that of the Company.

(b) Translation of Foreign Currencies

Balance sheets of overseas consolidated 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 overseas consolidated 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) Inventories

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

(e) Impairment of Long-lived assets

The Company and its consolidated subsidiaries have adopted "Statement of Opinion, on the Establishment of Accounting Standard for Impairment of Fixed Assets" (issued by the Business Accounting Council of Japan on August 9, 2002) and "Guidance for Accounting Standard for Impairment of Fixed Assets" (the Accounting Standards Board Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003), which became applicable to the consolidated financial statements for the year ended March 31, 2006.

In accordance with the new accounting standard for impairment of fixed assets, the Company and its consolidated subsidiaries review long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.The amount of accumulated impairment loss is included in accumulated depreciation.

For the year ended March 31, 2006, the application of the new accounting standard reduced income before income taxes and minority interests by ¥1,998 million compared to the previous accounting 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 overseas 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) Investment Securities

Investment securities 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. For the year ended march 31, 2006, there was no held-to-maturity debt securities held by the Company.

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.

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

(i) 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.

(j) 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, 2006, 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.

(k) Appropriation of retained Earnings
Appropriation of retained earnings at each year-end are reflected in the financial statements of the following year upon approval of the shareholders' meeting.

3. Inventories

Inventories consisted of the following:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Food and groceries	¥ 644	¥ 698	$ 5,482
Household goods	3,821	3,665	32,527
Medicine(in stores)	1,268	1,457	10,794
Finished goods	24,786	21,038	210,999
Raw materials	4,922	3,625	41,900
Work in process	3,656	2,042	31,123
Packing and other	1,462	1,124	12,446
Total	¥ 40,559	¥ 33,649	$ 345,271

4. 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 40.5% for the years ended March 31, 2006 and 2005.

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

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Deferred tax assets			
Operating loss carry forwards for tax purposes	¥ 2,143	¥ 2,099	$ 18,243
Intercompany profits	647	479	5,508
Allowance for bonuses to employees	652	571	5,550
Accounts receivable	199	360	1,694
Loss on impairment of fixed assets	653	-	5,559
Accrued pension and severance liabilities	1,172	1,083	9,977
Accrued enterprise taxes	282	330	2,401
Other	749	785	6,377
Gross deferred tax assets	¥ 6,497	¥ 5,707	$ 55,309
Less: Valuation allowance	(1,973)	(1,741)	(16,796)
Total deferred tax assets	¥ 4,524	¥ 3,966	$ 38,513
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	16,860	¥ 8,119	$ 143,526
Other	136	158	1,158
Total deferred tax liabilities	16,996	¥ 8,277	$ 144,684
Net deferred tax assets (liabilities)	¥ (12,472)	¥ (4,311)	$ (106,171)

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

	2006	2005
Statutory tax rate	40.5%	40.5%
Expenses not deductible for tax purposes	2.3	2.0
Non-taxable dividend income	(0.3)	(0.3)
Loss in subsidiaries	11.6	6.2
Tax credits primarily for reaearch and development costs	(4.5)	(4.2)
Equity in loss of an affiliated company	3.1	3.5
Other	(0.8)	1.3
Effective income tax rate	51.9%	49.0%

5. Pledged Assets

The following assets were pledged as collateral:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Land	¥ 6,131	¥ 6,011	$ 52,192
Buildings and structures	9,027	8,773	76,845
Notes receivable	1,699	1,551	14,463
Certificate of deposit	221	165	1,881
Total	¥ 17,078	¥ 16,500	$ 145,381

The above assets were pledged against the following liabilities:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Bank loans due within one year	¥ 3,528	¥ 3,676	$ 30,033
Bank loans due after one year	3,665	4,411	31,199
Total	¥ 7,193	¥ 8,087	$ 61,232

6. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries reviewed their fixed assets for impairment as of March 31, 2006 and, as a result, recognized impairment losses of ¥1,998 million (US$17,009 thousand) as follows:

			Amount of loss	
Use	Type	Type	Millions of yen	Thousands of U.S.dollars(Note 1)
Store	Buildings and structures, and other	4 sites in Hyogo Pref.	¥ 717	$ 6,104
Store	Buildings and structures, and other	8 sites in Osaka Pref.	506	4,307
Leased asset	Buildings and structures, and other	6 sites in Osaka Pref.	260	2,213
Leased asset	Land, Buildings and structures, and other	4 sites in Niigata Pref., etc.	484	4,120
Idle asset	Land	1 site in Kagoshima Pref.	31	265
Total			1,998	17,009

The long-lived assets of the Company and its consolidated subsidiaries are categorized principally into asset groups for business use, leased assets, idle assets and common use. The assets for business use are divided into groups on which separate financial information is reported for management accounting purposes and individual store, whereas the leased assets and idle assets are categorized individually. Headquarters assets, R&D facilities, dormitories and company-offered houses are categorized into the assets of common use, since these assets can not generate identifiable cash flows.

The book value of asset groups whose land had significantly depreciated, or which incurred consecutive operating losses, were reduced to recoverable amounts, and such deducted amounts were recorded as loss on impairment of fixed assets.

The loss on impairment of fixed assets consisted of a loss on buildings and structures of ¥1,549 million(US$13,186 thousand), on machinery and equipment of ¥9 million(US$77 thousand), and on land of ¥440 million(US$3,746 thousand). The recoverable amounts of such asset groups was measured by their net realizable value. In the case where net selling values were used as realizable value of assets, relevant assets were evaluated based on the real estate appraisal standards and, the price of land fronting major roads, which was used for immaterial asset. The asset groups which were difficult to sell or which could not be used for other purpose, however, were evaluated as a minimum unit price. Some of the leased assets belonging to store Business were evaluated at the utility value, which was computed with future cash flows discounted by 4.4%.

7. Investment securities

Investment securities as of March 31, 2006 and 2005 consisted of the followings:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Non-current:			
Marketable			
Marketable equity securities	¥ 62,675	¥ 31,810	$ 533,540
Investment trust funds and other	109	55	928
Sub total	¥ 62,784	¥ 31,865	$ 534,468
Non-marketable securities	¥ 1,435	¥ 4,435	$ 12,216
Total	¥ 64,219	¥ 36,300	$ 546,684

The fair value of other investments, which are non-marketable securities, was not readily determinable as of March 31, 2006 and 2005.

The carrying amounts and aggregate fair values of marketable securities for investments as of March 31, 2006 and 2005 were as follows:

	Millions of yen			
	2006			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	¥ 21,158	¥ 41,517	-	¥ 62,675
Debt securities and other	88	21	-	109
Total	¥ 21,246	¥ 41,538	-	¥ 62,784

	Thousands of U.S. dollars(Note 1)			
	2006			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	$ 180,114	$ 353,426	-	$ 533,540
Debt securities and other	749	179	-	928
Total	$ 180,863	$ 353,605	-	$ 534,468

	Millions of yen			
	2005			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	¥ 11,787	¥ 20,024	¥ 1	¥ 31,810
Debt securities and other	60	-	5	55
Total	¥ 11,847	¥ 20,024	¥ 6	¥ 31,865

Proceeds from sales of securities and gross realized gain on those sales for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Proceeds	¥ 3,126	¥ 1,737	$ 26,611
Gain on sales	16	1,108	136

8. Leases

The pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Acquisition cost	¥ 4,498	¥ 7,237	$ 38,291
Accumulated depreciation	3,220	4,940	27,411
Net leased property	¥ 1,278	¥ 2,297	$ 10,880

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Payments due within one year	¥ 545	¥ 1,304	$ 4,639
Payments due after one year	653	984	5,559
Total	¥ 1,198	¥ 2,288	$ 10,198

Lease payments under such leases for the years ended March, 2006 and 2005 were ¥941 million(US$8,011thousand) and ¥1,317 million, respectively.

9. Short-Term Loans and Long-Term Debt

Short-term loans comprised overdrafts and promissory notes.
The weighted-average interest rate of short-term bank loans for the year ended March 31, 2006 and 2005 was 0.654% and 0.573%, respectively.
The weighted-average interest rate of commercial paper for the year ended March 31, 2006 and 2005 was 0.080% and 0.013%, respectively.

Long-term debt comprised the following:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Zero coupon convertible bonds due 2023	¥ 14,000	¥ 14,000	$ 119,180
3.2% unsecured bonds due 2008	10,000	10,000	85,128
3.0% unsecured bonds due 2006	10,000	10,000	85,128
1.42% unsecured bonds due 2011	10,000	-	85,128
0.67% unsecured bonds due 2006	-	3,000	-
1.07% unsecured bonds due 2010	3,000	3,000	25,538
1.18% unsecured bonds due 2009	3,000	3,000	25,538
0.67% unsecured bonds due 2008	50	-	426
1.18% unsecured bonds due 2009	5,000	-	42,564
Long-term bank loans due through 2019, with weighted-average interest rate of 1.044% for the year ended March 31, 2006, and of 1.094% for the year ended March 31, 2005.	59,561	57,897	507,032
Less current portion of long-term debt	(22,542)	(14,714)	(191,896)
Total	¥ 92,069	¥ 86,183	$ 783,766

In June 1998, the Company issued ¥10,000 million (US$85,128 thousand) of 3.2% unsecured bonds due 2008.
In June 1998, the Company issued ¥10,000 million (US$85,128 thousand) of 3.0% unsecured bonds due 2006.
In March 2003, the Company issued ¥3,000 million (US$25,538 thousand) of 0.67% privately-placed bonds due 2006.
In March 2003, the Company issued ¥3,000 million (US$25,538thousand) of 1.07% privately-placed bonds due 2010.
In July 2003, the Company issued ¥14,000 million(US$119,180 thousand) of zero coupon convertible bonds due 2023.
In September 2003, Nipro Genepha Corporation issued ¥100 million (US$851 thousand) of 0.67% privately-placed bonds to be serially redeemed by 2008.
In July 2004, the Company issued ¥3,000 million (US$25,538 thousand) of 1.18% privately-placed bonds due 2009.
In March 2006, the Company issued ¥10,000 million (US$85,128 thousand) of 1.42% unsecured bonds due 2011.
In March 2006, the Company issued ¥5,000 million (US$42,564 thousand) of 1.18% privately-placed bonds due 2009.

The aggregate annual maturities of long-term debt outstanding at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S.dollars(Note 1)
	2006	2006
2007	¥ 22,542	$ 191,896
2008	21,591	183,800
2009	24,814	211,237
2010 and thereafter	45,664	388,729
Total	¥ 114,611	$ 975,662

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.

10. Accrued Pension and Severance Liabilities

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

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, 2006 and 2005.

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
1) Projected benefit obligation at end of year	¥ (9,601)	¥ (9,134)	$ (81,732)
2) Fair value of plan assets at end of year	7,967	6,367	67,822
3) Projected benefit obligation in excess of plan assets 1)+2)	(1,634)	(2,767)	(13,910)
4) Unrecognized actuarial (gain) loss	(1,345)	(101)	(11,450)
5) Accrued pension and severance liabilities 3)+4)	¥ (2,979)	¥ (2,868)	$ (25,360)

The breakdown of net pension and severance costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Service cost	¥ 641	¥ 594	$ 5,457
Interest cost	227	218	1,932
Expected return on plan assets	(96)	(87)	(817)
Amortization:			
Retirement benefit obligation at transaction	-	104	-
Actuarial differences	175	223	1,490
Other	114	-	970
Net periodic benefit cost	¥ 1,061	¥ 1,052	$ 9,032

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

	2006	2005
Discount rate	Primarily 2.5%	Primarily 2.5%
Expected rate of return on plan assets	1.5%	1.5%
Amortization period for transition obligation at date of adoption	-	5 years
Amortization period for actuarial differences	5 years	5 years

11. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries have the following commitments and contingent liabilities:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Liabilities for guarantees	¥ 1,639	¥ 2,183	$ 13,952
Export drafts discounted	25	76	213
Trade notes receivable discounted	198	-	1,686
	¥ 1,862	¥ 2,259	$ 15,851

12. Shareholder's Equity

(i) Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus.

The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors. The Company's legal reserve amount, which is included in retained earnings, totals ¥1,196 million (US$10,181 thousand) as of March 31, 2006 and 2005.

Dividends are approved by shareholders' meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon a resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Upon the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2006, retained earnings available for future dividends amounted to ¥40,963 million (US$348,710 thousand).

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury by a resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders' meeting.

On May 1, 2006, a new Corporate Law became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006.

(ii) The following appropriation of retained earnings was approved by the Shareholders' Meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars(Note 1)
Cash dividends	¥ 1,366	$ 11,629
Bonuses to directors and statutory auditors	90	766

13. Segment Reporting

The Company and its consolidated subsidiaries are primarily engaged in the business consisting of four major segments: Medical Equipment, Pharmaceutical products, Glass and Material products and Store. The Company is organized into operating segments based on the market nature of products.

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

The pharmaceutical 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 tubes for light bulbs and other glass products.

The store segment encompasses a supermarket business and a drugstore business. The store 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 years ended March 31, 2006 and 2005 was as follows:

	Millions of yen							
	2006							
	Medical Equipment	Pharmaceutical	Glass & Materials	Store	Other	Total	Eliminations/ Corporate	Consolidated
Net sales:								
Outside	¥ 90,868	¥ 35,220	¥ 11,934	¥ 67,261	¥ 1,518	¥206,801	-	¥ 206,801
Intersegment	0	-	3,402	35	517	3,954	¥ (3,954)	-
Total	90,868	35,220	15,336	67,296	2,035	210,755	(3,954)	206,801
Operating expenses	77,438	33,109	13,500	66,718	1,506	192,271	2,198	194,469
Operating income	¥ 13,430	¥ 2,111	¥ 1,836	¥ 578	¥ 529	¥ 18,484	¥ (6,152)	¥ 12,332
Identifiable assets	¥ 98,093	¥ 68,870	¥ 16,188	¥ 39,245	¥ 1,239	¥223,635	¥115,106	¥ 338,741
Depreciation	4,489	5,608	608	996	6	11,707	608	12,315
Loss on impairment of fixed assets	31	-	-	1,491	476	1,998	-	1,998
Capital expenditures	8,959	10,621	233	349	20	20,182	692	20,874

	Thousands of U.S. dollars(Note 1)							
	2006							
	Medical Equipment	Pharmaceutical	Glass & Materials	Store	Other	Total	Eliminations/ Corporate	Consolidated
Net sales:								
Outside	$ 773,542	$ 299,821	$ 101,592	$ 572,580	$ 12,923	$1,760,458	-	$1,760,458
Intersegment	0	-	28,961	298	4,401	33,660	$ (33,660)	-
Total	773,542	299,821	130,553	572,878	17,324	1,794,118	(33,660)	1,760,458
Operating expenses	659,215	281,851	114,923	567,958	12,820	1,636,767	18,711	1,655,478
Operating income	$ 114,327	$ 17,970	$ 15,630	$ 4,920	$ 4,504	$ 157,351	$ (52,371)	$ 104,980
Identifiable assets	$ 835,047	$ 586,277	$ 137,806	$ 334,085	$ 10,547	$1,903,762	$ 979,876	$2,883,638
Depreciation	38,214	47,740	5,176	8,479	51	99,660	5,175	104,835
Loss on impairment of fixed assets	264	-	-	12,693	4,052	17,009	-	17,009
Capital expenditures	76,266	90,415	1,983	2,971	170	171,805	5,891	177,696

	Millions of yen							
	2005							
	Medical Equipment	Pharmaceutical	Glass & Materials	Store	Other	Total	Eliminations/ Corporate	Consolidated
Net sales:								
Outside	¥ 82,504	¥ 26,207	¥ 11,667	¥ 70,841	¥ 1,101	¥ 192,320	-	¥ 192,320
Intersegment	876	-	2,384	-	553	3,813	¥ (3,813)	-
Total	83,380	26,207	14,051	70,841	1,654	196,133	(3,813)	192,320
Operating expenses	72,341	23,946	12,162	70,726	1,366	180,541	1,375	181,916
Operating income	¥ 11,039	¥ 2,261	¥ 1,889	¥ 115	¥ 288	¥ 15,592	¥ (5,188)	¥ 10,404
Identifiable assets	¥ 86,062	¥ 56,557	¥ 13,825	¥ 42,960	¥ 858	¥ 200,262	¥ 93,487	¥ 293,749
Depreciation	4,407	3,450	631	1,170	26	9,684	582	10,266
Capital expenditures	6,056	7,269	1,452	1,006	2	15,785	527	16,312

Note:

(1) Operating expenses of "Eliminations/Corporate" for the year ended March 31, 2006 and 2005 included unallocated corporate costs of ¥6,152 million (US$52,370 thousand) and ¥5,188 million, respectively. Their unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

(2) Assets of "Eliminations/Corporate" at March 31, 2006 and 2005 included ¥115,321 million(US$981,706 thousand) and ¥93,563 million of corporate assets, respectively, consisting primarily of cash and cash equivalents, investments securities, research and development-related equipment and headquarters administration-related assets.

The information by geographic area for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen					
	2006					
	Japan	America	Europe	Asia	Eliminations/ Corporate	Consolidated
Net sales:						
Outside	¥184,155	¥ 14,682	¥ 6,312	¥ 1,652	-	¥206,801
Intersegment	15,829	451	5	10,804	¥ (27,089)	-
Total	199,984	15,133	6,317	12,456	(27,089)	206,801
Operating expenses	181,129	15,711	6,558	11,598	(20,527)	194,469
Operating income (loss)	¥ 18,855	¥ (578)	¥ (241)	¥ 858	¥ (6,562)	¥ 12,332
Identifiable assets	¥201,235	¥ 11,814	¥ 3,538	¥ 19,739	¥ 102,415	¥338,741

	Thousands of U.S. dollars(Note 1)					
	2006					
	Japan	America	Europe	Asia	Eliminations/ Corporate	Consolidated
Net sales:						
Outside	$1,567,677	$ 124,985	$ 53,733	$ 14,063	-	$1,760,458
Intersegment	134,749	3,839	43	91,972	$(230,603)	-
Total	1,702,426	128,824	53,776	106,035	(230,603)	1,760,458
Operating expenses	1,541,917	133,744	55,827	98,732	(174,742)	1,655,478
Operating income (loss)	$ 160,509	$ (4,920)	$ (2,051)	$ 7,303	$ (55,861)	$ 104,980
Identifiable assets	$1,713,076	$ 100,570	$ 30,118	$ 168,034	$ 871,840	$2,883,638

	Millions of yen					
	2005					
	Japan	America	Europe	Asia	Eliminations/ Corporate	Consolidated
Net sales:						
Outside	¥ 175,328	¥ 9,791	¥ 5,816	¥ 1,385	-	¥192,320
Intersegment	12,262	384	4	10,013	¥ (22,663)	-
Total	187,590	10,175	5,820	11,398	(22,663)	192,320
Operating expenses	171,827	10,699	6,167	10,635	(17,412)	181,916
Operating income (loss)	¥ 15,763	¥ (524)	¥ (347)	¥ 763	¥ (5,251)	¥ 10,404
Identifiable assets	¥ 179,626	¥ 8,838	¥ 3,056	¥ 17,907	¥ 84,322	¥293,749

Note:
(1) Operating expenses of "Eliminations/Corporate" for the years ended March 31, 2006 and 2005 included unallocated corporate costs of ¥6,152 million (US$52,370 thousand) and ¥5,188 million, respectively. Their unallocated corporate costs consists primarily of research and development costs and headquarters administration costs.
(2) Assets of "Eliminations/Corporate" at March 31, 2006 and 2005 included ¥115,321 million (US$981,706 thousand) and ¥93,563 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.
(3) America : The United States of America and Brazil
Europe : Belgium
Asia : China and Thailand

Sales to foreign customers for the years, ended March 31, 2006 and 2005 were as follows:

	Millions of yen							
	2006				2005			
	America	Europe	Asia	Total	America	Europe	Asia	Total
Export sales and sales by overseas subsidiaries	¥ 28,877	¥ 14,074	¥ 6,407	¥ 49,358	¥ 23,128	¥ 13,607	¥ 5,232	¥ 41,967
Percentage of such sales to consolidated net sales	14.0%	6.8%	3.1%	23.9%	12.0%	7.1%	2.7%	21.8%

	Thousands of U.S. dollars(Note 1)			
	2006			
	America	Europe	Asia	Total
Export sales and sales by overseas subsidiaries	$ 245,824	$ 119,809	$ 54,542	$ 420,175
Percentage of such sales to consolidated net sales	14.0%	6.8%	3.1%	23.9%

14. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Rent	¥ 4,440	¥ 4,698	$ 37,797
Salary	13,561	12,849	115,442

15.Research and Development Expenses

Research and development expenses for the years ended March 31, 2006 and 2005 were ¥3,760 million (US$32,008 thousand) and ¥3,422 million, respectively.

16. Supplemental Disclosures of Cash Flow Information

Supplemental information related to the Consolidated Statements of Cash Flows is as follows:

	Millions of yen		Thousands of U.S.dollars(Note 1)
	2006	2005	2006
Cash paid during the the year for:			
Interest	¥ 1,468	¥ 1,682	$ 12,497
Income tax	¥ 5,668	¥ 3,073	$ 48,251

17. Post Balance Sheet Event

On July 31, 2006, the Company has sold all shares of Nissho Corporation, a wholly owned subsidiary of the Company, to Hankyu Department Stores, Inc.

1. Reason for sale of the shares

Nissho Corporation, which operates supermarket business, has consistently secured profit in spite of severe business environment with consumer spending in the stagnation. It has been an important agenda for Nissho, however, to propel the dominant strategy in order to increase its business further under intense competition among major stores including entrants from outside its industry.

At the same time, the environment surrounding our medical equipment and pharmaceutical business which are the core business in our group are also changing very rapidly due to various factors, such as, implementation of the revised Pharmaceutical Affairs Law, strengthening of control to suppress national health care expenditures and progress of globalization. Under such circumstances, it has been necessary to concentrate more management resources on reinforcement of production capacity and R&D and to manage them more efficiently, to respond quickly to various changes and to powerfully advance our business.

After reviewing above situations it was decided that the best solution would be to sell our supermarket business to a company that has a clear growth strategy matching Nissho Corporation's direction of management.

2. Outline of Nissho Corporation

(1) Name	Nissho Corporation
(2) Main business	Supermarket business and other relating business
(3) Detail of transactions with the Company	The Company leases properties for store use to Nissho Corporation

3. Outline of Hankyu Department Stores, Inc.

(1) Name	Hankyu Department Stores, Inc.
(2) Main business	Department store business, supermarket business and other business

4. Number of shares sold, selling price and change in percentage held by the Company

(1) Number of shares owned before sale	40,000 shares (100% held by the Company)
(2) Number of shares sold	40,000 shares
(3) Number of shares owned after sale	-
(4) Selling price	18,750 million yen

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 its Consolidated Subsidiaries as of March 31, 2006 and 2005, 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 Niporo 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 its Consolidated Subsidiaries as of March 31, 2006 and 2005 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, 2006

Tomei Audit Corporation

Tomei Audit Corporation

Corporate Information (As of March 31, 2006)

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
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

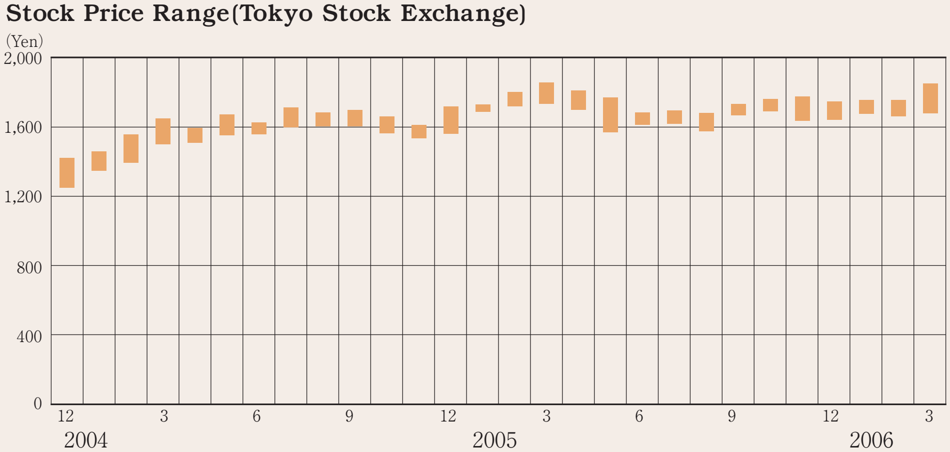
Number of Employees

Parent Company	1,911
Consolidated subsidiaries	7,137
Total	9,048

Principal Shareholders

	Number of Shares Held (in thousands)	Percentage of TotalShares in Issue (%)
Sanri Kosan Co., Ltd.	12,920	20.23
Japan Trustee Services Bank, Ltd.	4,955	7.76
The Master Trust Bank of Japan, Ltd.	3,130	4.90
Trust & Custody Service Bank, Ltd.	2,192	3.43
Minoru Sano	1,993	3.12
Resona Bank Limited	1,380	2.16
The Dai-ichi Mutual Life Insurance Company	938	1.47
Mizuho Corporate Bank, Ltd.	782	1.23
The Chase Manhattan Bank, N.A, London S.L. Omnibus Account	660	1.03
Goldman Sachs International	619	0.97
Total	29,570	46.29

Stock Price Range(Tokyo Stock Exchange)



Common Stock

Authorized	200,000,000 shares
Issued	63,878,505 shares
Outstanding	63,528,916 shares
Number of Shareholders	13,526

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

Transfer Agent
Mizuho Trust & Banking Co., Ltd., Osaka Branch,
Stock Transfer Agency Dpt.
2-11-16 Sonezaki, Kita-ku, Osaka 530-0057, Japan

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

PRINTED WITH SOY INK™
Printed with environmentally friendly soy ink.
R100
Printed on 100% recycled paper.
Printed in Japan