

Summary Report of Consolidated Financial Results

For the Six Months Period ended September 30, 2017



November 9, 2017
TSE-1st section

Company name: NIPRO CORPORATION

Code No.8086

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Presentation on quarterly results: Yes (for institutional investors and analysts)

(Note: Amounts are truncated to one million yen)

1. Consolidated Results for the Six Months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

(1) Consolidated Results of Operations

(Note: Percentages represent changes compared with the same period of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended September 30, 2017	187,903	5.8	11,495	(27.9)	11,776	76.8	8,282	(183.3)
6 months ended September 30, 2016	177,581	(1.1)	15,943	(36.8)	6,659	(34.3)	2,923	(48.2)

Note: Comprehensive income 6 months ended September 30, 2017: 17,497 million yen (- %) 6 months ended September 30, 2016: (18,422) million yen (-%)

	Earnings per share	Diluted Earnings per share
	Yen	Yen
6 months ended September 30, 2017	49.83	45.18
6 months ended September 30, 2016	17.26	15.68

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2017	794,421	190,326	22.7
As of March 31, 2017	752,839	176,408	22.1

Note: Equity September 30, 2017: 180,007 million yen March 31, 2017: 166,082 million yen

2. Dividends

	Annual Dividends per Year				
	First-quarter	Second-quarter	Third-quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March, 2017	-	7.50	-	21.50	29.00
Year ending March, 2018	-	17.50			
Year ending March, 2018 (Forecast)			-	21.00	38.50

Note: Revisions to the forecast of cash dividends in the current quarter: No

3. Forecast of Consolidated Financial Results for the Year ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

(Note: Percentages represent changes compared with the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Earnings per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2018	400,500	11.3	32,500	13.0	30,100	29.9	19,000	67.5	114.03

Note: Revisions to the forecast of consolidated financial results in the current quarter: No

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1. Qualitative Information for the Six-Months Period ended September 30, 2017

(1) Commentary on Business Results

The Japanese economy, during the second quarter of the consolidated cumulative period, saw a continuation of the gradual economic recovery as corporate earnings remained steady. While the global economy tends in general toward improvement, the sense of uncertainty about the future deepened due to rising geopolitical risks around the globe. Even under these circumstances, the Nipro Group has made efforts to increase sales and cut production costs, and worked to improve business performance with the goal of realizing user wishes as soon as possible.

As a result, sales for the second quarter of the consolidated cumulative period increased YoY by 5.8% from the same period of the previous year to 187,903 million yen. As for profit, operating income decreased by 27.9% YoY to 11,495 million yen due to an increase in the cost of sales and other factors. Ordinary income rose 76.8% YoY to 11,776 million yen due to a decrease in exchange losses and other factors. Additionally, the second quarter profit attributable to owners of parent increased YoY by 183.3% to 8,282 million yen due to a decrease in corporate tax.

The overview of the results for the second quarter of the consolidated cumulative period by business segment is as follows.

(i) Medical-Related Business

In the Medical Sales Division, domestic sales of the Medical Sales Division remained solid in each category of injection-transfusion products, enteral-alimentation products, testing products, dialysis products, and cardiovascular products and cardiac surgery (CVS) products. Sales growth was particularly high for HDF filters (dialysis products), followed by drug eluting balloon catheter “SeQuent® Please” (cardiovascular products), and Left Ventricular Assist Device “HeartMate II” (cardiac surgery (CVS) products). The Pharmaceutical Sales Division has been working steadily towards enhancing the Nipro brand, such as holding seminars on home health care that utilize our medical training facility, taking into consideration regional medical partnerships and community-based care systems. Accordingly, sales of existing products and June addenda listing items increased. Leveraging our advantage of being a medical and pharmaceutical conglomerate, we have enhanced our sales promotion activities aimed at dispensing pharmacies and DPC hospitals and worked towards increasing our market share through further collaborations with pharmaceutical wholesalers.

Meanwhile, in addition to expanded sales of mainstay dialysis products, such as dialyzers, and hospital products, overseas sales revenues significantly improved year on year, in part due to the depreciation of the yen. We have positioned the three markets of the United States, China and India as our most important. In the United States, sales steadily increased through the strengthening of our partnership with a leading dialysis provider. In China, in addition to expanded sales of our existing dialyzers, we are expanding sales further through the launch of synthetic membrane dialyzers. Furthermore, in India, we are carrying out the installation of dialysis machines for the government tenders (PPPs) we have acquired up until this point, leading to the enhancement of our sales base. We will continue to actively strengthen overseas sales networks and bolster direct sales, working to enhance customer satisfaction to expand sales by quickly responding to front-line needs.

For our new overseas manufacturing facilities (India, Indonesia, Bangladesh and Hefei/China), we expanded dialyzer production equipment in our factories in India and Hefei/China, and in our factory in Hefei/China we began operating a new line in October 2017.

As a result, net sales of this business increased 8.9% YoY to 139,341 million yen.

(ii) Pharmaceutical-Related Business

In the Pharmaceutical-Related Business, we have worked toward providing a diverse and detailed wide array of contract services. In addition to the existing comprehensive contract manufacturing of oral, injection and external use drug formulations, we have endeavored to provide contract development services from the formulation design stage of such formulations, and in particular the contract development for injection drugs that leverages our strength in being able to develop and supply packaging such as vials, syringes and bags. Furthermore, we provided support for lifecycle management that aims to enhance added value and differentiate products. Moreover, we have focused on contract manufacturing for dedicated biopharmaceutical lines and lines at manufacturing plants for highly physiologically active pharmaceuticals, and also contract manufacturing at overseas production facilities.

Sales of pharmaceutical containers and devices for the preparation and administration of pharmaceuticals were favorable as we provided containers and administration systems suitable to each pharmaceutical product through self-development or joint development with pharmaceutical manufacturers, answering the diverse needs of the medical community for small-volume bags, pre-filled syringes (plastic and glass), etc., in addition to rubber stoppers for vaccine use and containers for kit products.

Furthermore, under the government's policy to reduce medical expenses, we have worked with pharmaceutical manufacturers in Japan and abroad on the comprehensive lifecycle management of pharmaceutical products, taking into consideration future combination products (collaborations with our own pharmaceutical products and medical devices), the systemization of self-injection, and changes to formulations and routes of administration.

As a result, net sales of this business increased 1.8% from the previous year to 34,733 million yen.

(iii) PharmaPackaging Business

In the PharmaPackaging Business, in addition to our existing products, we have developed our academic technical sales activities, such as participating in academic conferences, towards capturing the needs of our globalizing customers and new demand. In addition, we have promoted new products and technology development in Japan and abroad that respond to the needs for continuously high-quality injectable formulations and filling processes.

Looking at the overseas department, along with a recovery in the Chinese market, sales of ampoules and vials were steady as a result of the enhancing of technical sales. In India sales also increased as we worked to enhance them by attracting new customers for high value-added products. In the United States and Europe, while we faced difficulties as pharmaceutical companies reduced inventories, orders progressed steadily, and, in terms of manufacturing, we pushed forward with the automation and improving of production efficiency for the production lines of each plant.

In the domestic market, sales were solid, with a focus on syringes and vials. Furthermore, sales of tube glass were stable. Meanwhile, sales of thermos bottles temporarily slowed down as a result of production adjustments at the manufacturer. At the Biwako Plant, our global standard mother plant, we enhanced the management frameworks and established a production framework for pharmaceutical containers, with vial production in particular greatly improving profitability. Moreover, the validation of the medical rubber stoppers plant, completed in July, is progressing smoothly and we are working towards the provision of products from 2018.

Going forward, along with the maturation of the market, we will work towards increasing sales by strategically pushing forward with the introduction of high value-added products into the Asian/Indian markets, where demand for higher quality products is rising. Meanwhile, in terms of manufacturing, we will continue to increase efficiency through the introduction of new facilities and automation, enhancing product quality and stability. Achieving increased profitability in all regions, we will work towards expanding our business.

As a result, net sales of this business decreased 10.7% YoY to 13,814 million yen.

(iv) Other Business

Among other business, net sales from the real-estate rental business, etc. were 14 million yen (down 4.0% YoY).

(2) Analysis Concerning Financial Position

(i) Assets, liabilities, and net assets

Total assets increased 41,582 million yen from the end of the previous consolidated fiscal year to 794,421 million yen at the end of the second quarter under review. Current assets increased 19,381 million yen and noncurrent assets increased 22,201 million yen. The main reason for the increase in current assets was a increase of 11,356 million yen in cash and deposits, and the main reason for the increase in noncurrent assets was an increase of 13,229 million yen in investment securities.

Total liabilities increased 27,663 million yen from the end of the previous consolidated fiscal year to 604,094 million yen. Current liabilities increased 4,173 million yen and noncurrent liabilities increased 23,490 million yen. The main reason for the increase in current liabilities was an increase of 3,344 million yen in provision for bonuses, and the main reason for the increase in noncurrent liabilities was 20,445 million yen increase in long-term loans payable.

Total net assets increased 13,918 million yen from the end of the previous consolidated fiscal year to 190,326 million yen. Shareholders' equity increased 4,756 million yen and accumulated other comprehensive income increased 9,169 million yen. As a result, equity ratio increased by 0.6% from the end of the previous year to 22.7%.

(ii) Consolidated Cash Flows

The ending balance of cash and cash equivalents increased 10,103 million yen from the end of the previous consolidated fiscal year to 122,150 million yen at the end of the second quarter under review.

(Cash flows from operating activities)

Net cash provided by operating activities was 21,045 million yen. The main accounts of cash inflow were depreciation, 15,751 million yen and profit before income taxes, 10,339 million yen. The main account of cash outflow was increase in notes and accounts receivable-trade, 5,862 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 30,096 million yen. The main account of cash inflow was proceeds from sales of investment securities, 2,287 million yen. The main account of cash outflow was purchase of non-current assets, 32,401 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities was 18,278 million yen. The main account of cash inflow was proceeds from long-term loans payable, 51,379 million yen. The main account of cash outflow was repayment of long-term loans payable, 36,238 million yen.

(3) Commentary on Forward-Looking Statements Including Forecast of Consolidated Financial Results

At this moment, we have not made any revision to the forecast of consolidated financial results for the year ending March 31, 2018, which was announced on October 2, 2017.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) [Quarterly Consolidated Balance Sheets]

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current Assets		
Cash and deposits	123,188	134,545
Notes and accounts receivable-trade	121,038	126,909
Merchandise and finished goods	78,241	81,801
Work in process	10,784	11,997
Raw materials and supplies	26,303	28,579
Deferred tax assets	6,404	7,691
Other	22,194	16,033
Allowance for doubtful accounts	(1,378)	(1,399)
Total current assets	386,775	406,157
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	199,471	203,317
Accumulated depreciation and impairment loss	(90,929)	(94,707)
Buildings and structures, net	108,541	108,609
Machinery, equipment and vehicles	236,514	246,049
Accumulated depreciation and impairment loss	(164,778)	(171,342)
Machinery equipment and vehicles, net	71,736	74,707
Land	23,987	24,302
Lease assets	3,855	3,596
Accumulated depreciation	(2,642)	(2,534)
Lease assets, net	1,212	1,062
Construction in progress	25,953	32,228
Other	50,232	51,602
Accumulated depreciation and impairment loss	(37,441)	(38,958)
Other, net	12,791	12,643
Total property, plant and equipment	244,222	253,555
Intangible assets		
Goodwill	27,996	26,489
Lease assets	2,263	2,136
Other	13,575	14,020
Total intangible assets	43,836	42,647
Investments and other assets		
Investment securities	68,888	82,117
Net defined benefit asset	227	-
Deferred tax assets	1,459	2,333
Other	11,651	12,150
Allowance for doubtful accounts	(4,221)	(4,539)
Total investments and other assets	78,004	92,062
Total noncurrent assets	366,063	388,264
Total assets	752,839	794,421

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	57,587	57,343
Short-term loans payable	117,933	120,714
Commercial papers	10,000	10,000
Current portion of bonds	15,160	15,030
Lease obligations	1,107	1,103
Accounts payable-other	13,509	12,359
Accrued directors' bonuses	343	-
Income taxes payable	4,304	4,519
Provision for bonuses	4,075	7,419
Provision for directors' bonuses	105	359
Notes payable-facilities	10,350	10,509
Other	17,313	16,606
Total current liabilities	251,792	255,965
Noncurrent liabilities		
Bonds payable	5,215	4,700
Convertible bond-type bonds with subscription rights to shares	25,000	25,000
Long-term loans payable	281,181	301,627
Lease obligations	2,869	2,542
Deferred tax liabilities	1,766	5,786
Net defined benefit liability	5,126	4,991
Provision for directors' retirement benefits	592	628
Provision for loss on litigation	88	86
Other	2,797	2,765
Total noncurrent liabilities	324,639	348,129
Total liabilities	576,431	604,094
Net assets		
Shareholders' equity		
Capital stock	84,397	84,397
Retained earnings	78,422	83,062
Treasury shares	(6,243)	(6,127)
Total shareholders' equity	156,577	161,333
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,589	11,636
Deferred gains or losses on hedges	(141)	(99)
Foreign currency translation adjustment	8,640	7,595
Remeasurements of defined benefit plans	(582)	(458)
Total accumulated other comprehensive income	9,504	18,674
Non-controlling interests	10,325	10,318
Total net assets	176,408	190,326
Total liabilities and net assets	752,839	794,421

(2) [Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income]
 Quarterly Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Net sales	177,581	187,903
Cost of sales	119,254	128,509
Gross profit	58,326	59,393
Selling, general and administrative expenses	42,383	47,897
Operating income	15,943	11,495
Non-operating income		
Interest income	237	285
Dividends income	762	777
Foreign exchange gains	-	1,081
Share of profit of entities accounted for using equity method	-	36
Reversal of allowance for doubtful accounts	19	-
Other	715	658
Total non-operating income	1,735	2,839
Non-operating expenses		
Interest expenses	1,888	1,743
Foreign exchange losses	7,919	-
Other	1,212	815
Total non-operating expenses	11,020	2,558
Ordinary income	6,659	11,776
Extraordinary income		
Gain on sales of non-current assets	64	56
State subsidy	10	589
Gain on sales of investment securities	-	225
Other	6	23
Total extraordinary income	81	895
Extraordinary loss		
Loss on retirement of non-current assets	199	162
Loss on reduction of non-current assets	-	590
Compensation expenses	-	928
Other	82	651
Total extraordinary losses	282	2,332
Profit before income taxes	6,458	10,339
Income taxes-current	3,365	4,541
Income taxes-deferred	41	(2,659)
Total income taxes	3,407	1,882
Profit	3,051	8,456
Profit attributable to non-controlling interests	127	174
Profit attributable to owners of parent	2,923	8,282

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Profit	3,051	8,456
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,153)	10,047
Deferred gains or losses on hedges	(264)	42
Foreign currency translation adjustment	(18,117)	(1,106)
Remeasurements of defined benefit plans	60	125
Share of other comprehensive income of entities accounted for using equity method	-	(67)
Total other comprehensive income	(21,474)	9,040
Comprehensive income	(18,422)	17,497
Comprehensive income attributable to owners of parent	(17,614)	17,451
Comprehensive income attributable to non-controlling interests	(808)	45

(3) [Quarterly Consolidated Statements of Cash Flows]

(Millions of yen)

	Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	6,458	10,339
Depreciation	14,765	15,751
Impairment loss	0	50
Amortization of goodwill	1,457	1,502
Share of (profit) loss of entities accounted for using equity method	—	(36)
Increase (decrease) in allowance for doubtful accounts	(95)	191
Increase (decrease) in net defined benefit liability	272	146
Interest and dividend income	(1,000)	(1,068)
Interest expenses	1,888	1,743
Foreign exchange losses (gains)	5,090	(530)
Loss (gain) on sales of investment securities	0	(225)
State subsidy	(10)	(589)
Loss on reduction of non-current assets	—	590
Decrease (increase) in notes and accounts receivable-trade	(3,351)	(5,862)
Decrease (increase) in inventories	(8,986)	(3,649)
Increase (decrease) in notes and accounts payable-trade	7,483	(74)
Decrease (increase) in other assets	(20)	4,454
Increase (decrease) in other liabilities	(3,750)	2,913
Other loss (gain)	376	131
Subtotal	20,577	25,778
Interest and dividend income received	984	1,071
Interest expenses paid	(1,859)	(1,698)
Other proceeds	167	87
Other payments	(208)	(277)
Income taxes paid	(3,779)	(3,915)
Net cash provided by (used in) operating activities	15,882	21,045
Cash flows from investing activities		
Payments into time deposits	(6,154)	(2,479)
Proceeds from withdrawal of time deposits	7,226	1,209
Purchase of investment securities	(769)	(415)
Proceeds from sales of investment securities	0	2,287
Purchase of shares of subsidiaries	(8)	—
Purchase of shares of subsidiaries and associates	(424)	(445)
Purchase of non-current assets	(24,207)	(32,401)
Proceeds from sales of non-current assets	176	238
Payments for retirement of non-current assets	(138)	(120)
Proceeds from governmental subsidy income for investment in property and equipment	10	1,592
Net decrease (increase) in short-term loans receivable	(374)	628
Payments of loans receivable	(262)	(177)
Collection of loans receivable	59	16
Other payments	—	(28)
Other proceeds	3	—
Net cash provided by (used in) investing activities	(24,862)	(30,096)

(Millions of yen)

	Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	6,825	7,907
Proceeds from long-term loans payable	68,417	51,379
Repayment of long-term loans payable	(47,375)	(36,238)
Redemption of bonds	(1,682)	(645)
Proceeds from sales of treasury shares	121	116
Purchase of treasury shares	(3,206)	(0)
Purchase of treasury shares of subsidiaries	—	(21)
Repayments of finance lease obligations	(564)	(566)
Cash dividends paid	(2,811)	(3,574)
Dividends paid to non-controlling interests	(28)	(20)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(150)	(57)
Net cash provided by (used in) financing activities	19,545	18,278
Effect of exchange rate change on cash and cash equivalents	(3,509)	875
Net increase (decrease) in cash and cash equivalents	7,056	10,103
Cash and cash equivalents at beginning of period	111,977	112,046
Increase in cash and cash equivalents from newly consolidated subsidiary	237	—
Cash and cash equivalents at end of period	119,271	122,150

(4) Notes Regarding Quarterly Consolidated Financial Statements

(Notes Related to Going Concern)

N/A

(Notes Regarding Significant Changes in the Amount of Shareholders' Equity)

N/A

(Segment Information)

I Six months ended September 30, 2016 (From April 1, 2016 to September 30, 2016)

1. Sales and Profit by Reportable Operating Segment

(Millions of yen)

	Segment				Other (Note.1)	Total	Adjust- ment (Note.2)	Quarterly Consolidated Statements of Income (Note.3)
	Medical- Related	Pharmace- utical- Related	Pharma- Packaging	Total				
Net sales								
(1)Sales to third parties	127,988	34,110	15,467	177,566	15	177,581	—	177,581
(2)Inter-segment sales and transfers	724	4,835	1	5,561	315	5,877	(5,877)	—
Total	128,712	38,945	15,469	183,127	331	183,458	(5,877)	177,581
Segment profit (loss)	14,573	7,569	(372)	21,770	46	21,816	(5,873)	15,943

(Notes)

1. "Other" is the business segment which is not included in the segment and consist of real estate income and sales by headquarter.
2. Adjustment for the segment profit (loss) of (5,873) million yen includes realization of intercompany profits on inventories of 1,974 million yen and corporate cost of (7,847) million yen. Corporate cost primarily consists of general and administrative expenses and research and development cost which do not belong to the reporting segment.
3. Segment profit (loss) is adjusted to the operating income on the quarterly consolidated statements of income.

2. Information about Impairment Loss on Fixed Assets and Goodwill by Reportable Operating Segment

N/A

II Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

1. Sales and Profit by Reportable Operating Segment

(Millions of yen)

	Segment				Other (Note.1)	Total	Adjust- ment (Note.2)	Quarterly Consolidated Statements of Income (Note.3)
	Medical- Related	Pharmace- utical- Related	Pharma- Packaging	Total				
Net sales								
(1)Sales to third parties	139,341	34,733	13,814	187,888	14	187,903	—	187,903
(2)Inter-segment sales and transfers	871	6,767	36	7,675	518	8,193	(8,193)	—
Total	140,212	41,500	13,850	195,563	533	196,096	(8,193)	187,903
Segment profit (loss)	16,442	5,937	(864)	21,515	26	21,542	(10,046)	11,495

(Notes)

1. "Other" is the business segment which is not included in the segment and consist of real estate income and sales by headquarter.
2. Adjustment for the segment profit (loss) of (10,046) million yen includes deduction of intercompany profits on inventories of (233) million yen and corporate cost of (9,812) million yen. Corporate cost primarily consists of general and administrative expenses and research and development cost which do not belong to the reporting segment.
3. Segment profit (loss) is adjusted to the operating income on the quarterly consolidated statements of income.

2. Information about Impairment Loss on Fixed Assets and Goodwill by Reportable Operating Segment

N/A