

Summary Report of Consolidated Financial Results

For the Nine Months Period ended December 31, 2018



February 7, 2019
TSE-1st section

Company name: NIPRO CORPORATION

Code No.8086

URL: <http://www.nipro.co.jp/>

Representative: Yoshihiko Sano, President and Representative Director

Contact person: Takehito Yogo, Managing Director of Corporate Planning Headquarters

TEL: (06)6372-2331

Filing date of quarterly reporting: February 14, 2019

Payment date of cash dividends: -

Supplemental material on quarterly reporting: No

Presentation on quarterly results: No

(Note: Amounts less than one million yen are rounded down)

1. Consolidated Results for the Nine Months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

(1) Consolidated Results of Operations

(%: Changes from the corresponding 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	%
9 months ended December 31, 2018	321,312	9.3	20,411	(1.8)	18,772	(6.7)	9,852	(28.7)
9 months ended December 31, 2017	293,869	8.8	20,775	(20.5)	20,118	(15.1)	13,824	(1.8)

Note: Comprehensive income 9 months ended December 31, 2018: (2,323) million yen (- %) 9 months ended December 31, 2017: 24,997 million yen (- %)

	Earnings per share	Diluted Earnings per share
	Yen	Yen
9 months ended December 31, 2018	59.62	54.03
9 months ended December 31, 2017	83.16	75.41

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	845,887	171,345	19.0
As of March 31, 2018	826,447	183,485	20.9

Note: Equity December 31, 2018: 160,557 million yen March 31, 2018: 172,621 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, 2018	-	17.50	-	11.00	28.50
Year ending March, 2019	-	19.00			
Year ending March, 2019 (Forecast)			-	13.00	32.00

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, 2019 (From April 1, 2018 to March 31, 2019)

(%: Changes from the corresponding period of 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, 2019	428,200	8.3	24,900	(8.1)	24,100	6.2	14,700	24.3	89.40

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

Table of Contents

1. Qualitative Information for the Nine-Months Period ended December 31, 2018.....	2
(1) Commentary on Business Results.....	2
(2) Analysis Concerning Financial Position.....	4
(3) Commentary on Forward-Looking Statements Including Forecast of Consolidated Financial Results.....	4
2. Quarterly Consolidated Financial Statements and Major Notes.....	5
(1) Quarterly Consolidated Balance Sheets.....	5
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income.....	7
(3) Notes Regarding Quarterly Consolidated Financial Statements.....	9
(Notes Regarding Going Concern).....	9
(Notes Regarding Significant Changes in the Amount of Shareholders' Equity).....	9
(Additional Information).....	9
(Segment Information).....	9

1. Qualitative Information for the Nine-Months Period ended December 31, 2018

(1) Commentary on Business Results

The global economy, during the third quarter of the consolidated cumulative period, saw increased instability as countries turned inwards and adopted protectionist policies, against the backdrop of a United States-China trade war, heightening the sense of uncertainty about the future. Meanwhile, in the Japanese economy, corporate earnings continued to recover steadily.

There was a significant impact in the medical device and pharmaceutical industries from the 2018 drug price revisions. Conditions are harsher as drug price revisions continue annually, with further planned in accordance with the revision of the consumption tax scheduled for October of this year. Even under these circumstances, the Nipro Group has made efforts to achieve top share in Japan, increase international sales and cut production costs, and worked to improve business performance, advancing the development of the products which are more concerned about the users.

As a result, sales for the third quarter of the consolidated cumulative period increased YoY by 9.3% from the same period of the previous year to 321,312 million yen. Despite increased profit owing to increased sales absorbing an impact from the revised drug prices, operating profit decreased by 1.8% YoY to 20,411 million yen due to an intercompany profit deduction amount of 2,287 million yen in inventories this quarter compared to an amount of 668 million yen in the same period of the previous year (as a result of revisions to transaction prices within the Group and changes to some distribution channels), and due to higher research and development costs and other running expenses. Furthermore, while 959 million yen in gains on foreign exchange were recorded in the same period of the previous year as the yen remained weak in relation to major currencies, this quarter 1,175 million yen in losses on foreign exchange were recorded as the yen gradually strengthened and the Turkish lira and Indian rupee weakened. Accordingly, ordinary profit decreased by 6.7% YoY to 18,772 million yen. Moreover, while corporate income tax was low in the same period of the previous year due to the tax effects of the merging of unprofitable subsidiaries, this quarter income tax relatively increased YoY owing to the reduction in loss-making subsidiaries. As a result, the third quarter profit attributable to owners of parent decreased YoY by 28.7% to 9,852 million yen.

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

From the first quarter of this fiscal year, we made changes to the reporting segments. For more information, please refer to “2. Notes Concerning Changes to Reporting Segments” under “2. Quarterly Consolidated Financial Statements and Major Notes, (3) Notes Regarding Quarterly Consolidated Financial Statements, (Segment Information), II Nine months ended December 31, 2018”. The following year-on-year comparisons have been calculated using numerical values of the same period last year which have been rearranged into the revised segments.

(i) Medical-Related Business

The market environment in domestic sales became severe as medical fees and drug prices were revised in April of last year. Under these circumstances, in the Medical Sales Division, sales 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 SAFETOUCH™ infusion system next to HDF filters (dialysis products) and dialysis machines. In the Pharmaceutical Sales Division, sales showed favorable increase owing to strengthened sales promotion of anti-allergic agent Bepotastine Besilate (TALION AG). In addition, sales of oral and external use drugs and sales of injection grew mainly centered on dispensing pharmacies and DPC hospitals, respectively, owing to the effects of collaborations with pharmaceutical wholesalers. Moreover, in regard to regenerative medicine, for the “autologous bone marrow mesenchymal stem cells for use in spinal cord injury treatments” (Investigational drug identification code: STR01) that we are jointly developing with Sapporo Medical University and submitted an application to the Ministry of Health, Labour and Welfare for the manufacture and sales approval as a “regenerative medicine product” on June 29 of last year, we obtained approval with conditions and time

limit on December 28 of the same year.

Meanwhile, overseas, as a result of proactive sales activities around the world, sales of dialysis machines remained favorable and accordingly sales of mainstay dialysis products such as dialyzers grew steadily. Moreover, in regard to hospital products, we launched diffusion brand syringes for developing countries and it helped to increase sales. In Latin America, our self-established dialysis centers operated smoothly and contributed greatly to sales through the provision of optimum treatment environments rooted in the local area as well as medical technology and training facilities. In Malaysia, the sales base moved to the new office with a training center for healthcare professionals. In addition, we established a new sales base in Brazil and are continuing to reinforce direct selling system. Going forward, we will continue quickly responding to front line needs through the enhancement of direct sales, working to enhance customer satisfaction and expand sales.

Regarding our overseas production bases, the two-line framework for dialyzer production at the factory in Hefei/China operated smoothly and profitability was greatly enhanced as a result of enhanced productivity. At the same time as starting the operation of a second line at our factory in India this year, we will strengthen the overseas production framework of dialyzers, such as by continuing to add third lines, and will build a framework which can supply high-quality products globally without delay. As a result, net sales of this business increased 12.0% YoY to 247,883 million yen.

(ii) Pharmaceutical-Related Business

In the Pharmaceutical-Related Business, we have promoted the contract manufacturing and contract development of pharmaceuticals to respond accurately to the diverse needs of our corporate customers. We have focused on proposals for the comprehensive contract manufacturing of oral, injection and external use drug formulations manufacturable by the Nipro Group in addition to various highly pharmacologically active formulations such as antibiotics, steroids, and carcinostatic agents. Furthermore, we have also focused on the manufacturing of investigational drugs and the contract services for inspection and packaging. Moreover, we have also been proactive in the proposal-based sales of the use and set-packaging proposals of pharmaceutical containers and administration systems which we have developed and for which we own production frameworks.

As a result, net sales of this business increased 0.5% from the previous year to 46,548 million yen.

(iii) PharmaPackaging Business

In the PharmaPackaging Business, which handles primary containers as well as medical devices such as devices for the preparation and administration of pharmaceuticals, we delivered a framework which can contribute to the lifecycle management of pharmaceuticals through one-stop solutions.

Overseas, sales in China was continually affected by production adjustment due to shortage of drug supply in pharmaceutical companies, however, sales of high-quality vials and ampules increased year on year. In Europe and the United States, sales of syringes in Germany, glass tubes in France and vials in the United States grew significantly. Moreover, exports of vials and ampules rose solidly in Russia. In India, the new processing plant with state-of-the-art equipment started its operation in Pune, Maharashtra.

In Japan, sales of vials and rubber stoppers were favorable and we had also secured consistent sales of glass tube. While the switching to new mat components and inventory adjustments impacted sales of thermos bottles, going forward, we will strive toward recovery by enhancing assembly manufacturer inventory sales. As to medical device, sales of dental special needles and injection system showed favorable increase. At the Biwako Plant, we are thoroughly improving quality and further automation and efficiency, and optimizing the production environment through the introduction of new equipment.

As a result, net sales of this business increased 2.7% YoY to 26,856 million yen.

As a comprehensive manufacturer of pharmaceutical packaging materials which covers any pharmaceutical materials,

the PharmaPackaging Business Division will continue to strive to expand business by developing and introducing advanced products to the market that meet medical needs of countries all over the world.

(iv) Other Business

Among other business, net sales from the real-estate rental business, etc. were 23 million yen (up 5.6% YoY).

(2) Analysis Concerning Financial Position

Assets, liabilities, and net assets

Total assets increased 19,440 million yen from the end of the previous consolidated fiscal year to 845,887 million yen at the end of the third quarter under review. Current assets increased 15,674 million yen and noncurrent assets increased 3,765 million yen. The main reason for the increase in current assets was an increase of 13,581 million yen in notes and accounts receivable-trade, and the main reason for the increase in noncurrent assets was an increase of 7,722 million yen in Buildings and structures, net.

Total liabilities increased 31,580 million yen from the end of the previous consolidated fiscal year to 674,541 million yen. Current liabilities increased 23,080 million yen and noncurrent liabilities increased 8,500 million yen. The main reason for the increase in current liabilities was an increase of 19,072 million yen in short-term loans payable, and the main reason for the increase in noncurrent liabilities was an increase of 9,700 million yen in Bonds payable.

Total net assets decreased 12,139 million yen from the end of the previous consolidated fiscal year to 171,345 million yen. Shareholders' equity increased 73 million yen and accumulated other comprehensive income decreased 12,137 million yen. As a result, equity ratio decreased by 1.9% from the end of the previous year to 19.0%.

(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, 2019, which was announced on November 6, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes
(1) [Quarterly Consolidated Balance Sheets]

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current Assets		
Cash and deposits	141,940	132,205
Notes and accounts receivable-trade	140,511	154,092
Merchandise and finished goods	89,146	92,802
Work in process	11,431	12,220
Raw materials and supplies	28,640	30,631
Other	18,854	24,131
Allowance for doubtful accounts	(1,437)	(1,321)
Total current assets	429,087	444,762
Non-current assets		
Property, plant and equipment		
Buildings and structures	207,198	220,262
Accumulated depreciation and impairment loss	(98,987)	(104,328)
Buildings and structures, net	108,211	115,934
Machinery, equipment and vehicles	258,817	268,240
Accumulated depreciation and impairment loss	(180,543)	(190,895)
Machinery equipment and vehicles, net	78,273	77,344
Land	32,079	34,013
Leased assets	3,707	5,293
Accumulated depreciation	(2,746)	(2,951)
Leased assets, net	960	2,341
Construction in progress	37,537	37,145
Other	54,423	58,361
Accumulated depreciation and impairment loss	(41,213)	(44,197)
Other, net	13,210	14,164
Total property, plant and equipment	270,273	280,944
Intangible assets		
Goodwill	27,358	25,318
Leased assets	2,366	2,236
Other	16,268	18,115
Total intangible assets	45,994	45,670
Investments and other assets		
Investment securities	62,936	55,342
Deferred tax assets	10,354	11,626
Other	12,644	10,716
Allowance for doubtful accounts	(4,844)	(3,176)
Total investments and other assets	81,091	74,510
Total non-current assets	397,359	401,124
Total assets	826,447	845,887

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade	62,105	70,714
Short-term loans payable	117,666	136,738
Commercial papers	10,000	10,000
Current portion of bonds	1,215	900
Lease obligations	1,198	1,336
Accounts payable-other	16,461	12,739
Accrued directors' bonuses	328	—
Income taxes payable	4,993	3,461
Provision for bonuses	4,364	5,788
Provision for directors' bonuses	131	408
Notes payable-facilities	11,304	9,226
Other	21,415	22,951
Total current liabilities	251,184	274,264
Non-current liabilities		
Bonds payable	5,000	14,700
Convertible bond-type bonds with share acquisition rights	25,000	25,000
Long-term loans payable	350,517	347,507
Lease obligations	2,544	3,762
Deferred tax liabilities	473	263
Net defined benefit liability	4,530	4,741
Provision for directors' retirement benefits	647	700
Provision for loss on litigation	202	223
Other	2,861	3,377
Total non-current liabilities	391,776	400,276
Total liabilities	642,961	674,541
Net assets		
Shareholders' equity		
Capital stock	84,397	84,397
Retained earnings	83,570	88,465
Treasury shares	(6,004)	(10,826)
Total shareholders' equity	161,963	162,036
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(712)	(7,137)
Deferred gains or losses on hedges	(69)	(9)
Foreign currency translation adjustment	11,404	5,590
Remeasurements of defined benefit plans	36	78
Total accumulated other comprehensive income	10,658	(1,478)
Non-controlling interests	10,863	10,787
Total net assets	183,485	171,345
Total liabilities and net assets	826,447	845,887

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

(Millions of yen)

	Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Net sales	293,869	321,312
Cost of sales	199,475	222,092
Gross profit	94,393	99,220
Selling, general and administrative expenses	73,618	78,808
Operating profit	20,775	20,411
Non-operating income		
Interest income	430	527
Dividends income	983	1,082
Foreign exchange gains	959	—
Share of profit of entities accounted for using equity method	117	63
Other	1,157	1,622
Total non-operating income	3,648	3,295
Non-operating expenses		
Interest expenses	2,580	2,470
Foreign exchange losses	—	1,175
Other	1,725	1,289
Total non-operating expenses	4,305	4,935
Ordinary profit	20,118	18,772
Extraordinary income		
Gain on sales of non-current assets	60	124
State subsidy	590	557
Gain on sales of investment securities	735	0
Gain on bargain purchase	—	317
Other	1	0
Total extraordinary income	1,386	999
Extraordinary loss		
Loss on sales of non-current assets	218	32
Loss on retirement of non-current assets	254	134
Loss on reduction of non-current assets	590	114
Impairment loss	55	606
Compensation expenses	1,012	19
Custom duty for prior periods	—	468
Other	629	440
Total extraordinary losses	2,760	1,818
Profit before income taxes	18,744	17,953
Income taxes-current	6,850	6,706
Income taxes-deferred	(2,371)	1,279
Total income taxes	4,478	7,986
Profit	14,265	9,967
Profit attributable to non-controlling interests	440	114
Profit attributable to owners of parent	13,824	9,852

Quarterly Consolidated Statements of Comprehensive Income

	Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
Profit	14,265	9,967
Other comprehensive income		
Valuation difference on available-for-sale securities	8,921	(6,424)
Deferred gains or losses on hedges	47	59
Foreign currency translation adjustment	1,717	(5,832)
Remeasurements of defined benefit plans	167	33
Share of other comprehensive income of entities accounted for using equity method	(122)	(127)
Total other comprehensive income	10,731	(12,291)
Comprehensive income	24,997	(2,323)
Comprehensive income attributable to owners of parent	24,574	(2,284)
Comprehensive income attributable to non-controlling interests	423	(38)

(3) Notes Regarding Quarterly Consolidated Financial Statements

(Notes Regarding Going Concern)

N/A

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

Based on a resolution passed on July 3, 2018, at the meeting of the board of directors, the Company acquired treasury stocks of 3,520,600 shares. Due to the acquisition, treasury stocks increased by 4,821 million yen during the third quarter of the consolidated cumulative period ended on December 31, 2018 to 10,826 million yen as of the end of the period.

(Additional Information)

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

The company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the consolidated cumulative period. Due to this application, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

(Segment Information)

I Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 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	221,378	46,327	26,141	293,847	22	293,869	—	293,869
(2)Inter-segment sales and transfers	1,244	10,520	3,811	15,576	801	16,378	(16,378)	—
Total	222,622	56,848	29,952	309,424	823	310,248	(16,378)	293,869
Segment profit (loss)	27,735	8,234	414	36,384	42	36,427	(15,651)	20,775

(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 (15,651) million yen includes deduction of intercompany profits on inventories of (668) million yen and corporate cost of (14,983) 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.

II Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

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	247,883	46,548	26,856	321,288	23	321,312	—	321,312
(2)Inter-segment sales and transfers	5,594	13,356	3,736	22,687	1,021	23,708	(23,708)	—
Total	253,478	59,904	30,593	343,976	1,044	345,020	(23,708)	321,312
Segment profit (loss)	30,852	7,505	610	38,967	81	39,049	(18,637)	20,411

(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 (18,637) million yen includes deduction of intercompany profits on inventories of (2,287) million yen and corporate cost of (16,350) 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. Notes Concerning Changes to Reporting Segments

Since the first quarter of this fiscal year we have performed a comprehensive development of the PharmaPackaging business and, in order to enhance the synergy effects with pharmaceutical sales, we carried out organizational changes. As a result of this change, some business divisions previously categorized as Pharmaceutical-Related have been included in PharmaPackaging.

The segment information for the period ended December 31, 2017 is prepared based on the reportable segment after the reclassification.

3. Information about Impairment Loss on Fixed Assets and Goodwill by Reporting Segments

(Significant impairment loss on fixed assets)

During the third quarter of the consolidated cumulative period ended on December 31, 2018, impairment losses of 4 million yen and 602 million yen were recorded in Medical-Related segment and PharmaPackaging segment, respectively.

(Significant gain on negative goodwill)

During the third quarter of the consolidated cumulative period ended on December 31, 2018, in Pharmaceutical-Related segment, a gain on negative goodwill of 317 million yen resulting from the transfer of business from Mylan Seiyaku Ltd. was recorded.