Annual Report 2018

Year Ended March 31, 2018

NIPRO
Your Partner in Health Care

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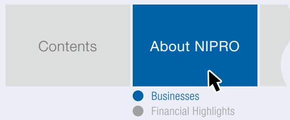
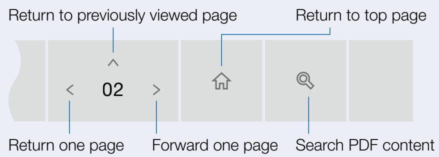


Using Navigation Button



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Disclaimer

This report contains forward-looking statements regarding business indices, strategies and performance representing the expectations and judgments of the management, based on information available to the Company and publishable at the time this report was prepared. When reading this report, please understand that forward-looking statements involve potential risks and uncertainties; actual future business performance and forecasts may therefore differ materially from those contained in these statements, given the possible emergence of new factors or changes in economic circumstances and/or the business environment.

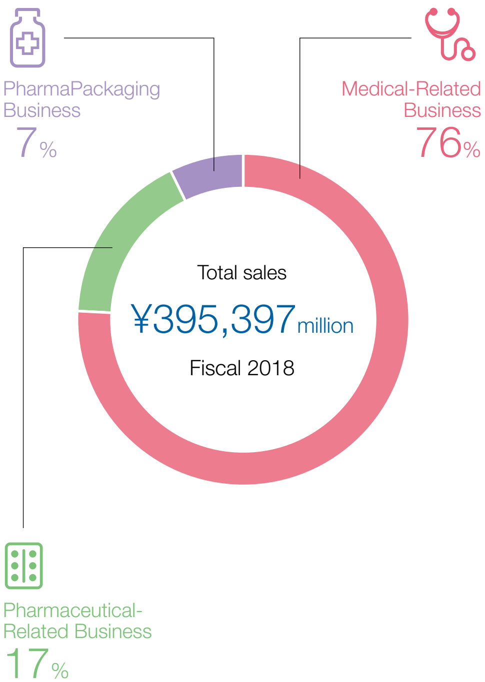
In this report, fiscal 2018 represents the year ended March 31, 2018.

About NIPRO

Businesses

We Meet the Needs of Medical Professionals and Patients through Our Three Businesses

Sales ratio by business



Medical-Related Business →

Nipro engages globally in the development, manufacture, and sale of medical equipment for injection-infusion and dialysis treatment, and products related to diabetes and cell cultures, as well as the sale of artificial organ-related products and generic drugs.

Renal Products

Injection Products


Infusion Products

Pharmaceutical-Related Business →

One of the world's leading CDMO* companies, Nipro performs contract manufacturing of orally administered drugs, injectables, and external preparations through its Pharmaceutical-Related Business, and supplies products to pharmaceutical companies in Japan and around the world.

* Contract Development and Manufacturing Organization


Injectables


Orally Administered Drugs


External Preparations

PharmaPackaging Business →

Nipro's PharmaPackaging Business, a part of the company since its founding, manufactures and sells glass products and other comprehensive pharmaceutical packaging. Currently, Nipro engages in this business globally from a base of 14 companies and 15 plants in 8 countries, focused on Japan, China, Europe, and the U.S.


Glass Molding


Glass Tubing


Nasal Administration Device

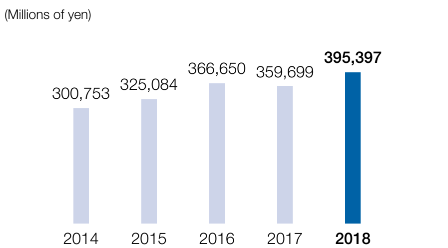
About NIPRO

Financial Highlights

▶ Net sales

395,397 millions of yen

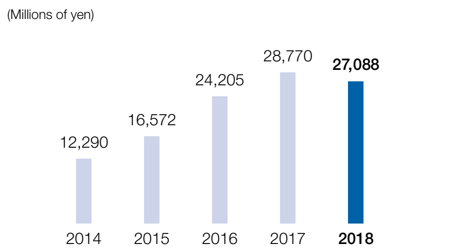
Net sales increased 9.9% from fiscal 2017 due to favorable Medical-Related sales.



▶ Operating income

27,088 millions of yen

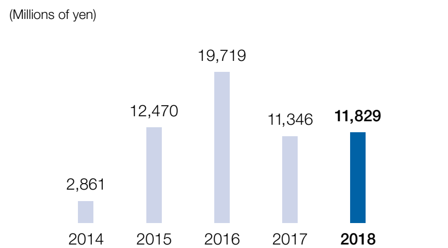
Operating income decreased 5.8% from fiscal 2017 due to significantly increased R&D.



▶ Net income attributable to owners of parent

11,829 millions of yen

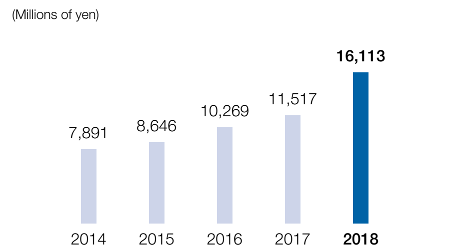
Despite recording extraordinary losses, net income attributable to owners of parent increased 4.2% due to reduced income taxes.



▶ R&D expenses

16,113 millions of yen

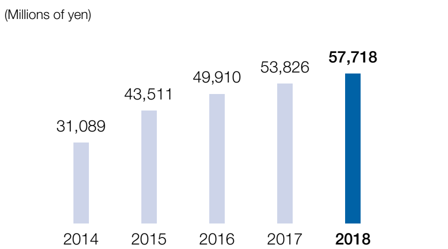
Nipro worked on development of regenerative medicine and high-quality generic drugs.



▶ Capital expenditures

57,718 millions of yen

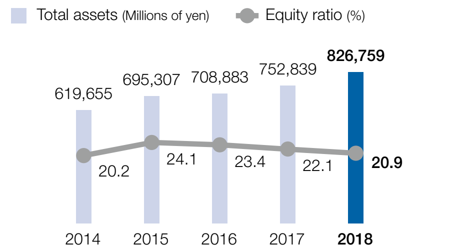
Capital expenditures increase 7.2% from fiscal 2017 mainly due to investments in domestic and foreign manufacturing facilities.



▶ Total assets / Equity ratio

Total assets:
826,759 millions of yen

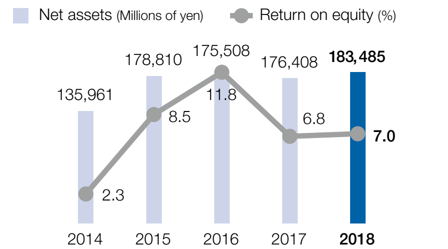
Total assets increased by ¥73,920 million from fiscal 2017 and the equity ratio stood at 20.9%.



▶ Net assets / Return on equity

ROE:
7.0 %

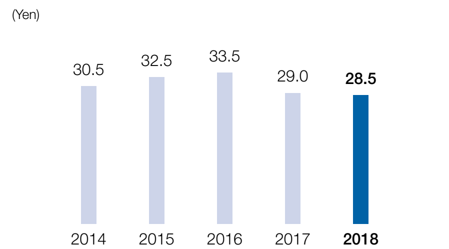
Return on equity increased 0.2 percentage points from fiscal 2017 due to an increase in net income attributable to owners of parent.



▶ Cash dividends per share

28.5 yen

Nipro paid ¥28.5 per share for the year, including an interim dividend of ¥17.5 per share.



Management Message

A Message from the President

Further Enhancing Product Competitiveness with Continued Global Development Efforts

Reporting of accounts for fiscal year ended March 31, 2018

Net sales for the fiscal year ended March 31, 2018, increased 9.9% over the previous year. Medical-Related business continued to show strength in each major product, and sales increased more than originally anticipated. The Nipro Group's main product, dialyzers, in particular saw growth overseas. Although continued strengthening of the North American sales network has been successful, further expansion is expected thanks to the acquisition of CardioMed Supplies Inc in Canada as of January 2018. Even in China, where we enjoy rock-solid sales trends, low-priced dialysis products are becoming more prevalent, which we expect will bring about full-scale growth of Nipro products with high customer satisfaction. In India, dialyzers are becoming increasingly common at medical facilities, and we are working on constructing a reliable sales network that can match the country's growth.

Meanwhile, sales of vascular products in Japan were very strong. The competitiveness of Nipro's market-launched products remains impressive, and by introducing new products, we expect to claim a majority share of overall vascular products in the near future.

PharmaPackaging business performance, however, was slightly lower than expected. Pharmaceutical-Related business also struggled. The main factor for this was the influence of restrained purchasing in anticipation of the 2018 National Health Insurance (NHI) drug price revisions, particularly toward the end of the last fiscal year. The NHI drug price revisions will have a significant impact on accounts for the coming fiscal year, and we anticipate negative impacts on Medical-Related business and Pharmaceutical-Related business.

Yoshihiko Sano
President & Representative Director

Results

▶ Net sales

¥395,397 million
9.9% ↗ increase from fiscal 2017

▶ Operating income

¥27,088 million
5.8% ↘ decrease from fiscal 2017

▶ Net income attributable to owners of parent

¥11,829 million
4.2% ↗ increase from fiscal 2017

Management Message

A Message from the President

Product competitiveness: The essence of the company

At Nipro, we develop products based on users' viewpoints, and our basic policy is to continue providing users with high-quality products that meet their needs.

Making sure we can continue implementing this policy requires various upfront investments, which is why our capital expenditures and R&D expenditures are large. Only by continuing to introduce high-quality products in the market will Nipro be able to continue to grow. In other words, our survival as a manufacturer depends on our product competitiveness. For the coming fiscal year, capital investments are expected to be 55.6 billion yen, while research and development expenses are expected to reach 16.4 billion yen. We will continue to invest in developing highly competitive products without lowering these levels. Moreover, our product development process includes direct contact with hospitals and doctors, earning us a high level of trust from various medical institutions. By leveraging this sales force, we can develop products with higher competitiveness than specialized manufacturers.

In the Medical-Related business, as demand for dialyzers—Nipro's main product—is expected to increase in Latin America, Asia, the Middle East, India, China, and other emerging countries, Nipro is dedicated to strengthening its sales activities in each country. Moreover, as mentioned above, sales of vascular products have increased greatly in Japan due to the high quality of Nipro products. For this reason, our goal is to continue to increase our Japanese market share in the future in the hopes that the product will see increased growth overseas, just as with Nipro dialyzers. Regarding generic drugs, although sales from about three years ago were less than 50 billion yen, sales are expected to exceed 70 billion yen in the coming fiscal year.

As for Pharmaceutical-Related business, the trend in OEM production of domestic pharmaceutical companies remains unchanged. However, growth is expected to continue for going forward for outsourced manufacturing, which offers one of the world's most productive capabilities. Meanwhile, we remain dedicated to developing new products in PharmaPackaging business. Finally, our products in China continue to become better quality as our high-value-added vials and glass ampoules begin to attract a wide variety of attention, generating a tailwind in the businesses from emerging countries.

Management Message

A Message from the President

Striving for a sales target of 500 billion yen as a management objective

Nipro's management target for the fiscal year ending March 31, 2021 is consolidated net sales of 500 billion yen. We believe that we have already set in place the measures necessary to achieve that goal. As such, we expect to reach the goal without issues, although the actual date of accomplishment is not guaranteed. We are currently concentrating our efforts on further investment with an eye to the future with the following three points as the main focus.

The first focal point is strengthening our overseas business. First, the establishment of regional headquarters—as is already under way in Europe—will continue throughout the world, thus establishing a hub from which we can continue to expand our numerous overseas group bases. Current plans are to establish regional headquarters in China and the US. Regional headquarters will be responsible for various functions—originally the responsibility of the head office—such as regional compliance, quality assurance, acquisition of permits and licenses, financing, and personnel affairs. This will allow us to build a powerful structure that enables autonomous and accelerated growth in each region without diverging from the internal management structure of the Nipro Group. Even while overseas business continues to grow and expand, we believe that this new structure will be a valuable asset as going forward as we look toward full-fledged expansion of vascular products.

The second focal point is expanding Nipro's product fields. Specifically, we anticipate significant growth in orthopedic surgery and regenerative medicine. For orthopedic surgery, the Nipro Group will utilize the business foundation established by NexMed International Co., Ltd., which was acquired in January 2017, as a starting point, and through the addition of synergies by introducing newly developed products, we believe medium- to long-term growth will be possible. For regenerative medicine, because a patient's own cells are grown in culture and treated, side effects are less likely, opening the door to revolutionary medical treatment that eliminates the need for surgical operations. Following submittal of manufacturing and marketing approval applications in June 2018, we have been steadily working toward practical applications. Moreover, this field offers a high possibility for growth as more and more treatment areas become viable.

Finally, the third focal point is securing talented personnel. Proficiency in the medical field is not something that can be gained over only a short period but instead requires extensive experience and accumulated skill. As such, Nipro strives to create an environment that makes this possible. Women in particular are faced with having to retire due to marriage, childbirth, and child rearing, for example. However, the loss of experienced female employees is a major setback for Nipro. To counter this, we have introduced a "Job Return Program" that makes it easier for employees who have left the workforce to return, making it possible for those with extensive medical knowledge to continue working as long as possible. Moreover, in addition to offering staggered working hours for employees with childcare or nursing care responsibilities, Nipro has also established nurseries at factories and laboratories throughout Japan in an effort to improve the workplace environment.

Management Message

A Message from the President

Nipro's desired corporate image

At Nipro, we believe our current and future responsibility to society is to develop innovative, value-added products and technologies that improve patient outcomes and healthcare worldwide. This is the management philosophy under which we promote our business activities. We are dedicated to providing satisfying products for medical professionals and patients from the user's viewpoint.

Nevertheless, so long as the company remains a major player in medical care, we must set our sights even higher. Even if we are able to treat diseases and therefore increase the average life expectancy, the individuals themselves will not live happy lives if they continue to have periods of unhealthiness. For this reason, Nipro should work toward contributing to the improvement of quality of life (QOL), which offers even greater increases to health expectancy. As a means to contributing to QOL advancements in the future, Nipro aims not only to help promote regenerative treatments but also to develop inspection and treatment equipment that uses electromagnetic waves.

In order for us to contribute to greater health expectancy—that is, to ensure users a happy life—we must consider from a broader perspective than our business activities. When faced with something that we cannot do alone, perhaps collaborating with competitors will allow us to develop a more comprehensive system of products and services. Moreover, incorporating the development capabilities of venture companies and forming good relationships with suppliers are indispensable factors for contributing to society through our business activities. This of course means performing our daily tasks—from maintaining product sales networks and strengthening maintenance systems to implementing more comprehensive employee training and integrating with acquired companies—with a keen eye to the idea of "improving the health of people." It is also important to provide generous opportunities and support to those employees that show such levels of willingness.

At Nipro, our goal is to become a "truly global comprehensive health care company" that is able to respond to a wide variety of medical needs. We ask our shareholders for their kind support and understanding as we continue working toward this goal.

July 2018

Yoshihiko Sano
President & Representative Director

Management Message

A Message from the CFO

Consolidated earnings forecast for fiscal year ending March 31, 2019

For the coming fiscal year, the consolidated earnings forecast indicates net sales are set to increase by 7.9% to 426.8 billion yen through an active focus on sales both in Japan and overseas. With regard to profit, however, we anticipate a decrease of about 15 billion yen overall—4 billion yen for medical devices and 11 billion yen for medicines—as a result of the NHI drug price revisions of April 2018. In addition to increases in expenses due to an expansion of the company's scale of sales, research and development expenses for cell therapy medicine are expected to increase, resulting in a decrease in operating profit by 13.6% to 23.4 billion yen. Net income attributable to owners of parent is expected to increase by 20.0% to 14.2 billion yen.

The assumed exchange rates for these performance forecasts are 105 yen per dollar and 130 yen per euro. The Nipro Group has business developments in 56 countries with overseas sales—accounting for 39% of current total sales—steadily increasing every year. Although exchange rates remained relatively stable throughout the year, Nipro will continue to consider measures to mitigate the impact of exchange rate fluctuations as a means to reduce foreign exchange risks.

Ensuring Stable Future Profit while Implementing Stable and Continuous Dividends

Takehito Yogo
CFO

Aggressive capital investments

To continue providing users with high-quality products that meet the needs of our customers, Nipro continues to conduct aggressive capital investments. Capital investment for the fiscal year ended March 31, 2018 increased 7.2% to 57.7 billion yen. In Japan, Nipro invested 2.5 billion yen in installation of syringe manufacturing facilities at its Odate Plant, 2.4 billion yen in the medical rubber components manufacturing facilities and building at the Biwako Plant, and various other regenerative medicine research and development centers and the like. Moreover, we have invested 5.5 billion yen in inspection and packaging facilities as a result of increased demand for Nipro Pharma Corporation contract manufacturing. Overseas, we have also invested 2.3 billion yen in dialyzer manufacturing facilities at Nipro India Corporation Private Limited in response to vigorous demand for increased dialysis treatments.

In the coming fiscal year, capital investments are scheduled to be 24 billion yen for Medical-Related business, 17.9 billion yen for Pharmaceutical-Related business, and 7.3 billion yen for PharmaPackaging business, resulting in an expected total of 55.6 billion yen.

Dividend policy

Nipro believes that returning profit to shareholders is one of the most important and effective management measures. We intend to strengthen the foundation of each of the Development, Production, and Sales departments from a long-term perspective, and strive to increase Nipro's revenue as well as aim for rational profit distribution based on a sliding wage scale system. In determining the dividend amount, we have adopted the concept of consolidated payout ratio. For the fiscal year ended March 31, 2018, we set the base for profit dividends by summing two-thirds of non-consolidated net income and one-third of consolidated net income, and use 40% of it as the source for dividends, resulting in an annual dividend of 28.5 yen per share.

For the fiscal year ending March 31, 2019, we plan to set the base profit for dividends by summing three-quarters of consolidated net income and one-quarter of non-consolidated net income, and use 39% of it as the source of dividends. We plan to reduce the distribution ratio of the source of dividends by 1% each fiscal year, while paying attention to strengthening our financial structure and stabilizing dividends, to around 35% in approximately four years' time.

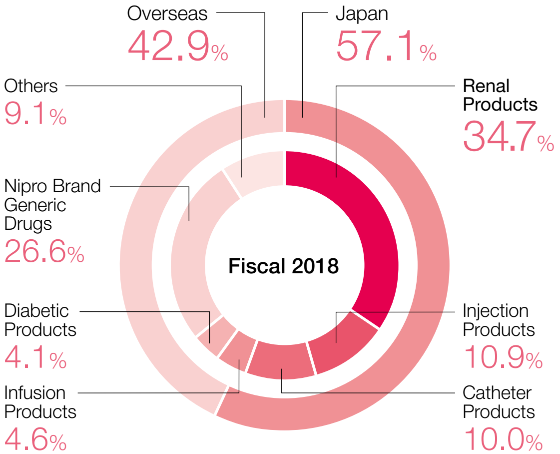
Review of Operations

Medical-Related Business

▶ Net sales

Total ¥300,117 million

▶ Sales distribution ratio by region and product



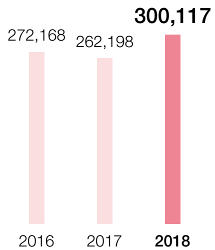
Financial Results for Fiscal 2018

Net sales for the fiscal year ended March 31, 2018 increased 14.5% to ¥300,117 million.

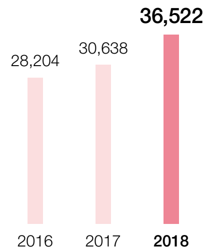
Sales in Japan remained firm in all product areas. Sales of dialyzers (renal products) followed by drug-eluting balloon catheters (vascular products) and left implantable auxiliary artificial hearts (cardiac surgery products) in particular grew strongly. In the Pharmaceutical Sales Division, we launched Nipro Brand's first authorized generic in March 2018, capturing a significant share of the market in its first month and contributing to sales and income.

Overseas sales activity also displayed healthy growth due to enhanced sales in mainstay renal products, such as dialyzers, and hospital products, with favorable sales of new model dialysis machines contributing to revenue.

▶ Net sales
(Millions of yen)



▶ Operating income
(Millions of yen)



Strategy and Outlook for Fiscal 2019

For the coming fiscal year, we expect net sales to increase 8% from the fiscal year under review to ¥324,200 million.

We will vigorously push forward the enhancement of product lineups and launch of new products →Point in the areas of renal, diabetes, vascular and surgical devices to expand our market share.

Overseas, we will work to obtain greater market share in renal products such as dialyzers and dialysis machines, adopting a hands-on approach and global end-user's perspective-based policy. Moreover, we will proactively engage in establishing new sites in emerging markets such as India and China and strengthening cooperation with a major dialysis clinic group in Europe.

POINT

Launch of Telemedicine Support Equipped Monitoring System NIPROHeartLine™

NIPROHeartLine™ was introduced to enhance the convenience and quality of home healthcare. We will provide a sense of security to patients and their families by connecting them in real-time to medical staff.

Medical-Related Business

TOPICS

Initiatives in Top Priority Markets

North America

Sales Expansion Owing to Acquisition of CardioMed Supplies Inc.

In January 2018 we acquired CardioMed Supplies Inc., a local distributor of our renal products for approximately 25 years in Canada. The company also boasts 40 years of sales growth since its establishment and a high degree of market recognition. This is our first sales site in Canada. Through this acquisition we will enhance our business by complementing product capabilities and sales strengths, focusing on expanding market reach. In fiscal 2018 we achieved US$100 million in sales in North America and, including the favorable effect by this acquisition, we expect an increase in sales of around 30% next fiscal year.

Sales Expansion of Dialyzers

▶ Sales Volume Year Over Year 181 % Increase

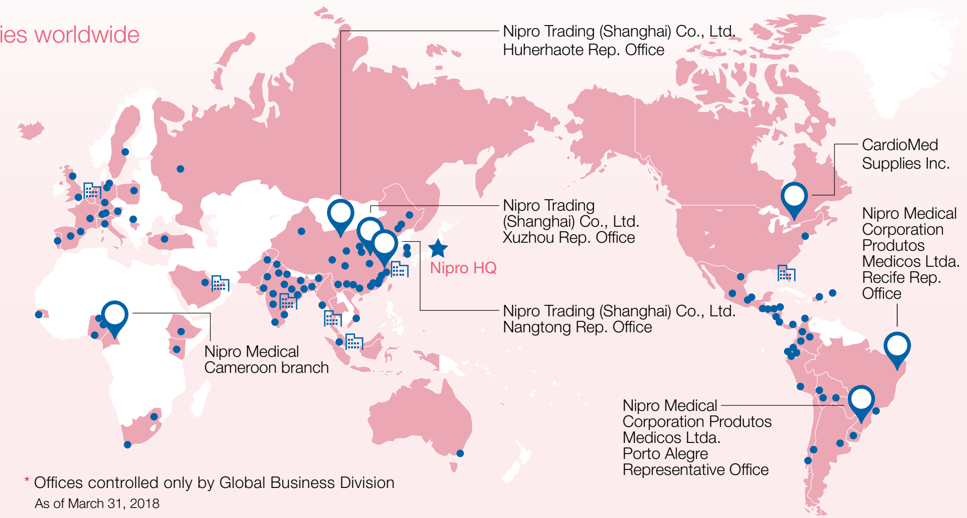
The sales volume of dialyzers skyrocketed by 181% year over year in fiscal 2018. In fiscal 2019 we aim to further expand sales and expect an increase of 128%.

Furthermore, we also expect other key products such as blood tubing sets and AVF needles to show healthy revenue growth in fiscal 2019.

Expansion of Overseas Sites

▶ 128 sales sites in 54 countries worldwide

With the accessibility of our products to every corner of the world as our mission, Nipro continues to proactively expand overseas sites.
We established complementary sales sites in Cameroon, Brazil and China in the first half of fiscal 2018. In the second half we established complementary sites in Canada, and further expanded in Brazil and China.



* Offices controlled only by Global Business Division
As of March 31, 2018

China

Sales Expansion of Dialyzers and Dialysis Machines

▶ Sales Volume* Year Over Year

115% Increase in Dialyzers   121% Increase in Dialysis Machines

* Nipro Trading (Shanghai) Co., Ltd.

In China, the number of patients and dialysis clinics is increasing due to government expansion of the insurance system and enabling of privately run dialysis clinics. Accordingly, sales of dialysis machines are steady in China. Moreover, the sales volume of dialyzers is also steadily growing.

Dialysis clinics are increasing 10 to 15% yearly and, as dialysis patient numbers are expected to continue to increase, we expect sales of our products to expand further.

We established the “Nipro iCEP” (Institute for Clinical Engineering Practice) for dialysis research within Shanghai University of Medicine & Health Sciences, the largest university specialized in medical care in China.


Nipro iCEP

Review of Operations

Pharmaceutical-Related Business

▶ Net sales

Total ¥66,846 million

▶ Supply records

- Injectables: 279 Number of products (May 2018)
  - Pre-filled syringes (PFS®) 160 million units/year
  - Dual chamber bags (PLW®) 33 million units/year
- Orally Administered Drugs: 315 Number of products (May 2018)
  - Tablets 14 billion tablets/year
  - Capsules 400 million capsules/year
- External Preparations: 73 Number of products (May 2018)
  - Tapes (hotmelt type) 150 million sheets/year
  - Poultices (converted to 10g-sheet units) 390 million sheets/year

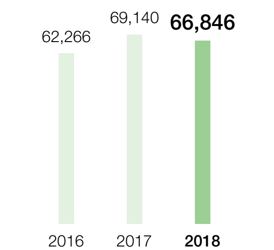
Financial Results for Fiscal 2018

Net sales for the fiscal year ended March 31, 2018 decreased 3.3% to ¥66,846 million.

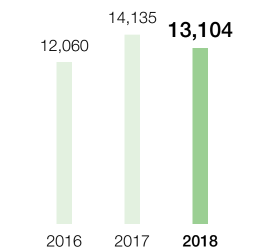
Our contract manufacturing division has endeavored to provide a diverse and detailed array of contract services in addition to the contract manufacturing of oral, injectable and external preparations. Leveraging our strength in developing and supplying packaging materials such as vials, syringes and bags, such services include the support and manufacture of investigational new drugs from the initial stages of development and support for lifecycle management that aims to enhance added value and differentiation of products.

Sales of pharmaceutical containers, pharmaceutical preparations and administration devices were favorable as we provided containers and administration systems suitable to each pharmaceutical product through self-development or joint development with pharmaceutical manufacturers.

▶ Net sales (Millions of yen)



▶ Operating income (Millions of yen)



Strategy and Outlook for Fiscal 2019

For the coming fiscal year, we expect net sales to decrease 3% from the fiscal year under review to ¥64,400 million due to the impact from business segment changes.

In our contract manufacturing division, we will build production and quality assurance systems that meet requirements in developed countries while further expanding →Point and strengthening domestic and overseas production capacities so that the global supply of pharmaceutical products is assured through an enhanced stable supply and cost competitiveness.

Furthermore, cooperating with our PharmaPackaging Division, the Pharmaceutical-Related Business will draw on synergies among our divisions, which is unique to Nipro, to develop, manufacture and provide value-added pharmaceuticals, with the safety and convenience needed for medical professionals and patients in mind.

POINT Facility Enhancement at Our Pharmaceutical Manufacturing Plant

Responding to an increase in contract manufacturing demand, we have completed the construction of a building specialized for product inspection and packaging at the Nipro Pharma Corporation Ise Plant. Production is scheduled to begin in October 2018.

Orally administered drugs line

Injectables line

▶ For more information, please refer to the next page.

Pharmaceutical-Related Business

TOPICS

Japan

Nipro Pharma Corporation

▶ Ise Plant – Construction completion of building specialized for pharmaceutical product inspection and packaging:

As the bringing of new pharmaceutical products to the Japanese market by foreign pharmaceutical companies spreads rapidly, the demand of these foreign pharmaceutical companies is rising for domestic contract services on product inspection and packaging processes suitable for the Japanese market and in compliance with good manufacturing practice (GMP). Responding to such demand, we have constructed a production building specialized in the product inspection and packaging of oral and injectable formulations at the Ise Plant and plan to begin commercial production in October 2018.

Ise Plant

▶ Odate Plant – Completion of new building construction for hormone drugs

We completed the construction of a new building for hormone drugs in October 2017 and plan to begin product shipments in 2019. With a production capacity two to three times larger than that of the existing production buildings and an extension space available for the production of double-chamber pre-filled syringe and microcapsule formulations, the building can also handle future expansions in production.

New building construction for hormone drugs

Zensei Pharmaceutical Co., Ltd.

▶ Izumi Plant

At the Izumi Plant, the first line that went into operation in May 2016 is already running at full capacity and the second line started its operation in June 2017. The first and second lines, equipped with 24-hour unmanned operations, can manufacture various formulations and have a production capacity of approximately 1.2 billion units/year. Furthermore, we plan to operate a third line from March 2019.

Izumi Plant

Overseas

Enhancing Competitiveness in Vietnam

▶ Supporting Mekophar Chemical Pharmaceutical Joint-Stock Company's New Plant Construction Project

The Nipro Group has provided full support for the construction project of a new plant undertaken by the Mekophar Chemical Pharmaceutical Joint-Stock Company, our technology partner, of which construction and tradition were completed in December 2017. At present, equipment capable of manufacturing 500 million units/year of oral drug formulations has been introduced and aims to go into operation during fiscal 2018.

Continuously, we will establish a supply system for highly cost competitive pharmaceuticals that meets the PIC/S-GMP standards, in cooperation with Mekophar.

Mekophar chemical pharmaceutical joint-stock company's new plant

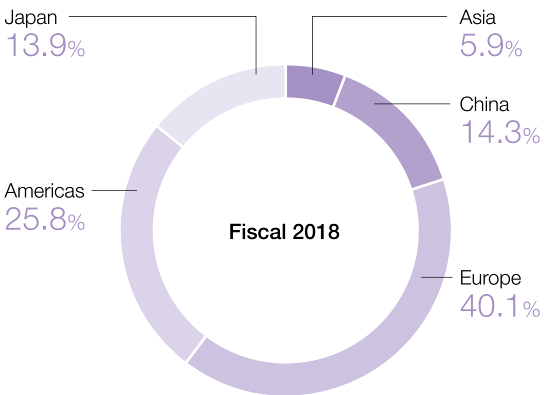
Review of Operations

PharmaPackaging Business

▶ Net sales

Total ¥28,404 million

▶ Sales ratio by region



Financial Results for Fiscal 2018

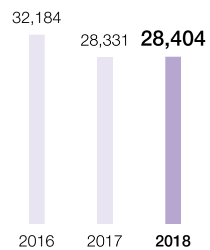
Net sales for the fiscal year ended March 31, 2018 increased 0.3% to ¥28,404 million.

In addition to sales of existing products, the PharmaPackaging Business has developed high-performance and high-quality packaging materials through industry-academia collaborations and has been proactive in its technical sales. Furthermore, in addition to working to develop new technologies and new products from the users' viewpoints and expand sales at academic meetings, in Japan and overseas we pushed forward with the development of stable high-quality and high-value-added products and technologies matched to injectable formulations and filling processes.

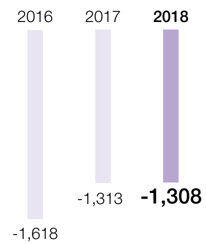
In Japan, sales remained strong with a focus on syringes. Our Biwako Plant is equipped with facilities for mass production of medical rubber components from this fiscal year and is steadily progressing towards a high-profit structure.

Overseas, we were able to increase our sales of syringes in Europe and sales of vials in the U.S. Furthermore, in China, sales of high-quality vials and glass ampoules was strong. In India, we were able to witness a robust sales of high-quality glass tubes and vials.

▶ Net sales
(Millions of yen)



▶ Operating income
(Millions of yen)



Strategy and Outlook for Fiscal 2019

In April 2018, we integrated the Medical System Development Department and the Medical System Sales Department – within the Pharmaceutical Division – and the PharmaPackaging Division, in accordance with our structural reforms. Accordingly, for the coming fiscal year, we expect net sales to increase 34% from the fiscal year in review to ¥38,200 million.

As the market experiences change through drug price revisions and the restructuring of the pharmaceutical industry, we aim to promote domestic and overseas collaborations, standardizing product specifications and quality standards as well as enhancing logistics, in order to construct a framework that enables stable production, storage and sales of high-performance and high-quality products. In addition, we will strive to increase earnings through proactively engaging in the planning and development of new products. →Point

POINT Joint Development of DLC Film Deposition Technology

From December 2017, through joint development with Keio University, we are developing DLC (Diamond Like Carbon) film deposition technology that can be applied to pharmaceutical glass packaging and containers. By forming a DLC film on the inner surface of pharmaceutical glass packaging and containers (vials, syringes, cartridges, etc.), we aim to plan and develop innovative pharmaceutical glass packaging and containers with a low-risk of exhibiting a high water repellency on the glass surface.

▶ For more information, please refer to the next page.

PharmaPackaging Business

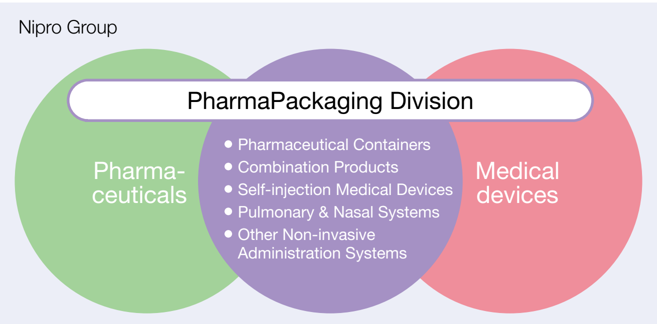
TOPICS

Provision of One-Stop Solutions

In April 2018, the PharmaPackaging Division was integrated with the Pharmaceutical Division's Medical System Development Department and Medical System Sales Department. As a result of this integration, while focusing on glass, the division now also handles combination products combining plastics and needles – areas of specialty. Accordingly, we aim to optimize management resources and construct a framework that enables rapid development and sales.

The possession of all pharmaceutical containers and systems will be a huge advantage to the PharmaPackaging Division. Leveraging this advantage, we will continue to actively develop new products in Japan and enhance our one-stop solutions by utilizing our network to provide products with a proven track record in Japan to international markets.

▶ Integration of "Medical System Development Department" and "Medical System Sales Department"

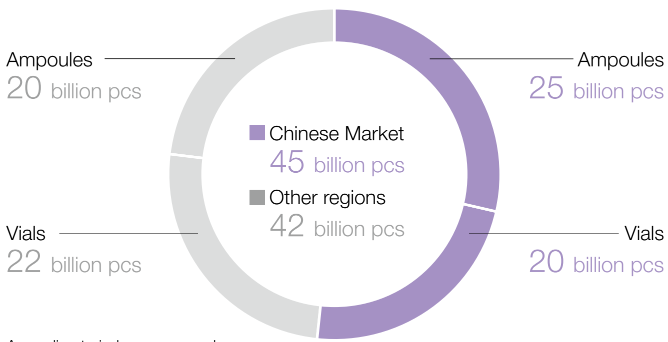


Initiatives in China

China has reached a major turning point in recent years with the shift from "quantity to quality". Of the approximately 87 billion glass ampoules and vials used worldwide (45 billion glass ampoules and 42 billion vials), half are used in China. Meanwhile, the quality required in Chinese pharmaceuticals has been different compared to Europe, the U.S. and Japan. Against this backdrop, in August 2017 the Chinese government announced the introduction of a conformity evaluation test system that requires companies to test generic drugs using tests equivalent to those used for original drugs. As a result, there is a growing demand for high-quality products within China.

At Nipro, in order to cater to such demand, we are promoting initiatives that ensure high-quality, such as organizing technological and scientific lecture meetings (sponsored by the China National Pharmaceutical Packaging Association) by Chengdu Pingyuan Nipro Pharmaceutical Packaging Co., Ltd. We wish to connect the ongoing implementation of such activities to the further sales expansion of Nipro products.

▶ World market: 87 billion pcs (Ampoules: 45 billion pcs, Vials: 42 billion pcs)



According to in-house research

Joint Development of DLC Film Deposition Technology

DLC (Diamond Like Carbon) is a carbon allotrope which is difficult to be recognized as a foreign substance within biological tissue and is found widely in the human body. Glass surfaces deposited with this DLC film, having different properties to conventional glass, can display low friction and the high water repellency characteristic of DLC and, furthermore, possess the distinctive feature of being able to reduce the amount of alkaline elution during heat treatment. Applying these film deposition technologies, we are developing special containers for bio pharmaceuticals by 2020.

▶ Improving water repellency

Nasal Administration Device that Achieves a New Form of Administration

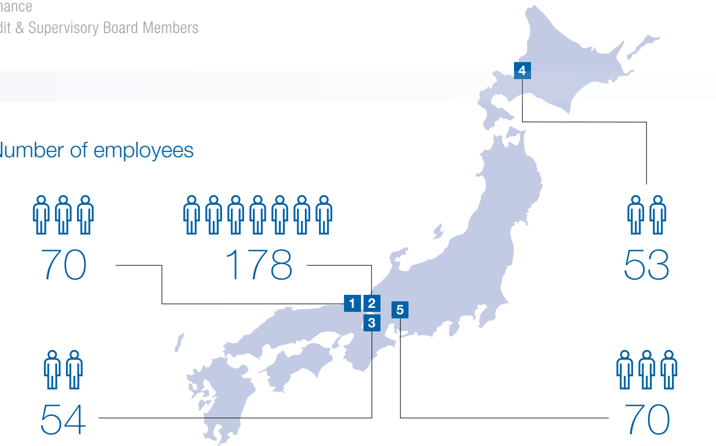
At Nipro, we are developing an administration device capable of spraying intranasal metered doses of various preparations such as vaccines. This product has a spray performance that does not depend on operator's skills, and is therefore not any longer prone to human error. This fiscal year, we initiated the provision of non-invasive nasal administration devices worldwide.

Nasal Administration Device

Management Foundation

Research and Development Activities

Number of employees



Contributing to Innovation in Medical Care through Original Technologies and Ideas

Nipro has five research and development sites, centered on the Research and Development Institute and Pharmaceutical Research Laboratories in Japan. We continually address the needs and issues of medical professionals and patients as we work to develop and provide high-value-added products.

Kusatsu-Shi, Shiga

Sapporo-Shi, Hokkaido

Seto-Shi, Aichi

	1 Research and Development Institute	2 Pharmaceutical Research Laboratories	3 Production Technology Center	4 Regenerative Medicine R&D Center	5 Goodman Medical Innovation
Research theme	▶ Cellular and regenerative medicine products ▶ Dialysis-related and general medical devices ▶ Circulatory organ- and intervention-related products ▶ Artificial organs ▶ Test and diagnosis-related products ▶ High-performance medical containers ▶ Medical glass products	▶ Artificial organs ▶ Test and diagnosis-related products ▶ Injection products ▶ Oral solids ▶ Medical supplies for external application ▶ Cancer drugs and biosimilars ▶ High-performance medical containers	Production technology and equipment design for the enhancement of productivity.	Manufacturing equipment and consumables for the realization of regenerative medicine using autologous bone marrow cells for strokes and spinal cord injuries.	▶ Catheters and accessories for cardiac and circulatory organ inspection and therapy ▶ Catheters for cerebral blood vessel therapy ▶ Vascular access catheters
Status of industry-academia collaboration	Implementation of research aimed at the joint development and early realization of new products, in collaboration with universities and research institutions in Japan.			Conclusion of collaboration research agreement concerning strokes and spinal cord injuries, and license agreement on regenerative medicine patents with Sapporo Medical University.	Performance of physician-led clinical trials with the National Cerebral and Cardiovascular Center.

Management Foundation

Progress of Research and Development

1. Medical-Related Business

Nipro conducts research and development (R&D) in the following fields, with the R&D laboratory playing a pivotal role. Expenses related to R&D in this business segment were 8.2 billion yen.

Division of cell drugs

We have been developing cellular pharmaceuticals (regenerative medicine products) through ongoing research projects with the government, universities, and industries in the field of cell therapy.

Regarding cell drugs, Nipro has entered into a licensing agreement with Sapporo Medical University with the objective of making autologous bone marrow cells into pharmaceutical products for practical use in the regenerative treatment of cerebral infarctions and spinal cord injuries. To allow for early practical usage of the product, our Regenerative Medicine Research Center has actively promoted the collaborative research and development of cellular medicine. The center will also serve as a location for the practical use of regenerative treatment for cerebral infarctions and spinal cord injuries.

Division of medical devices

In the field of infusion-related products, Nipro launched the Nipro PICC Kit (an introducer kit that allows for peripheral venous access using a central venous catheter). This device can be used with the brachial PICC method: the catheter is inserted through a brachial vein, extends to the superior vena cava, and stays within the veins until removed. A slit valve in the catheter tip enables injection, closing, and suction. Silicone, a vessel-friendly material, is used and the silicone is also reinforced with two aramid fibers to reduce the risk of catheter detachment.

In the field of examination-related products, Nipro launched two products in August 2017: Nipro SAFETOUCH® Lightshot (a puncture device used for collecting a small amount of blood and the self-monitoring of blood glucose), and Nipro SAFETOUCH® Lancet (a puncture needle). These products both have the following features: (1) Mechanisms that prevent accidental puncture and re-use. (2) Easy-to-hold pen-like shape. (3) Five levels of adjustment for puncture depth and (4) A disposal button on the back end of the device that allows used lancets to be safely disposed of without having to touch the needle.

Division of diagnostic and testing products

We acquired manufacturing and marketing approval in both Japan and Indonesia for a second-generation diagnostic agent that will be used for drug-resistant tuberculosis testing. This product enables the easy detection of tuberculosis, even from samples of sputum that contain a small number of bacteria. We plan to sell this product overseas, primarily in Southeast Asia. We also acquired manufacturing and marketing approval for a diagnostic agent that will be used for rapidly progressive glomerulonephritis (ANCA).

Our Enzyme Center has developed and launched three enzymes: glycine oxidase, 3-hydroxybutyrate dehydrogenase, and the new bilirubin oxidase.

Division of functional pharmaceutical containers

A safety mechanism, a “needle protector” (NP), was added to our Double-chamber Pre-filled Syringe (D-PFS). After medicine is administered to a patient with the above is 'needle protector' NP, a protective guard will safely and easily cover the tip of the needle to prevent puncture accidents to and by medical staff. This D-PFS is used for leuprorelin, a hormone used to treat prostatic cancer and endometriosis. Products with the needle protector NP were launched in June 2017.

We have finished developing a new type of half kit. Compared with the old type of half kit, this new type includes prevention mechanisms of angled insertion into vials, as well as leakage when the needle is removed from the vial. Transparency of the bottle and heat resistance of the new half kit have also been improved. This new type of half kit is scheduled to be released around June 2018.

In addition, we have almost finished developing devices that prevent exposure to anticancer agents. There are four types of

Progress of Research and Development

1. Medical-Related Business

devices that are used throughout the process of preparation, from dissolution to administration, for anticancer drugs: bag access, vial access, syringe connector, and lock connector. These devices prevent the leakage of the anticancer agents at the time of connection and detachment. This device is scheduled to be released by March 31, 2019.

Division of circulatory and interventional products

In the field of Percutaneous Coronary Intervention (PCI) treatment for cardiovascular-related issues (for example, acute myocardial infarctions and coronary occlusions in the coronary arteries), Nipro provides a “rapid exchange” (RX) penetration catheter called “GUIDEPLUS®”. This product provides an access route for balloon catheters and pharmaceutical-coated stent delivery catheters used to treat stenotic lesions. In addition, we have acquired manufacturing and marketing approval for “GUIDEPLUS® II”. As compared to the products of other companies, Nipro's “GUIDEPLUS® II” catheter has a larger inner diameter, which allows for better compatibility with passing devices (for example, stents and intravascular ultrasound (IVUS) catheters) while still retaining superior delivery to lesions. We will start manufacturing of this product for sale in the future.

In addition, as a successor to Nipro's thrombus capturing catheter “FILTRAP®”, a catheter that prevents the “no-flow” or “slow-flow” of blood due to clots or debris in peripheral arteries during the treatment of stenosed arteries, Nipro has finished developing the “FILTRAP® II” catheter. The “FILTRAP® II” catheter has improved operability in the delivery and retrieval of filters through stents. This product is scheduled to be released for sale by March 31 2019.

In the field of percutaneous peripheral intervention (PPI) products, we have launched a guiding sheath catheter named “CROSSROADS®”. This device is used for treatment methods requiring a contralateral approach to branches of the iliac arteries.

Nipro applies vascular intervention techniques and technologies to endoscopic gastrointestinal-related treatment devices as well, and has launched “E-dive®”, an esophageal balloon catheter. This catheter can be used to treat the impaired passage of food due to narrowing of the esophagus after esophageal cancer and cancer treatment.

Division of surgical devices

We have been developing surgical products, particularly in-vivo implantable medical devices for orthopedic, cardiac, abdominal and other types of surgery.

Utilizing our own original, bio-absorbable materials, Nipro is currently developing other types of non-cellular regenerative medicine products, including nerve regeneration assisting tubes and auxiliary material for pericardium regeneration. In fiscal 2017, we launched a nerve regeneration assisting tube in Japan. We have been developing products for minimally invasive surgical procedures in each of the surgical fields mentioned above, including orthopedics. In the future, we plan to continue developing more products within the endoscopic field, as well as collaborate with other affiliated companies.

Division of artificial organs

In October 2017, we started a clinical trial for an extracorporeal artificial heart system with auxiliary continuous flow and a 30-day usage. The trial is expected to be completed in fiscal 2018, and the regulatory application in fiscal 2019. In February 2018, Nipro launched a pulse oximeter, an extracorporeal circulation device. By simply attaching it to a blood circuit tube, this revolutionary device can measure hematocrit and oxygen saturation without the need for any specialized parts.

We are continuously promoting the development of open-heart surgery devices for both adults and children, and plan to expand our product lineup.

In the field of hemocatharsis, Nipro applied for manufacturing and marketing approval for a continuous hemofilter. This device has superior antithrombotic properties, a high level of biosafety, and can be used for long-term, extracorporeal circulation treatment for acute kidney injuries. We expect to receive manufacturing and marketing approval in the near future.

Management Foundation

Progress of Research and Development

1. Medical-Related Business

Division of Pain Treatment Devices

In 2015, Nipro established the Life-Fluctuation-Resonance (LFR) R&D Center. The LFR R&D Center has been researching and developing revolutionary electric and magnetic therapy devices that recognize and accommodate the biological rhythms in the human body. These devices are aimed to treat intractable pain, mood disorders, dementia, and other afflictions. In addition, in order to treat these types of higher nervous function disorders, Nipro is also developing a monitoring device for quantitative sensory examination as a “business-academia” collaboration. This device is intended to identify and diagnose selective and autonomic nerve disorders, including accompanying stress. The device can provide comprehensive, differential diagnoses.

In addition to the fluctuation-related treatment devices and 3D brain function monitoring devices mentioned, Nipro will continue promoting the development and product launches of non-invasive devices and dynamic cell observation devices. Nipro will collaborate with universities, start-up companies, and Brain Functions Laboratory, Inc., a company that is scheduled to become one of our subsidiaries in April 2018.

2. Pharmaceutical-Related Business

Nipro is conducting research and development (R&D) in the following fields, with our Pharmaceutical Research Center playing a pivotal role. R&D expenditures were ¥7,924 million in fiscal 2018.

Injectable Drugs

In addition to our normal vial formulations, bag formulations and other products, we are actively pursuing the development of kit formulations designed to enhance operation efficiency in clinical practice.

During the fiscal year in review, we brought one generic drug product in bag formulation for intravenous infusion on the market, and acquired manufacturing and marketing approval for one product.

Oral Drugs

In addition to the development of general oral drugs (for example, tablets and granules), we develop value-added formulations such as orally disintegrating tablets (OD tablets) and OD film formulations, which suppress bitterness and can be taken without water. Moreover, we offer products with innovative technology. Tablet-pill printing enables to print information such as active ingredients and individual packaging and aluminum pillow packaging are specially designed to improve operation efficiency in medical practice.

During the fiscal year in review, we brought a total of 10 active ingredients and 38 generic drug products on the market, including four authorized generic drug products. We also acquired manufacturing and marketing approval for four active ingredients and eight products, including one OD film product.

External Use Products

We are developing several generic drug products, including patches and liquids for external use.

We are also developing microneedles, an “Injection Patch” as a new generation of percutaneous absorption formulation, and installed a new investigational drug manufacturing line.

During the fiscal year in review, we brought a total of one active ingredient and two dosage forms (gel and cream) of external use products on the market.

Biosimilars

In Japan, bio pharmaceuticals, for which the market is rapidly expanding, are generally high-priced, so from the standpoint of reducing medical treatment expenses, the need for biosimilars, which are low-priced, is increasing. Accordingly, we are aiming to develop products by partnering with companies that produce bioactive pharmaceutical ingredients that maintain equal quality and cost-effectiveness compared with brand-name drugs.

We will continue to actively undertake development of generic drugs so as to contribute to the reduction of rising medical costs by offering a stable supply of high-quality, low-cost generic drugs.

Management Foundation

Status of Corporate Governance

1. Corporate Governance System

(1) Corporate Governance System and Reasons for Adoption

Nipro Corporation has an established corporate governance system including organizations for the Meeting of Shareholders and directors as required under the Companies Act, in addition to a Board of Directors, Audit & Supervisory Board Members, Audit & Supervisory Board and an Accounting Auditor. Nipro has also established internal committees such as the Operational Risk Management Committee. This committee continuously maintains close coordination with external parties such as the company attorney, to enable effective monitoring and supervision of the efficiency and propriety of operations across the Company as a whole.

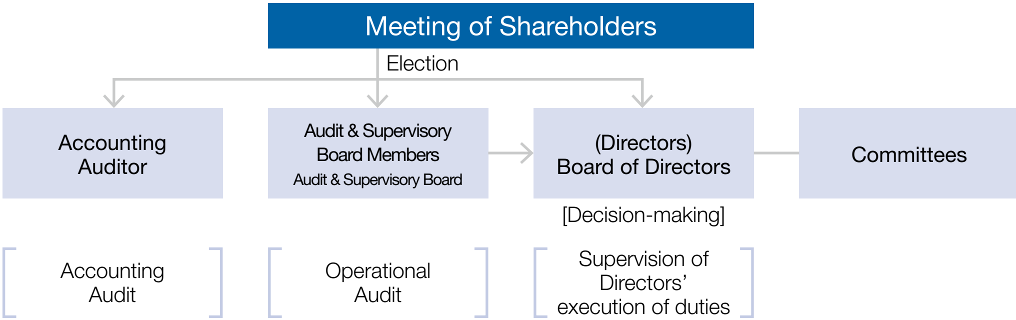
(2) Internal Control Systems

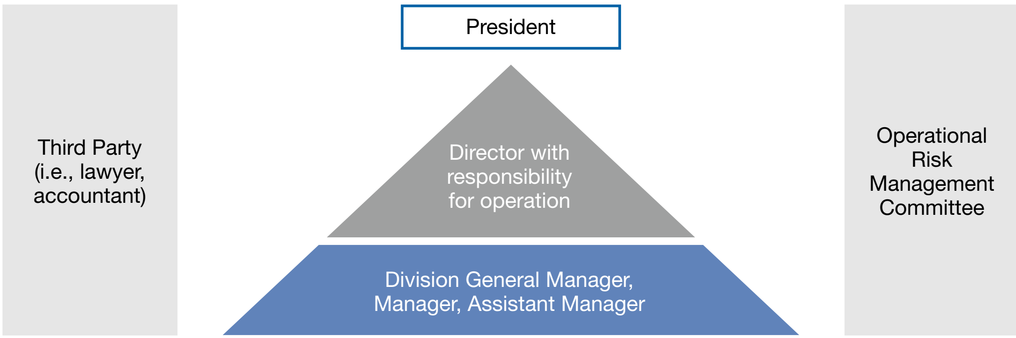
Nipro strives to make business units the foundation of its internal control system for the Nipro Group as a whole. Nipro's directors and Audit & Supervisory Board Members, as well as representatives of each of the major companies of the Group, hold a Group management meeting on a monthly basis. These meetings are used to report on the progress of business activities, decide key operating matters, and deliberate on pending matters. To build awareness of compliance with laws, regulations and corporate ethics among executives and employees, Nipro has established the "Nipro Code of Practice," and has thoroughly informed everyone in the company.

(3) Risk Management System

Nipro has established risk management regulations and a system for managing business and other specific risks. Their purpose is to recognize and capture risks that could have a material impact on business operations, in an appropriate and comprehensive manner. Nipro has also established an Operational Risk Management Committee to ensure cross-sectional management across all Group companies. The committee endeavors to further strengthen risk management systems to prevent, avoid and learn from risks and crises. Nipro has also established a Sanction Committee, chaired by the President, which endeavors to ensure sound business management through the appropriate handling of sanctions. Nipro produced a Disaster Prevention and Crisis Management Handbook and distributed it to each employee within the Nipro Group. Nipro keeps employees fully informed about taking calm and appropriate action when faced with disasters and about reassessing and renewing business continuity plans as appropriate. In addition, to strengthen our rollout of compliance training and enhance our risk management system, Nipro established a Compliance Section within its General Affairs Department, and is working to ensure awareness of compliance among employees.

(4) Basic Structure of Corporate Governance and Risk Management





Conceptual Diagram of Corporate Governance

(5) Business Continuity Planning (BCP)

At workplaces in Japan, we are improving our systems for disaster preparation and smooth continuity of business in the face of risks such as outbreaks of new types of influenza and large-scale natural disasters, including major (around magnitude 6) earthquakes originating in the Nankai Trough. At overseas workplaces, we are also preparing for risks including war, civil war, riots, terrorism, anti-Japanese demonstrations, and strikes.

Status of Corporate Governance

2. Internal and Statutory Auditing

(1) Internal Auditing

Nipro has established the Internal Audit Division, consisting of the Audit Office and the Overseas Audit Office, and conducts audits of accounting and other operations based on internal audit protocols.

(2) Statutory Auditing

For each statutory audit, Audit & Supervisory Board Members attend key meetings such as those of the Board of Directors, in accordance with the auditing policy and roles determined by the Audit & Supervisory Board. Audit & Supervisory Board Members receive performance reports from directors and employees, and are able to request further explanation when necessary, and inspect key documents. Audit & Supervisory Board Members also undertake other auditing duties such as investigating the state of operations and assets in key places of business. Audit & Supervisory Board meetings are held regularly, or as necessary, in order to exchange views and hold discussions.

3. Outside Directors and Outside Audit & Supervisory Board Members

(1) Outside Directors and Outside Audit & Supervisory Board Members

Two of the directors are Outside Directors and two of the three Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. The two Outside Directors and one of the Outside Audit & Supervisory Board Members have been designated as independent directors/Audit & Supervisory Board Members, and the Tokyo Stock Exchange has been notified of their designation.

(2) Policy and Criteria for Independence from the Filing Company in the Election of Outside Directors and Outside Audit & Supervisory Board Members

Nipro determines the criteria for the independence of Outside Directors and Outside Audit & Supervisory Board Members as a part of separate corporate governance guidelines taking into consideration the provisions stipulated under the Financial Instruments and Exchange Act. In the event that either case does not fall within the scope of this criteria, Outside Directors and Outside Audit & Supervisory Board Members are deemed to be independent from the Company and that there is no possibility of a conflict of interest with general shareholders.

(3) Approach to the Election of Outside Directors and Outside Audit & Supervisory Board Members

Close coordination with the Internal Directors and the full-time Audit & Supervisory Board Members, employees of the Audit Office and assigned staff from the management section of the head office (as needed) ensures sufficient cover to implement the supervision and the audit function and role as required by the current corporate governance system.

(4) Mutual Collaboration between Outside Audits and Internal, Statutory and Accounting Audits, and the Relationship between Internal Control Divisions

The Outside Directors attend meetings of the Board of Directors and supervise our management based on their extensive knowledge and management experience from an independent standpoint. The Outside Audit & Supervisory Board Members carry out auditing activities including attending key meetings such as meetings of the Board of Directors in accordance with the audit policy and roles determined by the Audit & Supervisory Board. They are able to access reports via the full-time Audit & Supervisory Board Members or directly from directors and employees, and inspect key documents. The Outside Audit & Supervisory Board Members also attend periodic or occasional meetings of the Audit & Supervisory Board to contribute to discussions and exchange opinions from an objective and independent viewpoint. The Outside Audit & Supervisory Board Members strive to facilitate a smooth audit service through close collaboration with employees of the Audit Office, the full-time Audit & Supervisory Board Members, Audit & Supervisory Board Members of subsidiaries and the accounting auditor.

4. Accounting Audits

Name of Accounting Auditor: Hibiki Audit Corporation
Names of Certified Public Accountants conducting the Audit:
Kazuhiro Bando, Miho Ishihara, Takanori Nakasuka

Support Staff for Audits:
Certified Public Accountants: 11
Other Staff: 2

▶ Remuneration paid to Directors and Audit & Supervisory Board Members

Millions of yen

	Total amount of remuneration	Total amount of remuneration by type			Number of eligible corporate officers
		Annual remuneration	Bonus	Retirement benefits	
Internal Directors	¥ 509	¥ 134	¥ 328	¥ 46	28
Internal Audit & Supervisory Board Members	7	7	—	—	1
Outside Directors, Outside Audit & Supervisory Board Members	14	14	—	—	4

Thousands of U.S. dollars

	Total amount of remuneration	Total amount of remuneration by type			Number of eligible corporate officers
		Annual remuneration	Bonus	Retirement benefits	
Internal Directors	*$ 54,096*	*$ 14,246*	*$ 34,914*	*$ 4,934*	*28*
Internal Audit & Supervisory Board Members	*764*	*764*	—	—	*1*
Outside Directors, Outside Audit & Supervisory Board Members	*1,529*	*1,529*	—	—	*4*

Management Foundation

Board of Directors and Audit & Supervisory Board Members

As of August 1, 2018

13 **Minako Oomizu**
Outside Director

12 **Yoshiko Tanaka**
Outside Director

9 **Kazuhiko Sano**
Managing Director

8 **Yasushi Oyama**
Managing Director

10 **Kenichi Nishida**
Managing Director

11 **Takehito Yogo**
Managing Director

6 **Kimihito Minoura**
Managing Director

4 **Toshiaki Masuda**
Managing Director

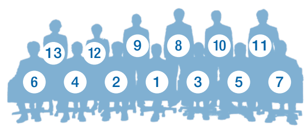
2 **Kiyotaka Yoshioka**
Managing Director

1 **Yoshihiko Sano**
President & Representative Director

3 **Kazuo Wakatsuki**
Managing Director

5 **Kyoetsu Kobayashi**
Managing Director

7 **Tsuyoshi Yamazaki**
Managing Director



Management Foundation

Board of Directors and Audit & Supervisory Board Members

As of August 1, 2018

President & Representative Director

Yoshihiko Sano

Managing Directors

Kiyotaka Yoshioka
Domestic Division

Kazuo Wakatsuki
Global Business Division

Toshiaki Masuda
Medical Technology Division for Planning, Development & Marketing; Research & Development Institute

Kyoetsu Kobayashi
Global Production Division; Odate Plant

Kimihito Minoura
Division of Regenerative and Advanced Therapy; New Business Development Headquarters

Tsuyoshi Yamazaki
PharmaPackaging Division

Kazuhiko Sano
Deputy General Manager Global Production Division; Production Technology Center

Kenichi Nishida
Pharmaceutical Development Promotion Department; Pharmaceutical Division

Yasushi Oyama
Vascular Product Sales & Development Headquarters; Vascular Division

Takehito Yogo
Corporate Planning Headquarters (Chief Financial Officer)

Outside Directors

Yoshiko Tanaka

May 1983: General Manager, Drug Department, Tokushukai Medical Corporation Osaka Headquarters

Jun. 1997: General Manager, Planning and Management Department, and General Manager, Drug Department, Tokushukai Medical Corporation Osaka Headquarters

Jun. 2002: President and Representative Director, MEDY HOPE Corporation (to present)

Jun. 2014: Appointed Director, Nipro Corporation (to present)

Minako Oomizu

Apr. 2008: Director of Nursing Department, and Vice-Director, Jikei University Hospital

Apr. 2010: Director, Office of Human Resources Management and Education, Wakokai Medical Association

Jun. 2015: Appointed Director, Nipro Corporation (to present)

Directors

Mitsutaka Ueda
Deputy General Manager Medical Technology Division for Planning, Development & Marketing

Yozo Sawada
Intellectual Property Department

Hideto Nakamura
General Affairs / Human Resources Headquarters

Yasushi Kutsukawa
Deputy General Manager Business Strategy Office; Medical Sales & Marketing Headquarters; Domestic Division

Masayuki Ito
Surgical Devices Division; Domestic Product Development & Technical Sales Headquarters; Medical Technology Division for Planning, Development & Marketing

Masanobu Iwasa
Business Development Department; PharmaPackaging Division

Itsuo Akasaki
Technical Sales Department; PharmaPackaging Division

Hideo Okamoto
Construction & Engineering Headquarters; Deputy General Manager Global Production Division; Process Management & Planning Center

Toyoshi Yoshida
Quality Assurance & Regulatory Compliance Division

Kenju Fujita
Deputy General Manager Business Strategy Office; Pharmaceutical Sales & Marketing Headquarters; Domestic Division

Hiroshi Sudoh
Product Planning Headquarters; Medical Technology Division for Planning, Development & Marketing

Hiroshi Yoshida
Enzyme Center; Department III; Research & Development Institute; Medical Technology Division for Planning, Development & Marketing

Akio Shirasu
Artificial Organs Development Center; Research & Development Institute; Medical Technology Division for Planning, Development & Marketing

Kouki Hatakeyama
Quality Assurance Department; Global Production Division

Toshiya Kai
Pharmaceutical Research Laboratories; Pharmaceutical Division

Goichi Miyazumi
Deputy General Manager Global Business Division

Kaname Sadahiro
Global Product Development & Sales Headquarters; Dialysis & Blood Purification Product Development & Sales Department; Medical Technology Division for Planning, Development & Marketing

Audit & Supervisory Board Member (Full time)

Takayuki Nomiya

Audit & Supervisory Board Members (Outside)

Kazumichi Irie

Masayoshi Hasegawa

Financial Review

Overview

The Japanese economy, during the fiscal year under review, saw a continued gradual recovery as corporate earnings remained steady. Meanwhile, although concerns such as rising geopolitical risks existed, the global economy in general also saw a gradual recovery. Furthermore, foreign exchange levels remained relatively stable throughout the fiscal year. Even under these circumstances, the Nipro Group 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.

Consolidated Business Results

Relevant quantitative data for the period under review has been converted at the rate of US$1.00 = ¥106.24 (the rate of exchange as of March 31, 2018).

Net Sales

Sales for the current term were ¥395,397 million (US$3,721.7 million). Sales increased 9.9% year on year.

Cost of Sales

The cost of sales increased 9.6% compared with the previous fiscal year to ¥268,272 million (US$2,525.1 million). This increase corresponded to the increase in net sales. The ratio of cost of sales to net sales decreased by 0.2 percentage points compared with the previous fiscal year to 67.8%.

As a result, gross profit increased by 10.4% compared with the previous fiscal year to ¥127,125 million (US$1,196.5 million).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 15.8% compared with the previous fiscal year to ¥100,036 million (US$941.6 million). This is mainly due to the increase in research and development expenses.

Operating Income

As a result of the aforementioned factors, operating income was down 5.8% compared with the previous fiscal year to ¥27,088 million (US$254.9 million). The ratio of operating income to net sales was down 1.15 percentage points to 6.85%.

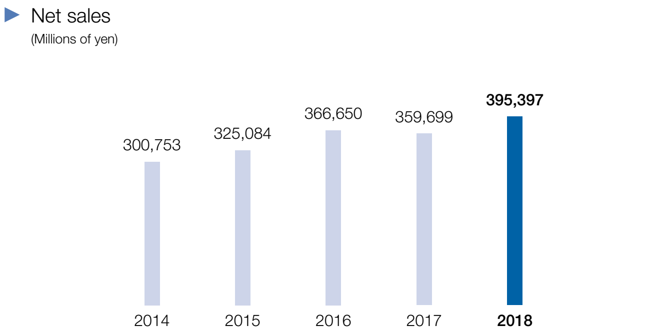
Other Income (Expenses)

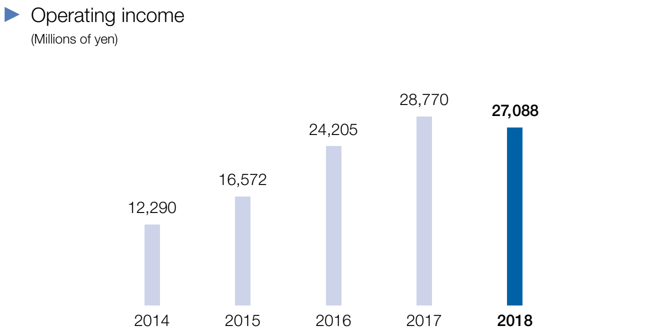
We recorded other expenses of ¥10,061 million (US$94.7 million), ¥384 million lower compared with other expense in the previous fiscal year. In the period under review, we recorded ¥2,561 million (US$24.1 million) in foreign exchange losses, while we reported ¥2,273 million in foreign exchange losses in the previous period.

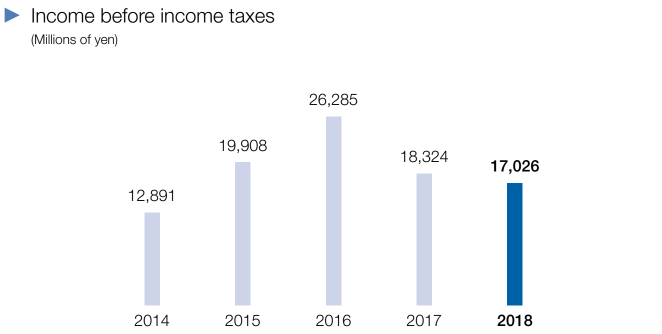
Income before Income Taxes

As a result of the factors outlined above, income before income taxes decreased by 7.0% compared with the previous fiscal year to ¥17,026 million (US$160.2 million).

(Years ended March 31)







Financial Review

Income Taxes

Income taxes, including deferred taxes, decreased by 29.6%, compared with the previous fiscal year to ¥4,727 million (US$44.5 million). The effective tax rate was 27.8%, 8.9% lower than the rate for the previous fiscal year. This decrease is mainly due to effecting of the Tax Cuts and Jobs Act, which reduces the federal corporate income tax rate from 35% to 21% in the U.S.

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests amounted to ¥468 million (US$4.4 million).

Net Income Attributable to Owners of Parent

Net income attributable to owners of parent decreased by 4.2% compared with the previous fiscal year to ¥11,829 million (US$111.3 million). Net income per share increased to ¥71.1 (US$0.6) from ¥67.5 for the previous fiscal year. Return on equity increased 0.2 percentage points to 7.0% from 6.8% for the previous fiscal year.

Net Sales by Geographic Segment

Japan

In Japan, net sales increased by 9.2% compared with the previous fiscal year to ¥241,750 million (US$2,275.5 million) mainly thanks to the increase of sales in the Medical-Related business.

Americas

In the Americas, net sales increased by 6.5% compared with the previous fiscal year to ¥56,704 million (US$533.7 million) mainly thanks to the increase of sales in the Medical-Related business.

Europe

In Europe, net sales increased by 8.9% compared with the previous fiscal year to ¥46,389 billion (US$436.6 million) mainly thanks to the increase of sales in the Medical-Related business.

Asia

In Asia, net sales increased by 18.8% compared with the previous fiscal year to ¥50,553 million (US$475.8 million) mainly thanks to the increase of sales in the Medical-Related business.

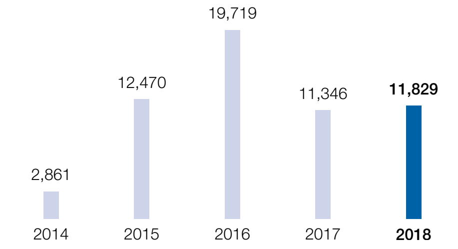
Financial Position

Total assets increased ¥73,919 million year on year to ¥826,759 million (US$7,781.9 million). Current assets increased ¥49,271 million and noncurrent assets increased ¥24,648 million. The increase of current assets was mainly due to an increase of ¥19,473 million in trade notes and accounts receivable, and the increase of noncurrent assets was due to an increase of ¥11,584 million in construction in progress.

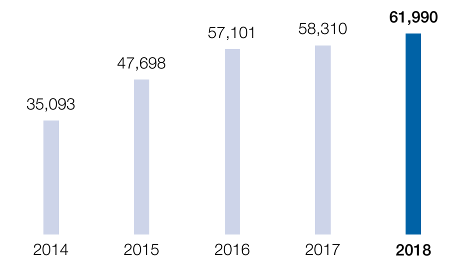
Total liabilities increased ¥66,842 million year on year to ¥643,273 million (US$6,054.9 million). Current liabilities decreased ¥605 million and total long-term liabilities increased ¥67,448 million. The main reason for the decrease in current liabilities was a decrease of ¥22,250 million in current portion of long-term debt, and the primary reason for the increase in total long-term liabilities was a ¥69,120 million increase in long-term debt.

(Years ended March 31)

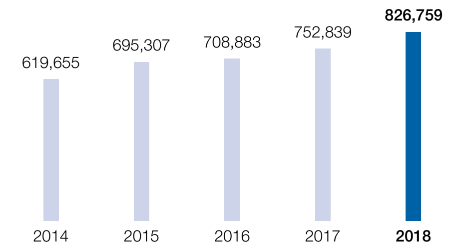
▶ Net income attributable to owners of parent
(Millions of yen)



▶ Capital expenditures
(Millions of yen)



▶ Total assets
(Millions of yen)



Financial Review

Total net assets increased ¥7,077 million year on year to ¥183,485 million (US$1,727.0 million). Shareholders' equity increased by ¥5,385 million and accumulated other comprehensive income increased by ¥1,153 million.

As a result, the equity ratio decreased by 1.2 percentage points compared with the end of the previous fiscal year, to 20.9%.

Cash Flow

Net cash provided by operating activities amounted to ¥41,046 million (US$386.3 million). The major cash inflows were net income attributable to owners of parent and depreciation and amortization.

Net cash used in investing activities came to ¥64,140 million (US$603.7 million). The principal cash outflow was purchase of property, plant and equipment.

Net cash provided by financing activities amounted to ¥47,341 million (US$445.6 million). The main account of cash inflow was proceeds from long-term loans.

As a result, cash and cash equivalents stood at ¥135,599 million (US$1,276.3 million) as of March 31, 2018.

Staff

The total number of employees as of the end of the period under review increased by 915 compared with the end of the previous fiscal year, to 28,330. Employees in Japan increased by 621, to 7,821, and the number of overseas employees increased by 294, to 20,509.

Basic Policy on Distribution of Profit

At Nipro, we have been paying dividends to shareholders by positioning the return of profits as an important management policy. Retained earnings will be actively invested in the research and development division, in addition to the sales division and production division, as a part of efforts to expand the business base and promote long-term business development. Through these means, we will ensure stable profits and achieve continued growth.

Risk Factors

The following are risks that may have an effect on the Nipro Group's operational results and/or financial condition. The items concerned were determined as of March 31, 2018.

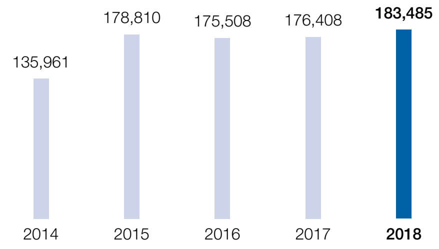
(1) Risks Related to Product Safety

The Nipro Group brings all of its capabilities to bear in ensuring product safety in the design, development and manufacturing of medical devices and pharmaceutical products. There are still the risks, however, that accidental defects or adverse effects could result in damages to a third party and our being sued for liability.

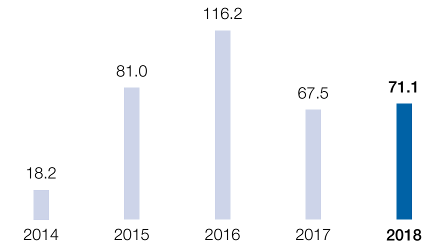
To cover these risks, we therefore maintain general liability and product liability insurance. In the unlikely event of a successful claim in excess of the insurance coverage, however, there could be a material adverse effect on our operational results and/or financial condition.

(Years ended March 31)

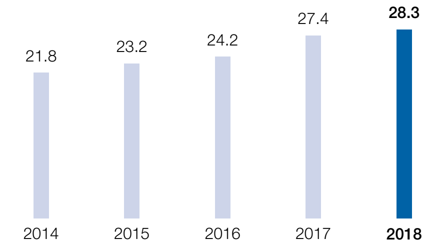
▶ Net assets
(Millions of yen)



▶ Basic earnings per share
(yen)



▶ Number of employees
(Thousand)



Financial Review

(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 operational results and/or 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 and Medical Devices Act, formerly known as 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 operational results and/or financial condition.

(4) Risks Related to Changes in Sale Prices

The products sold by the Nipro Group include some that are affected on an irregular two-year basis by price reductions under the Japanese payment system for medical care, drug prices and reimbursement prices for medical materials and supplies. Moreover, 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 operational results and/or financial condition.

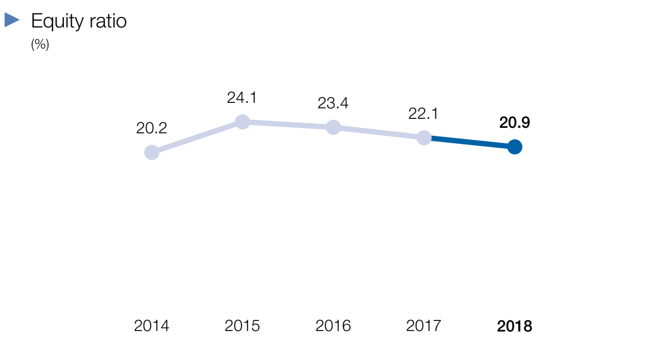
(5) Risks Related to Changes in Prices of Raw Materials

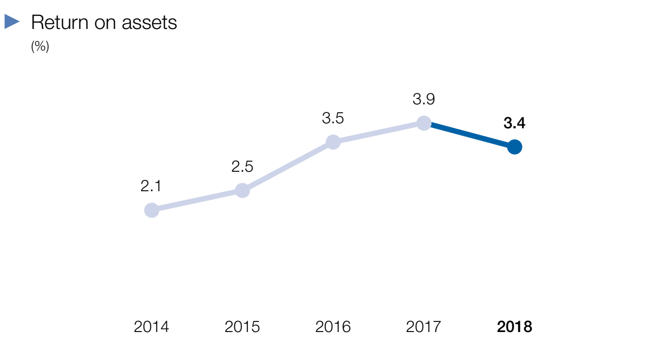
The products manufactured by the Nipro Group include some that are made from petrochemical products such as plastics. Should the cost of raw materials such as petrochemicals rise, there could be a material adverse effect on our operational results and/or financial condition.

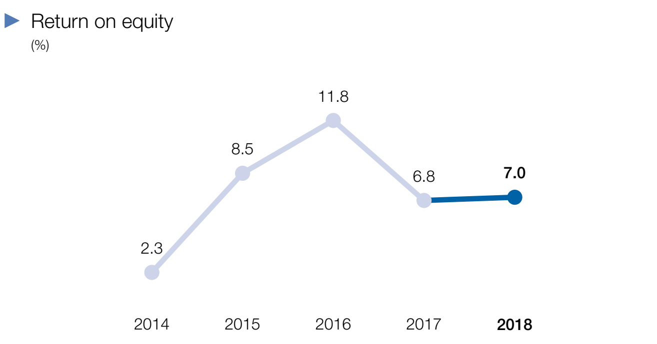
(6) Risks Related to Overseas Expansion

The Nipro Group maintains manufacturing bases and sales offices around the world for the production and supply of its 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 operational results and/or financial condition.

(Years ended March 31)







Ten-Year Summary

Nipro Corporation and its Consolidated Subsidiaries
Years ended March 31

	Millions of yen										Thousands of U.S. dollars (Note 1)
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2018
Income Statement Data:											
Net sales	¥ 395,397	¥ 359,699	¥ 366,650	¥ 325,084	¥ 300,753	¥ 241,021	¥ 212,013	¥ 195,943	¥ 177,830	¥ 175,945	$3,721,741
Medical-Related (*1)	300,117	262,198	272,168	237,777	221,363	169,971	145,082	132,817	118,517	112,970	2,824,901
Pharmaceutical-Related (*1)	66,846	69,140	62,266	57,372	51,508	66,212	59,715	38,005	34,528	52,726	629,205
PharmaPackaging (*1)	28,404	28,331	32,184	29,830	27,611	4,603	6,954	24,704	24,338	9,554	267,357
Other (*1)	29	29	32	105	271	235	262	417	447	695	276
Cost of sales	268,272	244,602	250,773	225,525	213,221	175,314	149,253	137,768	126,145	124,396	2,525,157
Selling, general and administrative expenses	100,036	86,326	91,672	82,987	75,242	54,336	46,935	40,950	33,591	36,774	941,612
Operating income	27,088	28,770	24,205	16,572	12,290	11,371	15,825	17,225	18,094	14,775	254,970
Medical-Related (*2)	36,522	30,638	28,204	23,813	20,436	14,287	17,078	18,437	19,923	16,209	343,773
Pharmaceutical-Related (*2)	13,104	14,135	12,060	10,553	8,013	3,988	4,940	1,658	2,102	4,082	123,350
PharmaPackaging (*2)	(1,308)	(1,313)	(1,618)	(2,889)	(2,183)	601	454	2,701	3,103	1,772	(12,317)
Other (*2)	75	(10)	61	131	216	222	230	88	64	4	709
Income before income taxes	17,026	18,324	26,285	19,908	12,891	18,060	11,022	7,432	13,872	9,379	160,261
Net income attributable to owners of parent	11,829	11,346	19,719	12,470	2,861	10,232	4,586	2,456	7,253	4,531	111,351
Increase in tangible and intangible fixed assets	61,990	58,310	57,101	47,698	35,093	37,997	39,525	23,323	15,209	33,142	583,492
Depreciation and amortization	32,565	31,128	30,147	27,668	25,151	21,210	21,581	21,244	18,421	18,109	306,532
R&D expenses	16,113	11,517	10,269	8,646	7,891	6,464	5,957	4,977	4,846	5,352	151,674
Balance Sheet Data:											
Total assets	¥ 826,759	¥ 752,839	¥ 708,883	¥ 695,307	¥ 619,655	¥ 579,302	¥ 499,687	¥ 476,510	¥ 383,397	¥ 330,641	$7,781,993
Property, plant and equipment—net	270,273	244,222	223,757	220,195	191,594	174,703	145,679	128,506	124,209	126,739	2,543,994
Working capital	184,861	134,983	115,970	71,945	45,405	74,216	61,346	40,621	41,725	46,070	1,740,035
Current liabilities	251,186	251,792	252,148	278,402	250,715	213,758	189,090	176,401	138,204	114,796	2,364,327
Long-term liabilities	392,087	324,639	281,227	238,095	232,979	236,781	196,646	191,071	129,122	119,285	3,690,578
Common stock	84,397	84,397	84,398	84,398	84,398	84,398	84,398	28,663	28,663	28,663	794,407
Capital surplus	—	—	—	635	689	636	636	29,973	29,973	29,973	—
Net assets	183,485	176,408	175,508	178,810	135,961	128,763	113,951	109,038	116,071	96,560	1,727,087

(*1) Effective the fiscal year ended March 31, 2011, the Company has adopted ASBJ Statement No. 17 "Accounting Standard for Disclosures about Segment of an Enterprise and Related Information" (March 27, 2009) and ASBJ Guidance No. 20 "Guidance on Accounting Standard for Disclosures about Segment of an Enterprise and Related Information" (March 21, 2008). Net sales and operating income for the period for the fiscal year ended March 31, 2010 have been restated to show what the Group's result would have been if the new accounting standards had been applied in that year. Before the fiscal year ended March 31, 2009, net sales and operating income have been stated in compliance with previous accounting rules. In addition, the corporate reorganization was conducted effective on October 1, 2012 in order to enforce Pharmaceutical-Related business and build a strong cooperative relationship among Medical-Related, Pharmaceutical-Related and Glass-Related businesses. As a result of this reorganization, some business divisions included in Glass-Related business were changed to Pharmaceutical-Related business. The segment information is presented as if the aforementioned reorganization had been conducted at the beginning of fiscal 2012, and the presentation for the prior fiscal years are not restated. Also, effective in the half year ended September 30, 2014, 13 subsidiaries including Nipro Glass France S.A.S., Nipro Glass Belgium N.V., Nipro Glass Germany AG, Nipro Sterile Glass Germany AG, and Nipro Glass Americas Corporation were reclassified from Medical-Related Business to PharmaPackaging related Business, which was formerly known as Glass-Related Business, by the corporate reorganization. Segment information after 2014 is based on this reclassification.

(*2) Operating income at the operating segment level is not adjusted for intra-segment transactions. See Note 14. "Segment Reporting" to the consolidated financial statements.

Ten-Year Summary

Nipro Corporation and its Consolidated Subsidiaries
Years ended March 31

	Yen										U.S. dollars (Note 1)
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2018
Per Share Data:											
Basic earnings (*3)	¥ 71.1	¥ 67.5	¥ 116.2	¥ 81.0	¥ 18.2	¥ 60.0	¥ 35.3	¥ 19.4	¥ 114.4	¥ 71.4	$ 0.67
Diluted earnings (*3)	64.5	61.3	114.7	—	16.3	54.1	31.0	17.4	114.1	—	0.61
Cash dividends	28.5	29.0	33.5	32.5	30.5	27.5	23.5	50.0	53.0	32.0	0.26
Equity (*3)	1,037.2	999.5	977.6	988.8	832.1	703.5	643.9	839.7	1,802.3	1,498.5	9.76
Number of common shares issued	171,459,479	171,459,479	171,459,479	171,459,479	171,459,479	171,459,479	171,459,479	63,878,505	63,878,505	63,878,505	
Number of employees	28,330	24,715	24,243	23,153	21,826	19,327	14,566	12,017	9,939	9,354	
Selected Data and Ratios:											
Equity ratio (*4) (%)	20.9	22.1	23.4	24.1	20.2	20.7	22.0	22.4	29.8	28.7	
Return on assets (*4) (%)	3.4	3.9	3.5	2.5	2.1	2.1	3.2	4.0	5.1	4.3	
Return on equity (*4) (%)	7.0	6.8	11.8	8.5	2.3	8.9	4.2	2.2	6.9	4.2	
Price earnings ratio (*4) (times)	21.6	23.2	9.2	14.1	51.0	14.0	17.5	42.5	15.8	21.5	

(*3) Effective the fiscal year ended March 31, 2012, the Company has adopted ASBJ Statement No. 2 “Accounting Standard for Earnings per Share” (June 30, 2010), ASBJ Guidance No. 4 “Guidance on Accounting Standard for Earnings per Share” (June 30, 2010) and ASBJ PITF No. 9 “Practical Solution on Accounting for Earnings per Share” (June 30, 2010). In addition, the Company split one share of common stock into two shares on October 1, 2011 based on a resolution at the board of directors’ meeting held on August 27, 2011. In accordance with this adoption, equity per share, basic earnings per share and diluted earnings per share are calculated on the assumption that the two-for-one stock split of common stock was conducted at the beginning of the fiscal year ended March 31, 2011. Before the fiscal year ended March 31, 2010, each amount has been stated in compliance with previous accounting rules.

(*4) Equity ratio is the ratio of the sum of the total shareholders’ equity and accumulated other comprehensive income to total assets at the period-end. Return on assets is the ratio of operating income for the period to the average of total assets during the period. Return on equity is the ratio of net income for the period to the average of the sum of total shareholders’ equity and accumulated other comprehensive income during the period. The 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 the basic earnings per share.

(*5) Until 2016, yen amounts are rounded to the nearest million yen. Since 2017, yen amounts are rounded down to the nearest million yen.

Consolidated Balance Sheets

Nipro Corporation and its Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Assets			
Current assets:			
Cash and cash equivalents	¥ 135,599	¥ 112,046	$ 1,276,352
Time deposits (over three months)	6,341	11,141	59,687
Trade notes and accounts receivable	140,511	121,038	1,322,587
Allowance for doubtful receivables	(1,437)	(1,378)	(13,534)
Inventories (Note 3)	129,218	115,329	1,216,285
Deferred income taxes (Note 4)	6,959	6,404	65,508
Other current assets	18,854	22,194	177,475
Total current assets	436,047	386,775	4,104,362
Property, plant and equipment (Note 5):			
Land	¥ 32,079	¥ 23,987	$ 301,955
Buildings and structures	207,198	199,471	1,950,288
Machinery and equipment	316,947	290,601	2,983,314
Construction in progress	37,537	25,953	353,327
	593,763	540,014	5,588,886
Accumulated depreciation	(323,489)	(295,792)	(3,044,892)
Property, plant and equipment—net	270,273	244,222	2,543,994
Intangible assets (Note 5):			
Goodwill	¥ 27,358	¥ 27,996	$ 257,520
Other intangible assets	18,635	15,839	175,405
Total intangible assets	45,994	43,836	432,925
Investments and other assets:			
Investment in unconsolidated subsidiaries and an affiliate accounted for by the equity method	¥ 4,150	¥ 4,725	$ 39,063
Investment securities (Note 6)	58,794	64,170	553,407
Lease deposits	1,896	1,659	17,848
Deferred income taxes (Note 4)	3,706	1,459	34,889
Other assets	5,896	5,990	55,501
Total investments and other assets	74,443	78,004	700,711
Total	¥ 826,759	¥ 752,839	$ 7,781,993

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 5 and 9)	¥ 54,245	¥ 46,208	$ 510,598
Current portion of long-term debt (Notes 5 and 9)	64,635	86,885	608,387
Trade notes and accounts payable	62,105	57,587	584,573
Accrued income taxes	4,993	3,261	47,003
Accrued expenses	29,036	25,093	273,311
Commercial paper (Note 9)	10,000	10,000	94,126
Notes and accounts payable for plant and equipment	15,246	14,599	143,512
Other current liabilities	10,923	8,156	102,814
Total current liabilities	251,186	251,792	2,364,327
Long-term liabilities:			
Long-term debt (Notes 5 and 9)	¥380,517	¥311,396	$3,581,674
Net defined benefit liability (Note 10)	4,530	5,126	42,647
Deferred income taxes (Note 4)	783	1,766	7,373
Other long-term liabilities	6,255	6,349	58,882
Total long-term liabilities	392,087	324,639	3,690,578
Commitments and contingent liabilities (Note 11)			
Net Assets (Note 12):			
Common stock	¥ 84,397	¥ 84,397	$ 794,407
Authorized: 400,000,000 shares			
Issued: 171,459,479 shares			
Retained earnings	83,570	78,422	786,615
Less cost of common shares of treasury stock (5,037,124 shares in 2018 and 5,300,071 shares in 2017)	(6,004)	(6,243)	(56,521)
Total shareholders' equity	161,963	156,577	1,524,501
Unrealized gain (loss) on available-for-sale securities	(712)	1,589	(6,706)
Deferred gains or losses on hedges	(69)	(141)	(654)
Foreign currency translation adjustments	11,404	8,640	107,342
Remeasurements of defined benefit plans	36	(582)	345
Accumulated other comprehensive income	10,658	9,504	100,327
Non-controlling interests	10,863	10,325	102,258
Total net assets	183,485	176,408	1,727,087
Total	¥826,759	¥752,839	$7,781,993

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales	¥395,397	¥359,699	$3,721,741
Cost of sales	268,272	244,602	2,525,157
Gross profit	127,125	115,097	1,196,583
Selling, general and administrative expenses (Notes 15 and 16)	100,036	86,326	941,612
Operating income	27,088	28,770	254,970
Other income (expenses):			
Interest and dividend income	2,221	1,996	20,907
Interest expense	(3,543)	(3,796)	(33,349)
Loss on sale and disposal of property, plant and equipment—net	(718)	(1,127)	(6,761)
Exchange gain (loss)	(2,561)	(2,273)	(24,110)
Equity in profit (loss) of an affiliated company	113	112	1,069
Gain (loss) on sale of subsidiaries and affiliates' stocks	736	0	6,936
Loss on impairment of fixed assets (Note 17)	(2,216)	(1,554)	(20,866)
Other income (loss)—net	(4,093)	(3,803)	(38,533)
Income before income taxes	17,026	18,324	160,261
Income taxes (Note 4):			
Current	7,708	6,613	72,552
Deferred	(2,980)	107	(28,050)
Net income	12,298	11,604	115,759
Net income (loss) attributable to non-controlling interests	468	258	4,407
Net income attributable to owners of parent	¥ 11,829	¥ 11,346	$ 111,351

	Yen		U.S. dollars (Note 1)
Amounts per common share:			
Basic earnings	¥ 71.1	¥ 67.5	$ 0.7
Diluted earnings	64.5	61.3	0.6
Cash dividends	28.5	29.0	0.2

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥12,298	¥11,604	$115,759
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	(2,301)	4,936	(21,659)
Deferred gains or losses on hedges	72	(129)	679
Foreign currency translation adjustment	2,882	(5,860)	27,133
Remeasurements of defined benefit plans	628	240	5,916
Share of other comprehensive income of entities accounted for using equity method	(87)	(36)	(827)
Comprehensive income	¥13,492	¥10,753	$127,000
Comprehensive income attributable to:			
Owners of parent	12,983	10,844	122,212
Non-controlling interests	508	(90)	4,788

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Nipro Corporation and its Consolidated Subsidiaries
For the year ended March 31, 2018 and 2017 consisted of the following:

	Thousands	Millions of yen										
	Outstanding number of shares of common stock	Common stock	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Accumulated other com-prehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2016	171,459	¥84,397	¥73,067	¥(1,475)	¥155,990	¥(3,347)	¥ (12)	¥14,187	¥(821)	¥10,007	¥ 9,509	¥175,507
Net income attributable to owners of parent			11,346		11,346							11,346
Increase (decrease) in retained earnings due to inclusion of new subsidiaries in consolidation			(0)		(0)							(0)
Cash dividends			(4,073)		(4,073)							(4,073)
Purchase of treasury stock				(5,001)	(5,001)							(5,001)
Disposal of treasury stock				233	233							233
Change in the scope of consolidation			(0)		(0)							(0)
Decrease of retained earnings (Other)			(1,916)		(1,916)							(1,916)
Other net change during the year						4,936	(129)	(5,547)	238	(502)	815	313
Balance at March 31, 2017	171,459	84,397	78,422	(6,243)	156,577	1,589	(141)	8,640	(582)	9,504	10,325	176,408
Net income attributable to owners of parent			11,829		11,829							11,829
Increase (decrease) in retained earnings due to inclusion of new subsidiaries in consolidation												
Cash dividends			(6,498)		(6,498)							(6,498)
Purchase of treasury stock				(1)	(1)							(1)
Disposal of treasury stock			(0)	240	240							240
Change in the scope of consolidation												
Decrease of retained earnings (Other)			(184)		(184)							(184)
Other net change during the year						(2,301)	72	2,764	619	1,153	538	1,691
Balance at March 31, 2018	171,459	¥84,397	¥83,570	¥(6,004)	¥161,963	¥ (712)	¥ (69)	¥11,404	¥ 36	¥10,658	¥10,863	¥183,485

	Thousands	Thousands of U.S. dollars (Note 1)										
	Outstanding number of shares of common stock	Common stock	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Accumulated other com-prehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2017	171,459	$794,407	$738,167	$(58,767)	$1,473,807	$ 14,959	$(1,333)	$ 81,325	$(5,484)	$ 89,466	$ 97,193	$1,660,467
Net income attributable to owners of parent		—	*111,351*	—	*111,351*	—	—	—	—	—	—	*111,351*
Increase (decrease) in retained earnings due to inclusion of new subsidiaries in consolidation												
Cash dividends			*(61,164)*		*(61,164)*							*(61,164)*
Purchase of treasury stock				*(15)*	*(15)*							*(15)*
Disposal of treasury stock			*(0)*	*2,261*	*2,260*							*2,260*
Decrease of retained earnings (Other)			*(1,737)*		*(1,737)*							*(1,737)*
Other net change during the year						*(21,665)*	*679*	*26,017*	*5,830*	*10,860*	*5,064*	*15,925*
Balance at March 31, 2018	*171,459*	*$794,407*	*$786,615*	*$(56,521)*	*$1,524,501*	*$ (6,706)*	*$ (654)*	*$107,342*	*$ 345*	*$100,327*	*$102,258*	*$1,727,087*

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, 2018 and 2017

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Operating activities:			
Net income attribute to owners of parent	¥ 11,829	¥ 11,346	$ 111,351
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,565	31,128	306,532
Amortization of goodwill	3,431	2,907	32,299
Loss on impairment of fixed assets	2,216	1,554	20,866
Equity in loss (profit) of an affiliated company	(113)	(112)	(1,069)
Allowance for doubtful receivables	443	433	4,175
Loss (gain) on sales of available for sales securities	(791)	0	(7,449)
Loss (gain) on sale of investment in consolidated subsidiaries	—	369	—
Provision for deferred taxes	(2,980)	107	(28,050)
Exchange loss	559	4,008	5,266
Loss on devaluation of marketable securities	0	—	0
Loss on sale and disposal of property, plant and equipment—net	718	1,127	6,761
State subsidy	(1,613)	(1,900)	(15,183)
Loss on reduction of non-current assets	1,500	1,879	14,121
Other, net	963	1,007	8,979
Changes in operating assets and liabilities:			
Trade receivables	(7,331)	(9,317)	(69,006)
Inventories	(4,902)	(17,730)	(46,141)
Other current assets	1,755	(1,788)	16,525
Lease deposits	(217)	(131)	(2,050)
Trade payables	(3,821)	4,576	(35,971)
Accrued income taxes	689	38	6,485
Other, net	6,143	3,968	57,828
Total adjustments	29,216	22,126	275,007
Net cash provided by operating activities	41,046	33,472	386,358

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Investing activities:			
Purchase of property, plant and equipment	¥ (60,144)	¥ (62,323)	$ (566,116)
Proceeds from sales of property, plant and equipment	323	405	3,043
Purchase of available-for-sale securities	(549)	(1,092)	(5,167)
Proceeds from sales of available-for-sale securities	4,480	—	42,175
Purchase of investments in unconsolidated subsidiaries	(921)	(1,967)	(8,676)
Proceeds from investment in unconsolidated subsidiaries and affiliates	384	—	3,619
Purchase of investments in consolidated subsidiaries resulting in change in scope of consolidation	(11,888)	(3,126)	(111,901)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(703)	—
Deposits (Over three months)	4,957	2,732	46,664
Other, net	(782)	(275)	(7,369)
Net cash used in investing activities	(64,140)	(66,351)	(603,729)
Financing activities:			
Net increase (decrease) in short-term loans	8,825	1,018	83,072
Proceeds from long-term loans	135,110	145,298	1,271,750
Repayment of long-term loans	(74,903)	(97,424)	(705,039)
Proceeds from issuance of bonds	993	1,989	9,351
Repayment of bonds	(15,160)	(2,262)	(142,695)
Proceeds from disposal of treasury stock	240	233	2,261
Proceeds from sales of treasury shares	(22)	(5,007)	(214)
Cash dividends paid	(6,505)	(4,101)	(61,231)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(56)	(2,104)	(529)
Other, net	(1,180)	(1,157)	(11,112)
Net cash provided by financing activities	47,341	36,483	445,612
Effect of exchange rate changes on cash and cash equivalents	(695)	(3,773)	(6,547)
Net increase (decrease) in cash and cash equivalents	23,552	(168)	221,694
Cash and cash equivalents, beginning of period	112,046	111,977	1,054,657
Cash and cash equivalents of newly consolidated subsidiary, beginning of period	—	237	—
Cash and cash equivalents, end of period	¥135,599	¥112,046	$1,276,352

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The financial statements of Nipro Corporation ("the Company") and its consolidated domestic subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Effective from the year ended March 31, 2009, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18) and as a result, the accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States, with adjustments for the specified four items as applicable.

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. However, no adjustment has been made which would change the financial position or the results of operations presented in the original financial statements. In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles and practices in Japan.

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 ¥106.24 = US$1, the approximate exchange rate on March 31, 2018. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollar amounts at that or any other rate.

In preparing the accompanying consolidated financial statements and notes, Japanese yen figures less than one million yen have been rounded down to the nearest million yen, in accordance with the Financial Instruments and Exchange Law and Enforcement Ordinance concerning the Banking Law of Japan, although the figure of the past fiscal years before fiscal 2016 were rounded in this report.

Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements and notes thereto are not necessarily equal to sums of individual 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 affiliated company accounted for by the equity method.

Investments 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 profits included in assets resulting from transactions within the Company and its consolidated subsidiaries have been eliminated. The difference between the cost of investments in subsidiaries and affiliates and the equity in their net assets at the dates of acquisition is amortized on a straight-line basis over five to twenty years.

All accounts herein have been presented on the basis of the 12 months ended March 31, 2018 for the Company and for consolidated domestic subsidiaries, and December 31, 2017 for all consolidated overseas subsidiaries.

Adjustments have been made for any significant intercompany transactions which took place during the period between the end of the accounting period of the consolidated overseas subsidiaries and that of the Company.

(b) Translation of Foreign Currencies

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rates for the period. Resulting translation adjustments are shown as "Foreign currency translation adjustments" in the "Accumulated other comprehensive income" section of net assets.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid investments with original maturities of three months or less.

(d) Allowance for Doubtful Receivables

An allowance for possible losses from trade notes and accounts receivable, loans and other receivables is provided based on the actual rate of past bad debts and the uncollectible amounts of certain individual receivables.

(e) Inventories

Inventories are stated principally at the lower of average cost or net realizable value.

Notes to Consolidated Financial Statements

(f) Property, Plant and Equipment

Depreciation of property, plant and equipment of the Company and its consolidated 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 buildings and accompanying facilities and structures acquired by the domestic companies after April 1, 2016, and is principally applied to the property, plant and equipment of consolidated overseas subsidiaries.

(g) Intangible Assets

Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

Goodwill is amortized on a straight-line basis over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(h) 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 stated at amortized cost.

ii) available-for-sale securities, which are not classified as the aforementioned securities, are stated at fair value. Unrealized gains and losses, net of applicable taxes, are reported as "Accumulated other comprehensive income" of net assets.

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.

(i) Allowance for Loss on Clearance of Business

The Company has withdrawn from retail business and a provision for anticipated losses of sales of related fixed assets is provided.

(j) Employees' Retirement and Severance Benefits

Method of Attributing Expected Benefit to Periods

In calculating retirement benefit obligation, the estimated amount of retirement benefit is attributed to the periods on the benefit formula basis.

Accounting Method of Actuarial Gains and Losses and Prior Service Costs

Prior service costs are amortized on the straight-line basis over a certain period (mainly 5 years) which is within the average of the estimated remaining service years of the employees when they occur.

Actuarial gains and losses are amortized on the straight-line basis over a certain period (mainly 5 years) which is within the average of the estimated remaining service years of the employees commencing from the following year in which they arise.

(k) Derivatives

Derivatives are stated at fair value, with changes in fair value included in net income or loss for the period in which they arise, unless derivatives are used for hedging purposes. Please see (m) Hedge Accounting below.

(l) Leases

Finance leases, except for certain immaterial leases, are capitalized in the balance sheet. Amortization of finance lease assets is calculated by the straight-line method over the lease period assuming no residual value.

The Company and its consolidated domestic subsidiaries account for certain finance leases as operating leases, which do not transfer ownership to the lessee and existed prior to April 1, 2008. The information of such leases on an "as if capitalized" basis is presented in Note 7. "Leases".

(m) Hedge Accounting

<Method of hedge accounting>

The deferral hedge accounting method is applied in principle. The allocation method is applied to currency swaps and the exceptional accounting method is applied to interest rate swaps when certain hedging criteria are met.

<Hedge instrument and hedge items>

(Hedging instruments)	(Hedged items)
Currency swap	Short-term and long-term debt denominated in foreign currency
Interest rate swap	Interest on short-term and long-term debt

<Hedge policy>

The Company uses currency swaps and interest rate swaps to reduce currency exposure and interest volatility risk.

<Method for assessing hedge effectiveness>

Hedge effectiveness is not assessed for currency swaps which meet certain criteria of the allocation method and interest rate swaps which meet certain criteria of the exceptional accounting method.

Notes to Consolidated Financial Statements

(n) Income Taxes

The provision for income taxes is computed based on income for financial statement purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the 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.

(o) 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 reflect the potential dilution that could occur if securities were exercised or converted into common stock. Diluted earnings per share of common stock assume 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.

(p) Accounting Standard Issued but not yet Effective

Accounting Standard for Revenue Recognition and Implementation Guidance on Accounting Standard for Revenue Recognition

This standard and guidance specifies Revenue Recognition comprehensively. To recognize revenue under this standard and guidance, an entity applies the following five steps:

Step 1: To identify the contract(s) with a customer
Step 2: To identify the performance obligations in the contract
Step 3: To determine the transaction price
Step 4: To allocate the transaction price to the performance obligations in the contract
Step 5: To recognize revenue when (or as) the entity satisfies a performance obligation

The Company and its domestic subsidiaries will adopt the guidance effective from the beginning of the fiscal year ended March 31, 2022. At present, the Company is in the process of evaluating the impact on the consolidated financial statements of the adoption of Accounting Standard for Revenue Recognition and Implementation Guidance on Accounting Standard for Revenue Recognition.

3. Inventories

Inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Finished goods and merchandise	¥ 88,710	¥ 78,241	$ 834,997
Raw materials	22,789	21,627	214,507
Work in process	12,666	10,784	119,225
Packing and other	5,052	4,675	47,554
Total	¥129,218	¥115,329	$1,216,285

Notes to Consolidated Financial Statements

4. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income which, in aggregate, resulted in a normal statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Deferred tax assets			
Tax loss carryforwards	¥ 8,323	¥ 7,044	$ 78,344
Intercompany profits	2,242	2,177	21,106
Valuation loss on inventories	897	1,512	8,451
Allowance for bonuses to employees	1,197	1,115	11,272
Sales allowance	327	326	3,082
Loss on impairment of fixed assets	184	173	1,732
Excess of allowance for doubtful accounts over tax allowable amounts	1,801	1,368	16,953
Net defined benefit liability	1,275	1,466	12,008
Accrued enterprise taxes	400	350	3,773
Unrealized loss on available-for-sale securities	787	47	7,416
Goodwill	242	757	2,278
Loss on liquidation of business	283	—	2,672
Other	3,752	2,304	35,319
Gross deferred tax assets	21,716	18,645	204,410
Less: Valuation allowance	(9,086)	(8,702)	(85,529)
Total deferred tax assets	12,630	9,943	118,881
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	350	563	3,303
Revaluation reserve for land	675	675	6,360
Revaluation reserve for intangible assets	2	284	22
Revaluation reserve for fixed assets—other	1,068	1,557	10,059
Other	650	785	6,125
Total deferred tax liabilities	2,748	3,866	25,871
Net deferred tax assets (liabilities) (*1)	¥ 9,881	¥ 6,076	$ 93,010

(*1) The current portion of Deferred Tax Liabilities for the year ended March 31, 2018 is ¥66 million (US$621 thousand) and is accounted for as "Others" of Current Liabilities.

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

	2018	2017
Statutory tax rate	30.8%	30.8%
Expenses not deductible for tax purposes	2.5	2.2
Non-taxable dividend income	(1.3)	(0.2)
Effect of tax rate change	2.0	—
Amortization of goodwill	6.3	3.8
Tax credits primarily for research and development costs	(7.5)	(7.2)
Valuation allowance	(9.1)	3.6
Other	4.1	3.7
Effective income tax rate	27.8%	36.7%

The Tax Cuts and Jobs Act, which reduces the federal corporate income tax rate from 35% to 21% in the U.S. effective January 1, 2018, was enacted on December 22, 2017.

In line with this, the deferred tax assets and liabilities of U.S. subsidiaries were calculated in accordance with the revised statutory tax rate. In addition, tax is occurred to certain US Foreign retained earnings for U.S. subsidiaries.

As a result of re-measurement of deferred tax assets and deferred tax liabilities of U.S. subsidiaries, net income attributable to owners of parent decreased by ¥338 million ($3,181 thousand) for the year ended March 31, 2018.

Notes to Consolidated Financial Statements

5. Pledged Assets

The following assets were pledged as collateral:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Buildings and structures	¥ 9,422	¥10,104	$ 88,686
Machinery and equipment	—	59	—
Land	3,137	3,383	29,531
Other	445	1,917	4,196
Total	¥13,005	¥15,465	$122,414

The above assets were pledged against the following liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Short-term bank loans	¥1,249	¥1,219	$11,761
Current portion of long-term debt	1,520	1,540	14,312
Long-term debt	3,855	4,379	36,290
Total	¥6,625	¥7,139	$62,364

6. Investment Securities

Investment securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Non-current:			
Marketable:			
Marketable equity securities	¥56,678	¥62,335	$533,490
Investment trust funds and other	—	—	—
Subtotal	56,678	62,335	533,490
Non-marketable securities	2,116	1,834	19,917
Total	¥58,794	¥64,170	$553,407

The carrying amounts and aggregate fair values of marketable securities for investments as of March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	¥58,268	¥7,206	¥8,797	¥56,678
Debt securities and other	—	—	—	—
Total	¥58,268	¥7,206	¥8,797	¥56,678

	Thousands of U.S. dollars (Note 1)			
	2018			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	$548,463	$67,832	$82,805	$533,490
Debt securities and other	—	—	—	—
Total	$548,463	$67,832	$82,805	$533,490

	Millions of yen			
	2017			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	¥60,744	¥8,023	¥6,432	¥62,335
Debt securities and other	—	—	—	—
Total	¥60,744	¥8,023	¥6,432	¥62,335

Proceeds from sales of securities and gross realized gains or losses on those sales for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Proceeds	¥4,480	0	$42,175
Gains on sales	736	0	6,936
Losses on sales	—	0	—

Notes to Consolidated Financial Statements

7. Financial Instruments

(1) Circumstances on financial instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries manage the temporary surplus funds by deposits with banks that have a high level of safety. Based on capital investment planning and financing planning, the Company and its consolidated subsidiaries raise funds for business operation with bank loans, commercial paper, corporate bonds, and issuing convertible bond-type corporate bonds with warrant of booking new stocks.

The Company and its consolidated subsidiaries enter into derivative transactions for the purpose of reducing funding costs and hedging their exposures to foreign exchange fluctuations and interest rate fluctuations, but not for speculative purposes.

(b) Details and risk of financial instruments and its risk management

Receivables such as trade notes and accounts receivable are exposed to customer's credit risk. Receivables denominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

In order to reduce the customer's risk, the Company monitors the dues and balances by customer in accordance with the Company's credit administration regulations.

Investment securities are exposed to market fluctuation risk, but mainly consist of equity of the companies which conduct business with the Company. The Company periodically reviews the market price of such securities.

Payables such as trade notes, accounts payable and accounts payable other are due within 1 year.

Payables denominated in foreign currency are exposed to the risk of fluctuation in foreign currency exchange rates.

Short-term loans payable are mainly borrowed to raise operating capital and long-terms loans payable are mainly borrowed to make capital expenditures. A part of long-term loans with the floating interest rate has the risk of interest rate fluctuation, but the Company and its consolidated subsidiaries use a interest rate swaps to solidify the interest rate. For some of the loans denominated in foreign currency, the Company and its consolidated subsidiaries use currency swaps to hedge the currency fluctuation risk.

Bonds and commercial paper are mainly issued to raise the funds for the retirement of bonds.

Lease obligations are mainly for capital expenditures, free from interest-rate risk because the interest rate is fixed.

Payables, loans and bonds are exposed to liquidity risk, but the Company and its consolidated subsidiaries manage the risk by establishing cash planning.

Regarding derivatives, the Company enters into forward exchange contracts to hedge against the risk of fluctuations in foreign currency exchange rates associated with trade receivables and payables denominated in foreign currencies, interest rate swaps to hedge against the risk of fluctuations in interest rates associated with loans payable, and currency swaps to hedge against the risk of foreign exchange rate fluctuations. For more information on the use of hedge accounting, including hedging instruments, hedged items, the hedging policy, and the method for assessment of hedge effectiveness, please refer to "2. Summary of Significant Accounting Policies" (m) Hedge Accounting.

As the Company manages its exposure to credit risk by limiting its funding to high-credit rating financial institutions, the Company recognizes that the exposure to credit risk is extremely low.

The Company executes and manages derivative transactions under the corporate derivative management policy, which prescribes the authority and limitations on derivative transactions.

(c) Supplemental information on fair values of financial instruments

Fair values of financial instruments include values based on market price and reasonably estimated values when market price is not available. Because variable factors are counted in the estimation, the estimated values may vary by adopting different assumptions.

With respect to the contract amounts related to derivative transactions in Note 8, the amounts do not reflect market risks to derivative transactions.

(2) Fair values of financial instruments

The book values, fair values and the differences between them as of March 31, 2018 and 2017 are as follows (Financial instruments for which the market value is extremely difficult to determine are not included as described in remark 2.):

	Millions of yen		
	2018		
	Book value	Fair value	Difference
Cash and cash equivalents, time deposits	¥141,940	¥141,940	¥ —
Trade notes and accounts receivable, net of allowance for doubtful receivables	139,073	139,073	—
Investment securities	56,678	56,678	—
Assets total	¥337,692	¥337,692	¥ —
Trade notes and accounts payable	¥ 62,105	¥ 62,105	¥ —
Short-term bank loans, current portion of long-term debt, and commercial paper	128,881	128,881	—
Other notes and account payable (*1)	33,089	33,089	—
Long-term debt	355,517	353,642	(1,874)
Convertible bond	25,000	28,787	3,787
Lease obligations (*2)	3,742	3,673	(69)
Liabilities total	¥608,335	¥610,179	¥ 1,843
Delivatives (*3)	¥ (83)	¥ (83)	¥ —

Notes to Consolidated Financial Statements

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and cash equivalents, time deposits	¥123,188	¥123,188	¥ —
Trade notes and accounts receivable, net of allowance for doubtful receivables	119,660	119,660	—
Investment securities	62,335	62,335	—
Assets total	¥305,183	¥305,183	¥ —
Trade notes and accounts payable	¥ 57,587	¥ 57,587	¥ —
Short-term bank loans, current portion of long-term debt, and commercial paper	143,093	143,093	—
Other notes and account payable (*1)	28,508	28,508	—
Long-term debt	286,396	284,576	(1,819)
Convertible bond	25,000	29,787	4,787
Lease obligations (*2)	3,977	3,868	(109)
Liabilities total	¥544,563	¥547,421	¥ 2,857
Delivatives (*3)	¥ (143)	¥ (143)	¥ —

	Thousands of U.S. dollars (Note 1)		
	2018		
	Book value	Fair value	Difference
Cash and cash equivalents, time deposits	*$1,336,039*	*$1,336,039*	*$ —*
Trade notes and accounts receivable, net of allowance for doubtful receivables	*1,309,052*	*1,309,052*	*—*
Investment securities	*533,490*	*533,490*	*—*
Assets total	*$3,178,582*	*$3,178,582*	*$ —*
Trade notes and accounts payable	*$ 584,573*	*$ 584,573*	*$ —*
Short-term bank loans, current portion of long-term debt, and commercial paper	*1,213,112*	*1,213,112*	*—*
Other notes and account payable (*1)	*311,455*	*311,455*	*—*
Long-term debt	*3,346,358*	*3,328,716*	*(17,642)*
Convertible bond	*235,316*	*270,966*	*35,650*
Lease obligations (*2)	*35,230*	*34,578*	*(652)*
Liabilities total	*$5,726,047*	*$5,743,403*	*$ 17,355*
Delivatives (*3)	*$ (785)*	*$ (785)*	*$ —*

(*1) This is included in accrued expenses and notes and accounts payable for plant and equipment on the balance sheet.
(*2) This is included in other current liabilities and other long-term liabilities on the balance sheet.
(*3) The amount represents the net amount of assets (liabilities).

Remark 1 Methods used to calculate fair values of financial instruments and the details of securities and Delivatives

<Assets>

• Cash and cash equivalents, time deposits and trade notes and accounts receivable
Cash and cash equivalents and trade notes and accounts receivable are stated at the relevant book value because the settlement periods are short and the fair values are almost the same as the book value.

• Investments securities
Equity securities are stated at market value. See Note 6. “Investment securities” for the detailed information by classification.

<Liabilities>

• Trade notes and accounts payable and short-term bank loans and current portion of long-term debt and commercial paper
Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

• Other notes and account payable
Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

• Long-term debt and convertible bond
The fair value of long-term debt is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a similar new loan was entered into.

• Lease obligation
The fair value of lease obligations is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a current lease transaction was renewed.

• Delivatives
The fair value information for delivatives is included in Note 8.

Remark 2 Financial instruments for which the fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unlisted equity securities	¥6,258	¥6,552	*$58,911*

Because these items have no market value and are difficult to estimate the future cash flow and it is extremely difficult to determine their fair values, they are not included in investment securities above.

Remark 3 Planned redemption amounts after the balance sheet date for monetary receivables with maturity dates are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
	Within 1 year	Within 1 year	Within 1 year
Cash and cash equivalents, time deposits	¥141,940	¥123,188	*$1,336,039*
Trade notes and accounts receivable	139,073	119,660	*1,309,052*

Notes to Consolidated Financial Statements

Remark 4 Planned repayment amounts after the balance sheet date for monetary payables with maturity dates

Planned repayment amounts after the balance sheet date for monetary payables with maturity dates at March 31, 2018 are as follows:

	Millions of yen					
	2018					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term bank loans, current portion of long-term debt, and commercial paper	¥128,881	¥ —	¥ —	¥ —	¥ —	¥ —
Other notes and account payable	—	—	—	—	—	—
Long-term debt	—	76,507	46,394	64,203	42,557	125,854
Convertible bond	—	—	25,000	—	—	—
Lease obligations	1,198	1,054	721	566	115	85
Total	¥130,079	¥77,561	¥72,116	¥64,770	¥42,673	¥125,940

	Thousands of U.S. dollars (Note 1)					
	2018					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term bank loans, current portion of long-term debt, and commercial paper	*$1,213,112*	*$ —*	*$ —*	*$ —*	*$ —*	*$ —*
Other notes and account payable	—	—	—	—	—	—
Long-term debt	—	*720,136*	*436,694*	*604,325*	*400,577*	*1,184,624*
Convertible bond	—	—	—	—	—	—
Lease obligations	*11,280*	*9,925*	*6,795*	*5,333*	*1,088*	*807*
Total	*$1,224,393*	*$730,062*	*$443,489*	*$609,658*	*$401,666*	*$1,185,431*

	Millions of yen					
	2017					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term bank loans, current portion of long-term debt, and commercial paper	¥143,093	¥ —	¥ —	¥ —	¥ —	¥ —
Other notes and account payable	—	—	—	—	—	—
Long-term debt	—	52,243	63,647	36,669	48,873	84,963
Convertible bond	—	—	—	25,000	—	—
Lease obligations	1,107	987	853	543	428	57
Total	¥144,201	¥53,230	¥64,500	¥62,213	¥49,301	¥85,020

Notes to Consolidated Financial Statements

8. Derivatives

The Company and its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2018 and 2017.

(1) Derivatives for which hedge accounting has not been applied.

Currency related

	Type of Derivative	Millions of yen 2018 Contract amount	Over 1 year out-of-contract amount	Fair Value
Transaction other than market transaction	NDF	¥621	¥—	¥(13)

	Type of Derivative	Thousands of U.S. dollars (Note 1) 2018 Contract amount	Over 1 year out-of-contract amount	Fair Value
Transaction other than market transaction	NDF	*$5,849*	*$—*	*$(131)*

	Type of Derivative	Millions of yen 2017 Contract amount	Over 1 year out-of-contract amount	Fair Value
Transaction other than market transaction	NDF	¥174	¥—	¥(1)

Fair value is based on information provided by a financial institution at the end of the fiscal year.

(2) Derivatives for which hedge accounting has been applied.

(a) Currency related
N/A in 2018

Method of hedge accounting	Type of Derivative	Principal Hedge Item	Millions of yen 2017 Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Currency swap	Account receivables	¥289	¥—	¥(11)
Allocation method of forward foreign exchange contract, etc.	Currency swap	Long-term loans	53	—	(*1)

(*1) The fair value of interest rate swap to which the exceptional accounting method is applied and the fair value of forward foreign exchange contract, etc., to which the allocation method is applied are included in the fair value of long-term loans in Note 9. “Financial Instruments” because such interest rate swap and forward foreign exchange contract, etc., are accounted for as a single item with the corresponding long-term loans.

(b) Interest related

Method of hedge accounting	Type of Derivative	Principal Hedge Item	Millions of yen 2018 Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Interest rate swap	Long-term loans	¥4,960	¥4,589	¥(69)
Exceptional accounting method for interest rate swap	Interest rate swap	Long-term loans	245	—	(*1)

Method of hedge accounting	Type of Derivative	Principal Hedge Item	Thousands of U.S. dollars (Note 1) 2018 Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Interest rate swap	Long-term loans	$46,691	$43,196	$(654)
Exceptional accounting method for interest rate swap	Interest rate swap	Long-term loans	2,307	—	(*1)

Method of hedge accounting	Type of Derivative	Principal Hedge Item	Millions of yen 2017 Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Interest rate swap	Long-term loans	¥4,716	¥4,716	¥(130)
Exceptional accounting method for interest rate swap	Interest rate swap	Long-term loans	724	245	(*1)

(*1) The fair value of interest rate swap to which the exceptional accounting method is applied and the fair value of forward foreign exchange contract, etc., to which the allocation method is applied are included in the fair value of long-term loans in Note 9. “Financial Instruments” because such interest rate swap and forward foreign exchange contract, etc., are accounted for as a single item with the corresponding long-term loans.

Notes to Consolidated Financial Statements

9. Short-Term Loans and Long-Term Debt

Short-term loans comprised overdrafts and promissory notes.

The weighted-average interest rates of short-term bank loans for the years ended March 31, 2018 and 2017 were 0.8180% and 0.9293%, respectively.

The weighted-average interest rates of commercial paper for the years ended March 31, 2018 and 2017 were 0.0010% and 0.011%, respectively.

Long-term debt comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
2.04% unsecured bonds due 2018	¥ —	¥ 10,000	$ —
1.09% unsecured bonds due 2018	—	4,000	—
0.61% unsecured bonds due 2019 (*1)	400	800	3,765
	[400]	[400]	[3,765]
0.57% unsecured bonds due 2020	3,000	3,000	28,237
0% unsecured bonds due 2021	25,000	25,000	235,316
0.021%~0.810% unsecured bonds due from 2017 to 2023 (*1) (*2)	2,800	2,530	26,355
	[800]	[730]	[7,530]
0.33% unsecured bonds due 2018 (*1) (*3)	15	45	141
	[15]	[30]	[141]
Long-term bank loans due through 2077, with weighted-average interest rate of 0.6433% for the year ended March 31, 2018, and of 0.7695% for the year ended March 31, 2017	413,937	352,906	3,896,246
Less current portion of long-term debt	(64,635)	(86,885)	(608,387)
Total	¥380,517	¥311,396	$3,581,674

(*1) [　　] is the amount of the current portion of bonds.
(*2) This is the total amount of the bonds Goodman Co., Ltd. issued.
(*3) This is the total amount of the bonds IMC Co., Ltd. issued.
In March 2008, the Company issued ¥10,000 million (US$94,126 thousand) of 2.04% unsecured bonds due 2018.
In March 2013, the Company issued ¥4,000 million (US$37,650 thousand) of 1.09% unsecured bonds due 2018.
In March 2014, the Company issued ¥2,000 million (US$18,825 thousand) of 0.61% unsecured bonds due 2019.
In March 2015, the Company issued ¥3,000 million (US$28,237 thousand) of 0.57% unsecured bonds due 2020.
In January 2016,the Company issued ¥25,000 million (US$235,316 thousand)of 0% unsecured bonds due 2021.
In June 2013, IMC Co., Ltd. issued ¥45 million (US$4,235 thousand) of 0.33% privately placed bonds due 2018.
From May 2012 to February 2018, Goodman Co., Ltd. issued ¥5,300 million (US$49,887 thousand) of 0.021% and 0.81% unsecured bonds due from 2017 to 2023.

The aggregate annual maturities of long-term debt outstanding at March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2018	2018
2018	¥ 64,635	$ 608,387
2019	76,507	720,136
2020	71,394	672,011
2021 and thereafter	232,615	2,189,527
Total	¥445,151	$4,190,062

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.

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.

10. Accrued Pension and Severance Liabilities

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

Certain consolidated subsidiaries have recorded liabilities for retirement benefit and assets for a retirement benefit based on the simplified method.

(1) Defined Benefit Plans

(a) The reconciliation of beginning and ending balances of the benefit obligation (excluding the defined benefit plans applied based on the simplified method) are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Obligation at April 1	¥14,184	¥13,554	$133,511
Service cost	1,089	1,088	10,258
Interest cost	94	70	885
Actuarial gains and losses	142	(92)	1,345
Prior service cost	(604)	(52)	(5,687)
Benefit payments	(520)	(394)	(4,898)
Increasing by change from the simplified method to the principle method	165	—	1,555
Other (foreign currency translation adjustments, etc.)	(6)	10	(63)
Obligation at March 31	¥14,544	¥14,184	$136,906

Notes to Consolidated Financial Statements

(b) The reconciliation of beginning and ending balances of the fair value of the plan assets (excluding the defined benefit plans applied based on the simplified method) is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Fair value of plan assets at April 1	¥ 9,595	¥9,084	$90,320
Expected return on plan assets	164	158	1,547
Actuarial gains and losses	136	(54)	1,285
Company contribution	694	671	6,537
Benefit payments	(364)	(222)	(3,427)
Other (foreign currency translation adjustments, etc.)	(49)	(41)	(466)
Fair value of plan assets at March 31	¥10,177	¥9,595	$95,797

(c) The reconciliation of beginning and ending balances of liabilities for retirement benefit applied based on the simplified method is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities for retirement benefit at April 1	¥305	¥294	$2,878
Beginning balance of newly consolidated subsidiary	—	12	—
Retirement benefit cost	37	23	350
Retirement payments	(13)	(12)	(122)
Contribution for the plan	(4)	(5)	(45)
Increasing by change from the simplified method to the principle method	(165)	—	(1,555)
Other (foreign currency translation adjustments, etc.)	25	(7)	244
Liabilities for retirement benefit at March 31	¥185	¥305	$1,749

(d) The reconciliation of ending balance of the benefit obligation and the fair value of the plan assets, and liabilities and assets for retirement benefit are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Benefit obligation on funded scheme	¥ 13,090	¥13,106	$123,217
Plan assets	(10,223)	(9,637)	(96,231)
	2,867	3,468	26,986
Benefit obligations on non-funded scheme	1,663	1,430	15,661
Net assets (liabilities) on the consolidated balance sheet	4,530	4,899	42,647
Net defined benefit liability	4,530	5,126	42,647
Net defined benefit asset	—	(227)	—
Net assets (liabilities) on the consolidated balance sheet	¥ 4,530	¥ 4,899	$ 42,647

(*) Including the defined benefit plans applied based on the simplified method

(e) The breakdown of net pension and severance costs is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Service cost	¥1,089	¥1,088	$10,258
Interest cost	94	70	885
Expected return on plan assets	(164)	(158)	(1,547)
Amortization of actuarial gains and losses	241	240	2,268
Amortization of past service obligation	(3)	55	(37)
Retirement benefit cost based on the simplified method	37	23	350
Other	(7)	25	(68)
Total	¥1,286	¥1,345	$12,109

(f) Remeasurements of defined benefit plans (Other Comprehensive Income)

The breakdown of the items recorded in adjustments to defined benefit plans is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Prior service cost	¥604	¥ 52	$5,687
Actuarial gains and losses	295	288	2,785
Total	¥900	¥340	$8,473

Notes to Consolidated Financial Statements

(g) Remeasurements of defined benefit plans (Accumulated Other Comprehensive Income)

The breakdown of the items recorded in adjustments to defined benefit plans is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrecognized prior service cost	¥ 606	¥ (53)	$ 5,704
Unrecognized actuarial loss	(541)	(781)	(5,094)
Total	¥ 64	¥(835)	$ 610

(h) Items concerning the pension assets

1. The breakdown of the pension assets

The ratio of the plan assets are as follows:

	2018	2017
Bonds	39%	41%
Equities	23%	21%
General account	32%	33%
Others	6%	5%
Total	100%	100%

(*) Including the defined benefit plans applied based on the simplified method

2. Setting of the long-term expected rate of return

The long-term expected rate of return is to be determined considering the current and future allocation of plan assets, and the current and expected long-term rate of return from the diverse assets composing the plan assets.

(i) Calculation basis of actuarial methods

The main calculation basis of actuarial methods at the end of the period is as follows:

	2018	2017
Discount rate	Primarily 0.3%	Primarily 0.4%
Expected long-term rate of return	Primarily 1.5%	Primarily 1.5%
Assumed wage increase rate	Primarily 5.3%	Primarily 6.5%

(2) Defined Contribution Retirement Plans

The amounts of necessary contributions to defined contribution retirement plans within the Company and consolidated subsidiaries were ¥560 million (US$5,277 thousand).

11. Commitments and Contingent Liabilities

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities for guarantees			
Export drafts discounted	¥4	¥13	$38
Total	¥4	¥13	$38

12. Net Assets

The significant provisions in the Corporate Law of Japan (the "Corporate Law") that influence financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon a resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having the board of directors, (2) having independent auditors, (3) having the board of corporate auditors, and (4) the service period of the directors is prescribed as one year rather than the normal term of two years by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company's present system meets the first three criteria but the two-year service period of the directors does not meet the fourth criterion.

Interim dividends may also be paid once a year by the resolution of the board of directors if the articles of incorporation of the company stipulate so. The Company's articles of incorporation contain such a stipulation, and it pays interim dividend semi-annually by the resolution of the Board of Directors.

The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

Notes to Consolidated Financial Statements

(b) Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions by the resolution of the shareholders' meeting.

The Company's legal reserve, which is included in retained earnings, amounted to ¥4,272 million (US$40,213 thousand) as of March 31, 2018, and its additional paid-in capital, which is included in capital surplus, amounted to ¥635 million (US$5,979 thousand) as of March 31, 2018.

13. Business Combination

Business combination through acquisition

(1) Outline of the business combination

1) Name of the acquired company: Tanabe Seiyaku Hanbai Co., Ltd.
   Business of the acquired company: Manufacture and sales of pharmaceuticals
2) Reason of the acquisition
   The company and its consolidated subsidiaries own pharmaceutical product manufacturing plants that have the largest production capacity in Japan. They plan to expand the contract manufacturing business that includes co-development activities and own-brand generic drug business. Thanks to governmental promotion to encourage the use of generic drugs; their utilization is expected to grow to account for 80% of total drug utilization by 2020. This, however, has caused intensive price and quality competition with dozens of companies entering drugs into the market.
   Under such circumstances, the Company decided to acquire the shares of the acquired company as the Company considered it very important to enhance business efficiency by increasing the market share and strengthening its brand and sales channels to pharmacies and in the psychiatry area in order to survive with the own brand generic drug at this moment when promoting the generic drugs in preparation for the expected year 2020.
3) Date of the business combination
   October 1, 2017
4) Legal form of the business combination
   Acquisition of shares
5) Name of the company after business combination
   Nipro ES Pharma Co., Ltd.
6) Ratio of voting rights acquired
   100.0%
7) Primary basis for determining acquiring company
   The company acquired Tanabe Seiyaku Hanbai Co., Ltd.'s shares for cash consideration

(2) Period for which the operating results of the acquired company in the consolidated statements of income

From October 1, 2017 to March 31, 2018

(3) Acquisition cost and type of consolidation paid

		Millions of yen	Thousands of U.S. dollars (Note 1)
Consolidation paid for acquisition	Cash	¥10,870	*$102,317*
Total		¥10,870	*$102,317*

(4) Amount and details of major acquisition-related cost

	Millions of yen	Thousands of U.S. dollars (Note 1)
Due diligence cost	¥2	*$26*
Total	¥2	*$26*

(5) Amount, cause, and amortization of goodwill arising from the acquisition

1) Amount of goodwill
   ¥3,865 million (US$36,388 thousand)
2) Cause of goodwill
   Excess earnings power expected in the future due to business development
3) Amortization method and period of goodwill
   Straight-line method over 5 years.

Notes to Consolidated Financial Statements

(6) Amounts of assets acquired and liabilities assumed on the date of the business combination

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥10,435	$98,229
Fixed assets	28	264
Total assets	¥10,463	$98,493
Current liabilities	¥ 3,297	$31,034
Fixed liabilities	162	1,530
Total liabilities	¥ 3,459	$32,564

(7) Estimated impact on the Consolidated Statement of Income for the Fiscal Year ended March 31, 2018 as if the business combination had been completed at the beginning of the Fiscal Year ended March 31, 2018 and the calculation method

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net Sales	¥6,625	$62,366
Operating income (expense)	(38)	(364)
Ordinary income (expense)	(41)	(392)
Net income (loss) attributable to non-controlling interests	(664)	(6252)

(Calculation method of estimated impact)
The estimated impact amounts were calculated as the difference between sales and other profits or losses assuming that the business combination was completed at the beginning of the fiscal year ended March 31, 2018 and the Company's sales and other profits or losses on the consolidated statements of income.

This note has not been audited.

14. Segment Reporting

1. Outline of Reportable Operating Segments

Applied ASBJ Statement No.17 "The Revised Accounting Standard for Disclosures of Segments of an Enterprise and Related Information", the reportable operating segments are components of an entity for which separate financial information is available and such information is evaluated regularly by the board of directors in deciding how to allocate management resources and in assessing performance.

The Company currently operates its business on a stand-alone basis with the divisional organization and evaluates the performance of sales and manufacturing of each division regardless of their products. Accordingly, the Company has three reportable operating business segments according to the divisions (Medical-Related business, Pharmaceutical-Related business and PharmaPackaging business), which are divided mainly by their products.

***Medical-Related**

The domestic division sells injection and infusion products, artificial organ products, highly functional products, dialysis products, diabetic products and pharmaceuticals such as generic and kit products. In the Global business division, head office plays the central role, placing overseas sales and manufacturing bases for medical equipment and sales injection and infusion products, artificial organ products and diabetic products.

***Pharmaceutical-Related**

The pharmaceutical division sells containers for combination products (injectable kit products) and pharmaceutical products consigned by other pharmaceutical companies. Domestic subsidiaries sell and manufacture injectable drugs, oral drugs and combination products.

***PharmaPackaging**

The PharmaPackaging division sells glass for vials and ampoules for medical use, glass for thermos bottles and glass for lighting. Overseas subsidiaries manufacture and sell tube glass and glass mainly for syringes, vials and ampoules for medical use.

Notes to Consolidated Financial Statements

Business segment information for the years ended March 31, 2018 and 2017 was as follows:

Millions of yen

	2018							
	Reportable Segment				Other (*1)	Total	Adjustment (*2)	Consolidated financial statements
	Medical-Related	Pharmaceutical-Related	PharmaPackaging	Total				
Net sales:								
Outside	¥300,117	¥ 66,846	¥28,404	¥395,368	¥ 29	¥395,397	¥ —	¥395,397
Intersegment	1,636	14,789	69	16,494	1,180	17,675	(17,675)	—
Total	301,753	81,636	28,473	411,863	1,210	413,073	(17,675)	395,397
Operating income (loss)	36,522	13,104	(1,308)	48,318	75	48,394	(21,306)	27,088
Identifiable assets	417,884	166,188	67,319	651,392	4,317	655,710	171,048	826,759
Other items								
Depreciation and amortization	14,836	11,146	3,043	29,026	48	29,074	3,491	32,565
Amortization of goodwill	2,738	4	689	3,431	—	3,431	—	3,431
Increase in tangible and intangible fixed assets	¥ 20,412	¥ 17,469	¥ 9,024	¥ 46,906	¥1,769	¥ 48,675	¥ 13,314	¥ 61,990

Thousands of U.S. dollars (Note 1)

	2018							
	Reportable Segment				Other (*1)	Total	Adjustment (*2)	Consolidated financial statements
	Medical-Related	Pharmaceutical-Related	PharmaPackaging	Total				
Net sales:								
Outside	*$2,824,901*	*$ 629,205*	*$267,357*	*$3,721,464*	*$ 276*	*$3,721,741*	*$ —*	*$3,721,741*
Intersegment	*15,401*	*139,206*	*651*	*155,259*	*11,113*	*166,372*	*(166,372)*	*—*
Total	*2,840,303*	*768,411*	*268,008*	*3,876,723*	*11,389*	*3,888,113*	*(166,372)*	*3,721,741*
Operating income (loss)	*343,773*	*123,350*	*(12,317)*	*454,807*	*709*	*455,516*	*(200,546)*	*254,970*
Identifiable assets	*3,933,403*	*1,564,277*	*633,650*	*6,131,331*	*40,640*	*6,171,971*	*1,610,022*	*7,781,993*
Other items								
Depreciation and amortization	*139,647*	*104,922*	*28,647*	*273,216*	*454*	*273,671*	*32,861*	*306,532*
Amortization of goodwill	*25,772*	*37*	*6,489*	*32,299*	*—*	*32,299*	*—*	*32,299*
Increase in tangible and intangible fixed assets	*$ 192,137*	*$ 164,433*	*$ 84,939*	*$ 441,511*	*$16,653*	*$ 458,164*	*$ 125,328*	*$ 583,492*

Notes to Consolidated Financial Statements

	Millions of yen							
	2017							
	Reportable Segment				Other (*1)	Total	Adjustment (*2)	Consolidated financial statements
	Medical-Related	Pharmaceutical-Related	PharmaPackaging	Total				
Net sales:								
Outside	¥262,198	¥ 69,140	¥28,331	¥359,670	¥ 29	¥359,699	¥ —	¥359,699
Intersegment	1,575	9,917	0	11,492	724	12,216	(12,216)	—
Total	263,773	79,057	28,331	371,162	754	371,916	(12,216)	359,699
Operating income (loss)	30,638	14,135	(1,313)	43,460	(10)	43,449	(14,679)	28,770
Identifiable assets	369,540	160,467	61,262	591,270	1,237	592,508	160,330	752,839
Other items								
Depreciation and amortization	14,231	10,761	3,302	28,295	0	28,295	2,832	31,128
Amortization of goodwill	2,083	4	819	2,907	—	2,907	—	2,907
Increase in tangible and intangible fixed assets	¥ 22,684	¥ 17,695	¥ 6,795	¥ 47,175	¥ 731	¥ 47,907	¥ 10,403	¥ 58,310

(*1) "Other" is the business segment which is not included in the reportable segment and consists of real estate income and sales by headquarters.
(*2) Adjustment is as follows:

- Adjustments for operating income ended March 31, 2018 and 2017 include ¥(704) million (US$(6,628) thousand) and ¥1,248 million of adjustment for unrealized gain and ¥(20,601) million (US$(193,918) thousand) and ¥(15,927) million of corporate cost, respectively. Corporate cost consists primarily of sales, general and administrative expenses and research and development costs which do not belong to the reportable segment.
- Adjustments for Identifiable assets ended March 31, 2018 and 2017 include ¥(9,114) million (US$(85,787) thousand) and ¥(7,339) million of elimination of inter-segment transaction and ¥180,162 million (US$1,695 thousand) and ¥167,670 million of corporate assets, respectively. Corporate assets consisted primarily of cash and deposits, investment securities, assets for development and assets for management division of head office which do not belong to the reportable segment.
- Adjustments for depreciation and amortization ended March 31, 2018 and 2017 are for corporate assets. Depreciation and amortization and Increase in tangible and intangible fixed assets include long-term prepaid expenses.
- Adjustment for increase in tangible and intangible fixed assets is increase in corporate assets.

Notes to Consolidated Financial Statements

Loss on impairment of fixed assets and Unamortized balance of goodwill by business segments were as follows:

Millions of yen

	2018						
	Reportable Segment				Other	Adjustment (*3)	Total
	Medical-Related	Pharmaceutical-Related	Pharma-Packaging	Total			
Loss on impairment of fixed assets	¥ 139	¥—	¥1,968	¥ 2,107	¥—	¥109	¥ 2,216
Unamortized balance of goodwill	26,153	0	1,205	27,358	—	—	27,358

Thousands of U.S. dollars (Note 1)

	2018						
	Reportable Segment				Other	Adjustment (*3)	Total
	Medical-Related	Pharmaceutical-Related	Pharma-Packaging	Total			
Loss on impairment of fixed assets	*$ 1,312*	*$—*	*$18,525*	*$ 19,837*	*$—*	*$1,025*	*$ 20,866*
Unamortized balance of goodwill	*246,178*	*0*	*11,342*	*257,520*	*—*	*—*	*257,520*

(*3) Adjustments for Loss on impairment of fixed assets ended March 31, 2018 is for corporate assets. These assets are not included in any reporting segments.

Millions of yen

	2017					
	Reportable Segment				Other	Total
	Medical-Related	Pharmaceutical-Related	Pharma-Packaging	Total		
Loss on impairment of fixed assets	¥ 32	¥120	¥1,401	¥ 1,544	¥—	¥ 1,554
Unamortized balance of goodwill	24,957	4	3,034	27,996	—	27,996

Net sales and Property, plant and equipment for each area were as follows:

Millions of yen

	2018				
	Japan	Americas	Europe	Asia	Total
Net sales	¥241,750	¥56,704	¥46,389	¥50,553	¥395,397
Property, plant and equipment	177,250	10,407	21,909	60,706	270,273

Thousands of U.S. dollars (Note 1)

	2018				
	Japan	Americas	Europe	Asia	Total
Net sales	*$2,275,513*	*$533,736*	*$436,652*	*$475,838*	*$3,721,741*
Property, plant and equipment	*1,668,397*	*97,959*	*206,227*	*571,410*	*2,543,994*

Millions of yen

	2017				
	Japan	Americas	Europe	Asia	Total
Net sales	¥221,331	¥53,239	¥42,579	¥42,548	¥359,699
Property, plant and equipment	148,090	9,791	16,708	69,632	244,222

Notes to Consolidated Financial Statements

15. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Salaries	¥20,111	¥19,813	*$189,306*

16. Research and Development Expenses

Research and development expenses for the years ended March 31, 2018 and 2017 were ¥16,113 million (US$151,674 thousand) and ¥11,517 million, respectively.

17. Impairment Loss

In the year ended March 31, 2018 and 2017, the Company and its consolidated subsidiaries recorded impairment losses of ¥2,216 million (US$20,866) and ¥1,554 million, respectively.

The following table presents the major impaired assets.

			Millions of yen	Thousands of U.S. dollars (Note 1)
			2018	*2018*
Purpose of use	Location	Type of assets	Amount	Amount
Business use	Nipro PharmaPackaging France S.A.S	Goodwill	¥810	$7,629
Business use	Nipro PharmaPackaging India Private Limited	Construction in progress, Machinery and equipment and others	450	4,243
Business use	Nipro Pharma Glass AG	Goodwill	353	3,327
Business use	Nipro PharmaPackaging Ural LLC	Buildings and structures, Construction in progress and others	261	2,457

The assets for business use are divided into groups on which separate financial information is reported for management accounting purposes, whereas leased assets and idle assets are categorized individually. Headquarters assets, R&D facilities, dormitories and company-offered houses are categorized into assets for common use, since these assets cannot generate identifiable cash flows.

The company recognized the impairment loss, since the economic performance of above-mentioned assets will be worse than what the company originally expected.

The recoverable amounts of those assets are measured by the value in use, and have been impaired to nil carrying value.

			Millions of yen
			2017
Purpose of use	Location	Type of assets	Amount
Business use	Nipro PharmaPackaging Germany GmbH	Goodwill, other intangilble assets and others	¥1,113
Business use	Nipro PharmaPackaging Belgium N.V.	Goodwill	288

18. Supplemental Disclosures of Cash Flow Information

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	*2018*
Cash paid during the year for:			
Interest	¥3,299	¥3,908	*$31,058*
Income tax	7,329	7,308	*68,994*

Notes to Consolidated Financial Statements

19. Subsequent events

Share Buybacks

The Company held its Board of Directors on July 3, 2018 and passed a resolution setting out details of the Company's share buybacks to be conducted in accord with Article 156 of the Companies Act applied pursuant to Article 165, paragraph 3, of the Act.

1. Reason for share buybacks

To enhance the shareholder return and improving capital efficiency.

2. Details of share buybacks

(1) Class of shares

Issued and Outstanding shares of the Company

(2) Potential total number

4,000,000 shares (upper limit)
(equivalent to 2.40% of issued and net outstanding shares excluding treasury stock)

(3) Total price

¥5,000,000,000 (upper limit)

(4) Period

July 4, 2018—December 28, 2018
(For reference) Treasury stock holdings of the Company as of March 31, 2018
Number of issued and outstanding shares (net of treasury stock): 166,618,455 shares
Number of shares held in treasury stock: 4,841,024 shares
Note: Number of the treasury stocks does not include 196,100 shares owned by Trust and Custody Service Bank, Ltd (Trust Account E).

Report of Independent Auditors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nipro Corporation

We have audited the accompanying consolidated balance sheet of Nipro Corporation and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
August 9, 2018

PKF Hibiki Audit Corporation

PKF Hibiki Audit Corporation.

Corporate Information

(As of March 31, 2018)

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	3,499
Consolidated subsidiaries	24,831
Total	28,330

Common Stock

Authorized	400,000,000 shares
Issued	171,459,479 shares
Outstanding	166,618,455 shares
Number of Shareholders	52,659

Stock Listings

Tokyo Stock Exchange, First Section
Ticker Code: 8086

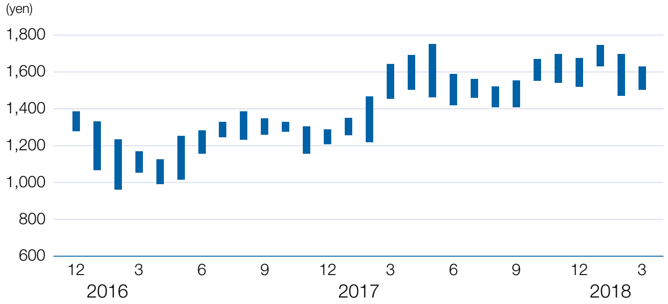
Transfer Agent

Mizuho Trust & Banking Co., Ltd., Head Office
Stock Transfer Agency Dept.
1-2-1, Yaesu, Chuo-ku, Tokyo 103-8670, Japan

Principal Shareholders

	Number of Shares Held (in thousands)	Percentage of Total Shares in Issue (%)
Nippon Electric Glass Co., Ltd.	21,945	13.18
Japan Trustee Services Bank, Ltd.	19,284	11.58
The Master Trust Bank of Japan, Ltd.	9,182	5.52
Trust & Custody Services Bank, Ltd.	4,474	2.69
Resona Bank Limited	4,414	2.65
Japan Post Insurance Co., Ltd.	1,912	1.15
Kazumi Sano	1,910	1.15
Nipro Employee Stock Ownership	1,643	0.99
JP Morgan Chase Bank 385151	1,613	0.97
Mizuho Bank, Ltd.	1,565	0.94
Total	67,946	40.78

Stock Price Range (Tokyo Stock Exchange)



Major Group Companies (As of June 30, 2018)

Area	Country	Name	Principal business
Domestic	Japan	Nipro Medical Industries Co., Ltd.	Manufacturing and marketing of medical devices
		Goodman Co., Ltd.	Manufacturing and marketing of medical devices
		Nipro Pharma Corporation	Manufacturing and marketing of pharmaceuticals
		Zensei Pharmaceutical Industries Co., Ltd.	Manufacturing and marketing of pharmaceuticals
		Nichihos Co., Ltd.	Management of dispensing pharmacies and marketing of pharmaceutical products
		Cell Science & Technology Institute, Inc.	Development and manufacture of cell culture media
		NexMed International Co., Ltd.	Development, manufacture and sales of orthopedic products
Overseas	Thailand	Nipro (Thailand) Corporation Limited	Manufacturing and marketing of medical devices
		Nipro Sales (Thailand) Co., Ltd.	Marketing of medical devices
	China	Nipro (Shanghai) Co., Ltd.	Manufacturing and marketing of medical devices
		Nipro Trading (Shanghai) Co., Ltd.	Marketing of medical devices
		Nipro PharmaPackaging (Shanghai) Co., Ltd.	Marketing of PharmaPackaging products
		Jilin Nipro Jiaheng Pharmaceutical Packaging Co., Ltd.	Manufacturing and marketing of PharmaPackaging products
		Anyang Nipro Changda Pharmaceutical Packaging Co., Ltd.	Manufacturing and marketing of PharmaPackaging products
		Chengdu Pingyuan Nipro Pharmaceutical Packaging Co., Ltd.	Manufacturing and marketing of PharmaPackaging products
		Nipro Medical (Hefei) Co., Ltd.	Manufacturing and marketing of medical devices
	Vietnam	Nipro Vietnam Company LIMITED	Manufacturing and marketing of medical devices
		Nipro Pharma Vietnam Co., Ltd.	Manufacturing and marketing of pharmaceuticals
	Singapore	Nipro Asia Pte Ltd.	Marketing of medical devices
	India	Nipro India Corporation Private Limited	Manufacturing and marketing of medical devices
		Nipro PharmaPackaging India Private Limited	Manufacturing and marketing of PharmaPackaging products
		Nipro Medical (India) Pvt. Ltd.	Marketing of medical devices
	Bangladesh	Nipro JMI Co., Ltd.	Manufacturing and marketing of medical devices
		Nipro JMI Pharma Ltd.	Manufacturing and marketing of pharmaceuticals
	Indonesia	PT. Nipro Indonesia JAYA	Manufacturing and marketing of medical devices
	UAE	Nipro Middle East FZE	Marketing of medical devices
	Brazil	Nipro Medical Ltda.	Manufacturing and marketing of medical devices
	U.S.A.	Nipro Medical Corporation	Marketing of medical devices
		Nipro PharmaPackaging Americas Corporation	Manufacturing and marketing of PharmaPackaging products
	Belgium	Nipro Europe Group Companies N.V.	Business management
		Nipro Europe N.V.	Marketing of medical devices
		Nipro PharmaPackaging Belgium N.V.	Manufacturing and marketing of PharmaPackaging products
	France	Nipro PharmaPackaging France S.A.S.	Manufacturing and marketing of PharmaPackaging products
	Germany	Nipro PharmaPackaging Germany GmbH	Manufacturing and marketing of PharmaPackaging products
	Switzerland	Nipro Pharma Glass AG	Business management
	Russia	Nipro PharmaPackaging Ural LLC	Manufacturing and marketing of PharmaPackaging products