NIPRO
Your Partner in Health Care

Annual Report 2019

Year Ended March 31, 2019

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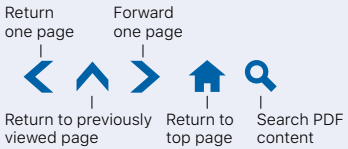
Using Navigation Button



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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.

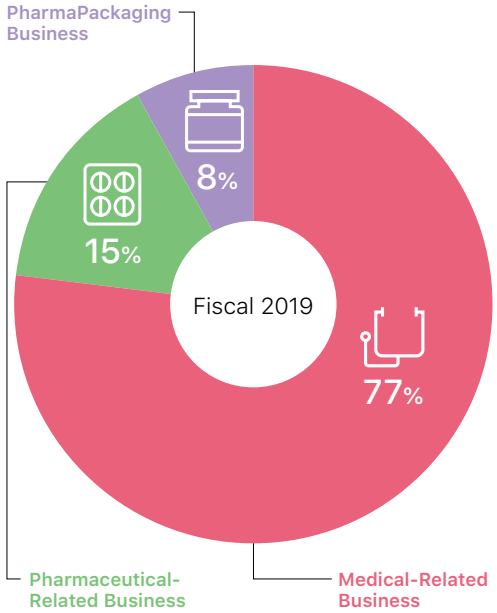
In this report, fiscal 2019 represents the year ended March 31, 2019.

About NIPRO

Businesses

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

› Sales ratio by business



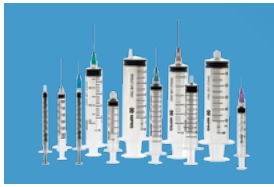
› Total sales

¥426,399 million

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.


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

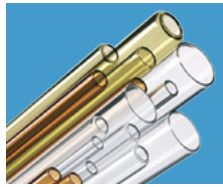

Orally Administered Drugs


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 14 plants in 8 countries, focused on Japan, China, Europe, and the U.S.


Glass Converting


Glass Tubing


Device

About NIPRO

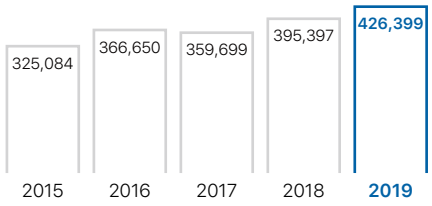
Financial Highlights

Net sales

426,399 million of yen

Net sales increased 7.8% from fiscal 2018 due to favorable Medical-Related and Pharmaceutical-Related sales.

(Millions of yen)

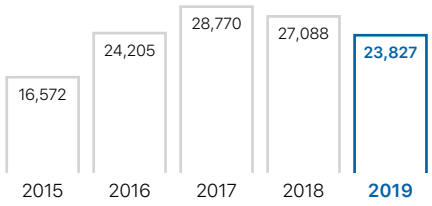


Operating income

23,827 million of yen

Operating income decreased 12.0% from fiscal 2018 due to drug price revisions, and significantly increased internal profit elimination and R&D.

(Millions of yen)

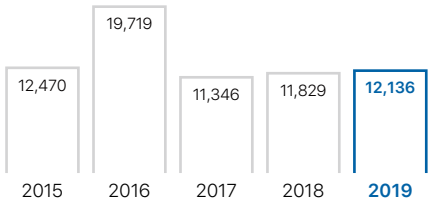


Net income attributable to owners of parent

12,136 million of yen

Despite increasing income tax expense-deferred, net income attribute to owners of parent increased 2.5% due to decreased extraordinary losses.

(Millions of yen)

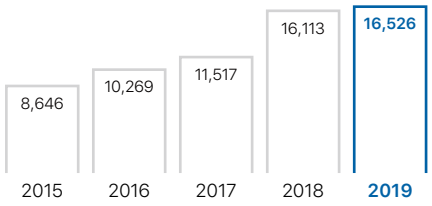


R&D expenses

16,526 million of yen

R&D expenses increased 2.6% from fiscal 2018 mainly due to the development of regenerative medicine.

(Millions of yen)

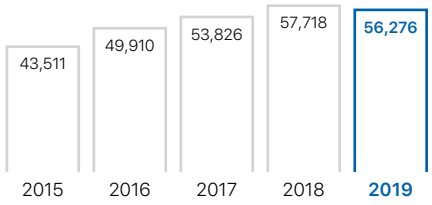


Capital expenditures

56,276 million of yen

Capital expenditures decreased 2.5% from fiscal 2018 mainly due to investments in domestic and foreign manufacturing facilities.

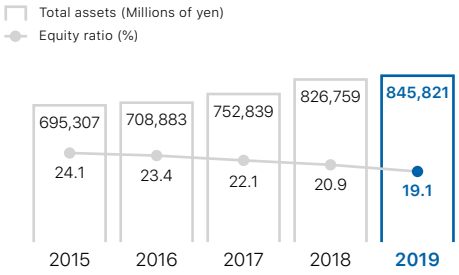
(Millions of yen)



Total assets / Equity ratio

Total assets:
845,821 million of yen

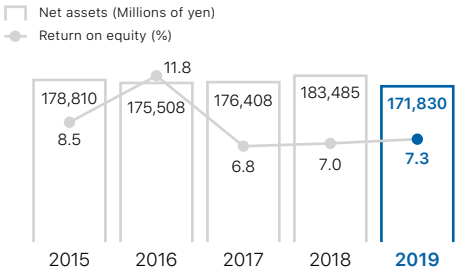
Total assets increased by ¥19,374 million from fiscal 2018 and the equity ratio stood at 19.1%.



Net assets / Return on equity

ROE:
7.3 %

Return on equity increased 0.3 percentage points from fiscal 2018 due to an increase in net income attribute to owners of parent.

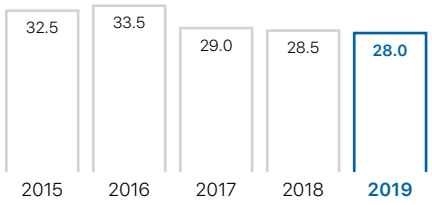


Cash dividends per share

28.0 yen

Nipro paid ¥28.0 per share for the year, including an interim dividend of ¥19.0 per year.

(Yen)



Management Message

A Message from the President

"Achieving business goals by further accelerating global sales and production"

Yoshihiko Sano
President & Representative Director

Successful increase in revenue in all segments and regions

Sales for the fiscal year ended March 2020 increased by 7.8% from the previous period, to ¥426,399 million. We have achieved an increase in revenue, both in Japan and overseas, in our Medical-Related business, Pharmaceutical-Related business, and PharmaPackaging business. However, we could not achieve the increased rate of revenue expected at the beginning of this fiscal year, which has been a concern in this year. We aim to further increase the revenue in the next period, as such we will analyze issues in each business.

In terms of the Medical-Related business, sales increased by 9.1% over the previous period, to ¥327,359 million. Dialyzer, our main product, sold well both in Japan and overseas, and production at present is struggling to keep up with the increasing demands. In North America, sales got on track through the Canadian agent, CardioMed Supplies INC., acquired in 2018; we also renewed the long-term sales contract with a major dialysis provider in the United States. We can thus expect further growth in sales. Since we are in a similar situation in other countries, our Dialyzer has already demonstrated its high product competitiveness. The only issue is how to increase global production capacity.

Results

Net sales

Total
¥426,399 million
7.8% increase from fiscal 2018

Operating income

Total
¥23,827 million
12.0% decrease from fiscal 2018

Net income attributable to owners of parent

Total
¥12,136 million
2.5% increase from fiscal 2018

Management Message

A Message from the President

Regarding domestic vascular products, which showed good performance in the previous period, we integrated the sales organization of GOODMAN CO., LTD., one of our subsidiaries, in 2018, but sales did not increase because it took more time than expected to reconstruct the sales organization. However, since product competitiveness has already been recognized in the market, we are expecting a significant increase in revenue in the next period. Finally, we will start full-scale entry into the global market with these products.

As for sales growth, generic drugs in Japan showed the best performance, increasing by 24.1% from the previous period, to ¥79,790 million, despite the disadvantage of the NHI drug price revision, which had a major impact of about ¥11,000 million. We can sell our generic drugs in alignment with sales of medical devices, which is a great advantage for sales. Since we need to further improve the profitability of generic drugs, we will also focus on reducing manufacturing costs in the future.

In terms of the Pharmaceutical-Related business, we were able to increase sales to ¥63,482 million. In addition to the growth of existing products, we began shipping new contract manufacturing products, as well as the products manufactured at the plant that was acquired in October 2018, which contributed to the increase in sales. We achieved an extremely large growth rate on a quantity basis.

To meet the rapidly increasing demand for both generic drugs and contract manufacturing products, we are trying to strengthen the production system by acquiring two manufacturing plants for pharmaceuticals in Japan. In Vietnam, the manufacturing plant of pharmaceutical products for Japan will begin operation in August 2019 in cooperation with Mekophar BP. We can expect further cost reductions.

In terms of the PharmaPackaging business, sales increased by 1.0% from the previous period, to ¥35,526 million. Overseas sales were affected by the production adjustment of pharmaceutical companies in China due to the summer heat and an insufficient supply of drug substances. On the other hand, syringes and glass tubes sold well in the United States and Europe, with syringes selling particularly well in Germany, and glass tubes excelling in France. In terms of domestic sales, productivity was improved owing to the upgrading of equipment at the Biwako Plant, which significantly contributed to the sales of vials, our high-profit products.

Regarding regenerative medicine, STEMIRAC® for Injection, which is used for the treatment of spinal cord injury and was developed jointly with Sapporo Medical University, obtained marketing approval (conditional, time-limited approval) in December 2018, and started distribution in May 2019. This product is manufactured using the patient´s bone marrow fluid and peripheral blood, which is tailor-made therapy. We will work toward establishing a profitable business by improving production efficiency, and sequentially expanding medical institutions to which we provide our products.

Issues of the fiscal year ended March 2019; strengthening the production system

Regarding Dialyzer, strengthening the production system is the first issue. Plants have been constructed in India and China, but the products are mainly manufactured at Odate Plant in Japan. Almost all equipment at Odate Plant is automated, which allows for the lowest production costs compared to overseas plants. We have spent a great deal of time customizing the equipment with our technology, which is a unique strength of ours, and other companies cannot easily do the same. We will expand on this strength mainly at Odate Plant.

We will soon begin the full-scale launch of vascular products into the global market. We expect to realize a full range of highly competitive products in the domestic market. Our current strategy is to deploy those products in the overseas market.

Management Message

A Message from the President

In this period, we promoted the commercialization and market introduction of the Makoto™ Intravascular Imaging System and the Dualpro™ IVUS + NIRS catheter, manufactured by Infraredx, Inc., one of our subsidiaries in the US. This is the only device in the world that has obtained FDA approval in the US as a device for diagnosing the risk of acute myocardial infarction. We will promote the expansion of our vascular products overseas by proposing innovative diagnostic technologies for clinical settings, and introducing our unique treatment device into the market.

Regarding the organization, we will proceed with the establishment of overseas managing companies. We have already done so in Europe and China, and will establish one in North America within the next fiscal period. By placing companies responsible for the product business department under the managing company with head office functions, we can allow the companies in each region to make more autonomic decisions while keeping control as a group, which is one advantage of establishing an overseas managing company. While problems related to intellectual property, finance, and laws and regulations are handled by the managing company, the product value will be decided by the regional companies. Business operations can thus be tailored to local users' needs.

Regarding pharmaceuticals, profitability is expected to improve in 2019 since there will be no major NHI drug price revision like the one in 2018. Regarding generic drugs, in addition to the continuous development of new products and sales channels, early operation of overseas factories will be a major theme in the future. Regarding contract manufacturing, we will expand our production capacity even further, and will expand our business as a leading Japanese contract manufacturing company group.

Setting sales goals for the next decade

We aim to achieve sales of ¥500 billion for the fiscal year ending March 2021 and ¥1 trillion for the fiscal year ending March 2031. For this purpose, we need to work on the development of safer and more valuable products from the users' viewpoint by effectively using our original technologies and management resources for regenerative medicine—a new business—in addition to the 3 existing businesses of Medical-Related, Pharmaceutical-Related, and PharmaPackaging.

To ensure the competitiveness and high quality of our products, the Product Development & Technical Sales Headquarters is striving to review existing products, improve quality, and reduce costs as a department with a special mission. At the same time, it is important that this new business captures new medical needs and conducts R&D for new products. We established the New Business Development Headquarters in 2018, which selects and carries out new business in the company. In this way, we can support the development of innovation.

These activities work effectively because we have our own "payment-by-results" system. We have a system to measure the contribution of employees for all businesses, regardless of their department, which promotes cross-departmental cooperation.

Management Message

A Message from the President

Creating an employee-friendly environment

Our management focuses on securing human resources with superior retention because it takes time to acquire the knowledge necessary for business operations due to the characteristics of the medical industry. Therefore, we are making efforts to promote long-term employment and expand opportunities for women to work actively. This prompted us to make the Nipro Health Declaration, and to establish measures to maintain and promote the health of employees, such as smoking cessation programs, mental health care, work-style reforms, and the promotion of workplace activation. In addition, we established the "Job Return Program", which allows retired employees to return to work under certain conditions. Also, we are working on creating a more family-friendly environment in several ways, such as opening a new nursery at Odate Plant following the NIPRO Life Science Site in Kusatsu City, and increasing the childcare allowance.

As to our plans to relocate the head office in the future, we have concluded a land sales agreement for Kento Innovation Park in Suita City. We are planning to construct an office building with more robust BCP measures so that we can supply necessary products as a medical device manufacturer even in the event of an earthquake or flood. The introduction of the latest office layout is expected to facilitate information-sharing among employees. We will make efforts to strengthen the functions of the head office, contribute to community healthcare, and improve the workplace environment for employees.

To shareholders

Following our basic policy for shareholder returns, we are focusing on increasing dividends by increasing profits. We work hard to develop our company by improving product competitiveness to ensure more dividends to shareholders. In this fiscal year, we bought back stock totaling ¥5 billion. If there is an opportunity, we will implement flexible shareholder returns in addition to dividends.

Although trade friction between the US and China increases the sense of uncertainty in the world economy, healthcare-related products are less affected by economic trends than other products because of their clear and strong needs. Therefore, we can expand our sales by continuously improving on our product competitiveness.

We have established our own dialysis center and training center in Guatemala, and a new dialysis center in Ecuador. We are preparing for large-scale demand in the future by providing high-quality healthcare services in these developing countries. The base of the pyramid (BOP) layer in the world accounts for approximately 70% of the world's population, primarily in developing countries, and its market size is said to be 5 trillion dollars, so the business for the BOP layer has great potential*.

We will continue providing the world's top share of products, one after the other, by developing products that are truly needed from the users' viewpoint. We appreciate our shareholders' continued support in the future.

August 2019

Yoshihiko Sano
President & Representative Director

* Source: THE NEXT 4 BILLION (2007 World Resource Institute, International Finance Corporation)

Management Message

A Message from the CFO

Forecast of consolidated performance for the fiscal year ended March 2020

With regard to the next-term forecast of consolidated performance, net sales are expected to grow by 8.2% from this term to ¥461,500 million. Although the NHI drug price revision implemented in April 2018 led to a decrease in income and profit by ¥15,000 million in medical devices (about ¥4,000 million) and medicines (about ¥11,000 million), income rose to ¥31,001 million. Therefore, the expected value for the next term appears to be sufficiently achieved. Operating profit is expected to increase by 15.4% from the previous term to ¥27,500 million. The major factors for the increased operating profit include increased sales volume of high-profit products, mainly renal products, improved vascular business, and cost reductions thanks to increased plant operation rate. Ordinary profit is expected to increase by 16.4% from the previous term to ¥26,100 million, and net income attributable to owners of parent is expected to increase by 23.6% from the previous term to ¥15,000 million.

The exchange rates considered for these performance forecasts are ¥110 to the dollar and ¥125 to the euro. The Nipro Group has operations in 56 countries and present overseas sales account for 39% of total sales. Therefore, measures to mitigate the impact of foreign exchange rate fluctuations will be continuously reviewed in response to foreign exchange risks.

In addition, financial health that supports investments is important for each of the various businesses to capture growth opportunities and correspond to the expansion of global demand, especially for the main business of renal products. We have established a regional management company for each major region and will work to improve the cash conversion cycle by managing closer to the field site. Furthermore, we are attempting to improve our financial health that enhances the efficiency of fund operations by introducing cash pooling and to improve our credit rating.

Status of capital investment

The Nipro Group focuses on product and R&D areas that have bright future prospects and also invests to save labor, streamline work, improve quality, and increase productivity. The amount of capital investment in the term under review was ¥56,276 million—a 2.5% decrease from the previous term.

In Japan, we invested ¥1,574 million mainly for the enhancement of dialyzer manufacturing facilities at Odate Plant; ¥1,128 million mainly in the nested syringe manufacturing facilities and vial molding machines at Biwako Plant; and ¥1,509 million mainly in Regenerative Medicine R&D Center. Nipro Pharma Corporation also invested ¥8,582 million mainly in the pre-filled syringe manufacturing facilities at Odate Plant; ¥8,274 million mainly in the new half-kit and new vial manufacturing facilities, and construction of the new distribution building at Ise Plant to strengthen the production capacity of the injection plants. Overseas investments extended to ¥4,814 million in the expansion of the dialyzer manufacturing line at NIPRO INDIA CORPORATION and ¥3,794 million mainly in the construction of a plant at NIPRO VIETNAM COMPANY.

The amount of capital investment for the next fiscal year is budgeted to be ¥26,300 million for Medical-Related business; ¥15,400 million for the Pharmaceutical-Related business; ¥4,700 million for the PharmaPackaging business; and ¥2,800 million for the Regenerative medicine business, that is, ¥52,000 million in total.

Dividend policy

Since redistribution of profits is considered as one of the important management measures, we distribute the proceeds to shareholders. Internal reserve funds will be used to expand the management foundation, actively invest in capital investments and R&D to develop long-term businesses, ensure stable profits, and realize sustainable and consistent growth in the future.

In this term, three-fourths of the consolidated current net profit and one-fourth of the nonconsolidated current net profit shall be the base profit amount of dividends. The annual dividend per share shall be ¥28 under the policy to allocate 39% of the profit amount to dividends.

Going forward, 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. Therefore, the annual dividend per share in the next term is expected to be ¥33.

"We will continue to invest in growth and achieve sustainable growth"

Takehito Yogo
Chief Financial Officer

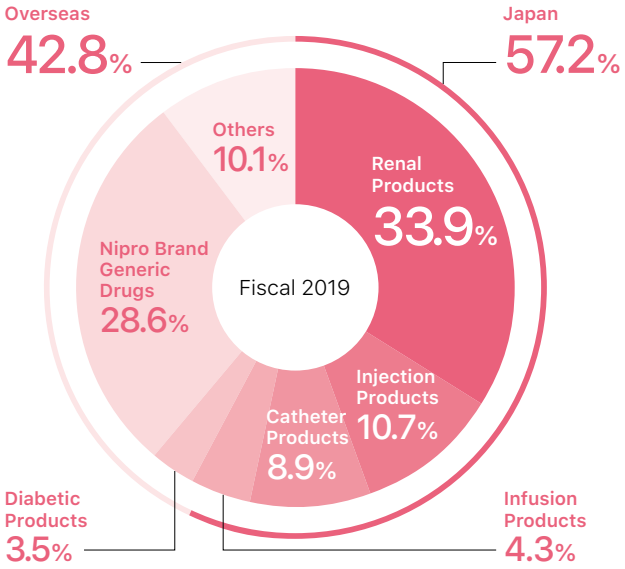
Review of Operations

Medical-Related Business

Net sales

Total ¥327,359 million

Sales distribution ratio by region and product



Financial Results for Fiscal 2019

Net sales for the fiscal year ended March 31, 2019 increased by 9.1% from the previous term, totaling ¥327,359 million, and operating profit increased by 0.5% from the previous term, totaling ¥36,722 million.

Domestic sales steadily increased in all product categories. In particular, sales of HDF filters and dialysis machines grew significantly, followed by SAFETOUCH® infusion systems for injection and infusion-related products. Sales of bepotastine besilate (Talion AG) also increased due to the strengthening of sales promotion activities.

Overseas sales of renal products, such as dialyzers Point and dialysis machines, also increased.

In Latin America, our own dialysis centers we established in Guatemala and Ecuador are operating smoothly and 2 more were established in Ecuador; thus, we currently operate 6 dialysis centers in Latin America.

Strategy and Outlook for Fiscal 2020

Net sales for the next fiscal year are expected to increase by 7.2% from this term, to ¥350,800 million and operating profit by 22.3%, to ¥44,900 million.

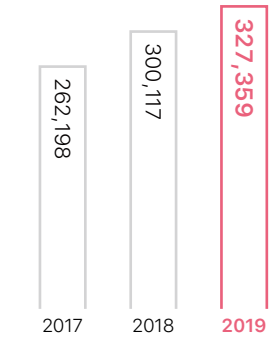
In addition to promoting renal products centering on our major product, dialyzers (artificial kidneys), we will strongly promote the improvement of the product lineup and development of new sales channels for diabetes-related products, vascular-related products, and SD (surgical device)-related products to expand our market share.

Overseas, we will make efforts to increase the market share of renal products, especially dialyzers and dialysis machines, under the policy of thoroughly understanding the customer's perspective, improving customer service and technology sales, and systematizing sales.

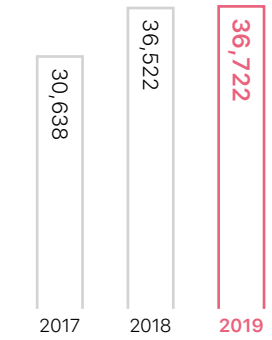
We will also expand our own dialysis center business to other countries and establish dialysis training centers around the world.

In addition, we plan to establish new sales bases in India, China, and other emerging countries and strengthen cooperation with major dialysis center groups in Europe and the United States.

Net sales
(Millions of yen)



Operating income
(Millions of yen)



>POINT Increase sales volume of Dialyzers

The sales of dialyzers in this term increased by 5% or more from the previous term, exceeding ¥65,000 million.

We estimate that the sales for the next period will further increase as a result of long-term contracts with major dialysis providers in North America and market expansion in emerging countries.

See next page for more information.

Review of Operations

Medical-Related Business

TOPICS

Status of important overseas markets

North America

Expansion of dialyzer sales due to long-term contract with major dialysis providers

The number of dialysis patients in North America is increasing and is expected to reach 534,000* in the next term.

As a result, we expect that the sales of our dialyzers will steadily increase, and the annual sales volume will be approximately 9 million dialyzers in the next term.

The sales volume is estimated to grow further, especially as a result of long-term contracts with major dialysis providers.

Currently, we are focusing on sales expansion through CardioMed Supplies INC., which we acquired in the previous fiscal year, toward a full-scale entry into the Canadian market.

Estimated sales quantity of dialyzers in the next term:
9 million dialyzers

* Source: US Nephrology News, Canadian Institute of Health Information

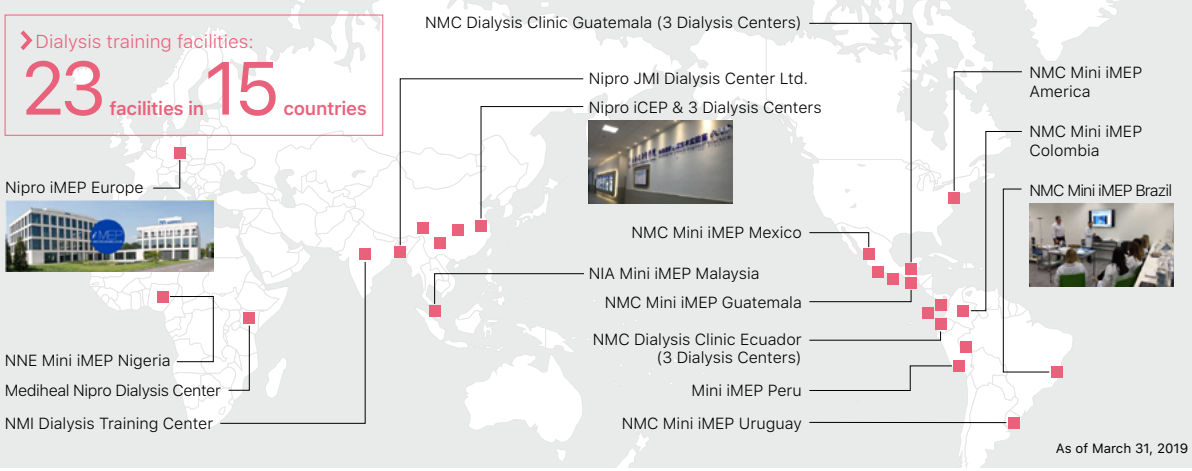
Expansion of dialysis centers and dialysis training centers

Nipro has established dialysis centers mainly in Latin America to provide high-quality treatment.

We currently have approximately 800 patients in our dialysis centers. We aim to offer high-quality treatment to 10,000 patients over the next 5 years.

In addition, we are expanding the dialysis training centers to educate high-quality healthcare professionals, and we target the establishment of one institution per country in the future.

Dialysis training facilities:
23 facilities in 15 countries



China

Expansion of dialyzer market share

The number of dialysis patients in China is increasing every year, and is expected to reach 639,000* in the next term.

Therefore, the sales volume of dialyzers increased by approximately 7% from the previous term, to roughly 12 million dialyzers in the term under review. The number of patients is expected to increase too, and we therefore aim to sell 14 million dialyzers in the next term.

Currently, the market share of our dialyzers in China is estimated to be approximately 20%; however, we expect the share to further expand after the next term due to the strong sales performance of dialyzers manufactured at NIPRO MEDICAL (HEFEI) CO., LTD.

Estimated sales quantity of dialyzers in the next term:
14 million dialyzers

* Source: CNRDS (Chinese National Renal Data System)

India

Aiming to exceed dialyzers sales volume

With the growth of the Indian market, the sales volume of Nipro's dialyzers is steadily increasing.

The sales volume for this term exceeded 1.6 million dialyzers, and is expected to exceed 2 million by the next term.

Since the number of dialysis patients is also increasing due to greater penetration of universal health coverage, the market is expected to grow steadily in the future.

Estimated sales quantity of dialyzers in the next term:
2 million dialyzers

Review of Operations

Pharmaceutical-Related Business

Net sales

Total ¥63,482 million

Supply records

(May 2019)

Injectables	Orally Administered Drugs	External Preparations
Ampoules (Glass / Plastics) Vials (Powder / Liquid / Lyophilized products)	Tablets	Tapes (solvent type)
700 million units	14.8 billion tablets	120 million sheets
Pre-filled syringes (PFS®)	Capsules	Tapes (hotmelt type)
160 million units	400 million capsules	580 million sheets
Dual chamber bags (PLW®)	Granules, Dry syrups	Poultices
33 million units	610 tons	390 million sheets (converted to 10g-sheet units)
Liquid-liquid dual chamber bags	Syrups	Ointments, Creams
4 million units	460 thousand bottles	16.3 million tubes (converted to 10g-tube units)

Financial Results for Fiscal 2019

Net sales for the fiscal year ended March 2019 increased by 5.7% from the previous term*, totaling ¥63,482 million.

Our contract manufacturing division worked on a variety of pharmaceuticals, including antibiotics, steroids and high-potency products such as anticancer drugs, with various drug formulations of oral, injectable and external preparations. The division also endeavored to conduct contract manufacturing services for investigational drugs as well as contract inspection and packaging services. In discussions with our customers, we actively allowed them to use our pharmaceutical containers, drug reconstitution and administration devices and combined medical devices for which internal development and production systems are available. Additionally, we made efforts to further enhance the production system by acquiring two manufacturing plants for pharmaceuticals. > Point

Operating profit decreased from the previous year*, resulting in ¥10,662 million, mainly due to the increase in depreciation costs associated with active investment in facilities.

Strategy and Outlook for Fiscal 2020

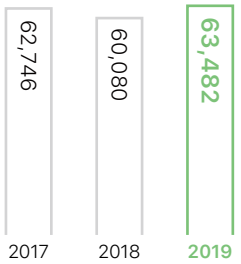
Net sales for the next fiscal year are expected to increase by 12.6% to ¥71,500 million.

The contract manufacturing division will establish production and quality assurance systems that accommodate pharmaceutical products supplied to advanced overseas countries, and will further expand the production capacities of existing plants as well as newly acquired manufacturing sites. In addition, by maximizing the utilization of our overseas manufacturing sites, we will improve stable supply capacity and cost competitiveness to ensure our stable supply of pharmaceuticals to worldwide markets. Also, we will develop and supply pharmaceuticals that are recognized as safe and convenient by customers in combination with our unique pharmaceutical containers and drug reconstitution and administration devices.

Operating profit is expected to decrease to ¥9,700 million, mainly due to the increase in depreciation costs at Nipro Pharma Corporation and the Izumi Plant of Zensei Pharmaceutical Co., Ltd.

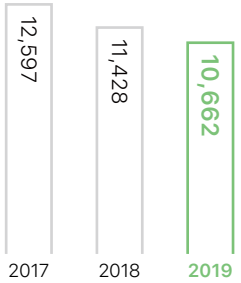
Net sales

(Millions of yen)



Operating income

(Millions of yen)



* From the fiscal year ended March 31, 2019, the Company has conducted a reorganization for the purpose of doing synthetic PharmaPackaging business and increasing synergies with Pharmaceutical-Related business. As a result of this reorganization, some business divisions included in Pharmaceutical-Related business were changed to PharmaPackaging business. The presentations for the prior fiscal year and 2 years ago are restated.

>POINT Saitama Site, Nipro Pharma Corporation

In October 2018, we acquired the Kawagoe Plant of Mylan N.V., which started operations as Plant No. 4 of Saitama Site, Nipro Pharma Corporation. In addition, the Kasukabe Plant of Nihon Generic Co., Ltd. was acquired in March 2019.

See the next page for detailed information.

Review of Operations

Pharmaceutical-Related Business

TOPICS

JAPAN

System enhancement to increase production capacities of manufacturing sites for oral products

› Saitama Site, Nipro Pharma Corporation

In October 2018, Plant No. 4 of Saitama Site, Nipro Pharma Corporation, commenced operations. A research institute is available on the same property and thus, development tasks in parallel to industrialization research can be implemented. The annual production quantity for the next fiscal year is expected to be approximately 270 million tablets.

Saitama Site, Nipro Pharma Corporation

In addition, we acquired the Kasukabe Plant of Nihon Generic Co., Ltd. and started operations in March 2019. This plant will be positioned as a primary plant for oral formulations serving as an equivalent to the Kagamiishi Plant. In the coming fiscal year, the annual production quantity is expected to reach approximately 300 million tablets, and facilities are currently being introduced in series in order to expand the annual production capacity to 1,400 million tablets by May 2020.

› Izumi Plant, Zensei Pharmaceutical Co., Ltd.

The third line with multiple small- to large-sized microparticle coating machines has been operating since March 2019. In addition, we have introduced equipment with industry-first functions jointly developed with a machine manufacturer, enabling production using a method to formulate OD tablets containing high-content microparticles (SYNBRID®) developed by ourselves.
The annual production capacity is approximately 300 million tablets.

Izumi Plant, Zensei Pharmaceutical Co., Ltd.

System enhancement to increase production capacities of manufacturing sites for injectable products

› Ise Plant, Nipro Pharma Corporation

In March 2019, a liquid filling line for small volume vials was installed to flexibly accommodate various types of containers, and facilities are currently being introduced to accommodate production of lyophilized formulations. Full-scale operation is scheduled to start in March 2021.

Ise Plant

OVERSEAS

Current status of Vietnam business

At the injectable product plant of Nipro Pharma Vietnam Co., Ltd., the contract manufacturing services for vial products newly started in February 2019 are expected to contribute greatly to the increase in the shipment volume of vial products in the next term.

In addition, the oral product plant of Mekophar BP obtained Good Manufacturing Practice (GMP) certification from the Ministry of Health, Vietnam (MOH) in October 2018. We also made an application for partial changes to add manufacturing sites for products supplied to the Japanese market in April 2019, and will start shipping to Japan from August 2019.

Nipro Pharma Vietnam

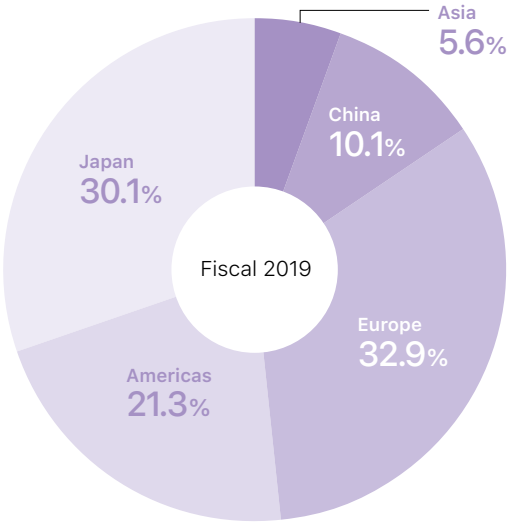
Review of Operations

PharmaPackaging Business

Net sales

Total ¥35,526 million

Sales ratio by region



Financial Results for fiscal 2019

Net sales for the fiscal year ended March 2019 increased by 1.0% from the previous term*, totaling ¥35,526, and operating profit increased by 111.8% from the previous term, totaling ¥778 million.

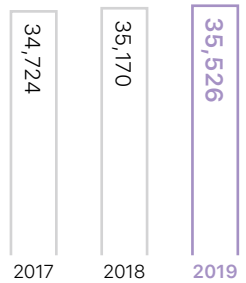
The Medical System Development Department and the Medical System Sales Department within the Pharmaceutical Division have been integrated from this term. This has enabled us to have a system where we can handle a variety of products from primary containers to medical devices such as drug reconstitution and administration devices and to provide one-stop solutions. > Point

In Japan, a production adjustment by the processing manufacturer had an impact on thermos bottle glass valve sales. However, while the global demand for glass tubing continued to be very strong, stable selling contributed to the increase in sales.

In China, not only did oral liquid vials sell well but also sales of high-quality ampoules according to new Chinese standard increased. In Europe, syringe production orders continued to be strong in Germany and the demand for glass tubing increased in France. In the United States, sales of vials increased due to strengthening of technical sales, while for Russia, the export of vials and ampoules increased steadily. Additionally, we began to sell products from the new processing plant with the most advanced equipment in India.

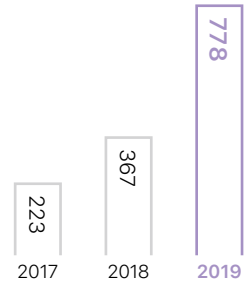
Net sales

(Millions of yen)



Operating income

(Millions of yen)



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Strategy and Outlook for Fiscal 2020

Net sales for the next fiscal year are expected to increase by 8.7% from this term, to ¥38,600 million and operating income is expected to increase by 41.4% to ¥1,100 million from this term.

We will integrate and harmonize manufacturing technologies in all directions in the regional and product strategies for products such as glass vials VIALEX® and sterilized glass syringes D2F™, based on conventional glass manufacturing technologies; we will thereby provide a more detailed customer correspondence and promote expansion of our market share. We will also strive to expand our business under a system that can provide one-stop solutions.

>POINT Nipro's superiority

We offer one-stop solutions that provide a wide range of alternatives from primary containers to administration devices to meet the broad needs of pharmaceutical companies.

2018	NIPRO	A company	B company
Sales amount (Company Total)	¥35.5 billion (¥426.4 billion)	Approx. ¥70.0 billion (¥270.8 billion)	Approx. ¥80.0 billion (¥182.9 billion)
Glass tubing	○	○	×
Glass container	○	○	○
Rubber	○	×	×
Devices	○	×	○

Review of Operations

PharmaPackaging Business

TOPICS

A mature market: Sales promotion and development of high-value-added products

Sterilized glass syringe: D2F™

Currently, the worldwide annual demand of pre-fillable syringes is estimated at 3,500 million. The market is projecting a continued steady growth in the years to come.

In this context, we manufacture the sterilized glass syringe D2F™ in the plant in Germany. The production capacity has been increasing due to the enhancement of facilities. In 2020, we will introduce LInC™ and enter the vaccine market, and we will also sell high-value-added products to the biopharmaceutical market. LInC™ is a new luer lock integrated cap that accurately links with D2F™ and maintains sealability. As it is compatible with the tub & nest of D2F™, the production cycle time can be reduced.

In Japan, a D2F™ line (BOS type*) was also introduced in Biwako Plant in March 2019, and it is scheduled to start full-scale operation from 2021.

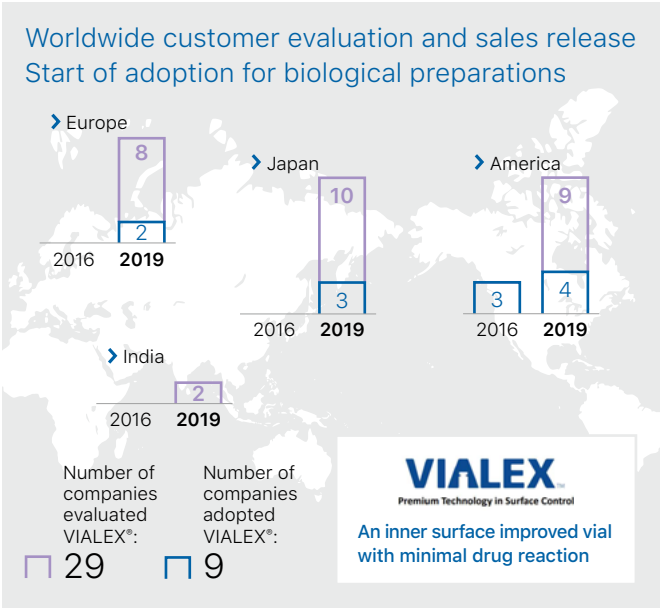
As described above, production of D2F™ is advanced in Japan and overseas, and we are currently aiming to sell it in the United States.

* BOS (Baked on silicone): The baking process of silicone emulsion onto the inner surface of the syringe inhibits the generation of insoluble particulates on the material and reduces the influence on the drug.

Nipro PharmaPackaging Germany

Global development of VIALEX®

VIALEX® is a high-value-added product. It is an inner surface improved vial where reactions with drugs are minimized because the inner surface is fire-blasted. Sales have steadily grown since its launch in the U.S. in 2016. In 2019, customer evaluations and sales will start in various countries around the world, and adoption for biological preparations has also started. We are witnessing an increasing interest in the VIALEX® technology, with more and more drugs being in stability test using NIPRO's VIALEX® vials.



A growing market–A change from volume to quality

Initiatives in India

India is a genuine hub in the Pharmaceutical and Pharma-Packaging market and continues to grow.

› Pharma market: 1st in the world for generic drugs

Accounting for 20% of worldwide manufacturing generic medicinal drugs, it is the absolute number 1 country in the manufacture of generic drugs. The share of Indian manufactured drugs imported by the US witnesses further increases. The Indian market serves the entire span, from less regulated to full regulated markets (e.g., domestic to North America). There is a shift from lower price-orientation towards higher quality-requirements.

In recent years, India has begun to specialize in high-value-added products and high-quality products, accelerating global export of products.

Specifically, there are movements such as responding to the increasing demand for glass tubing for overseas export, increasing the export volumes for drugs to the U.S. by Indian domestic pharmaceutical companies, and increasing the number of drugs approved by the F.D.A. in the United States.

We are manufacturing glass tubing and vials/ampoules in our India plant and are establishing a system to produce and sell high-value-added and high-quality products for India and for export to the United States.

Initiatives in China

Based on "Healthy China 2030," China plans to expand the healthcare market size from 8 trillion RMB (¥140 trillion) in 2020 to 16 trillion yuan (¥270 trillion) in 2030. Measures to help realize this are the development of new drugs (biological preparations) and traditional medicine.

› Healthcare market size: ¥270 trillion in 2030

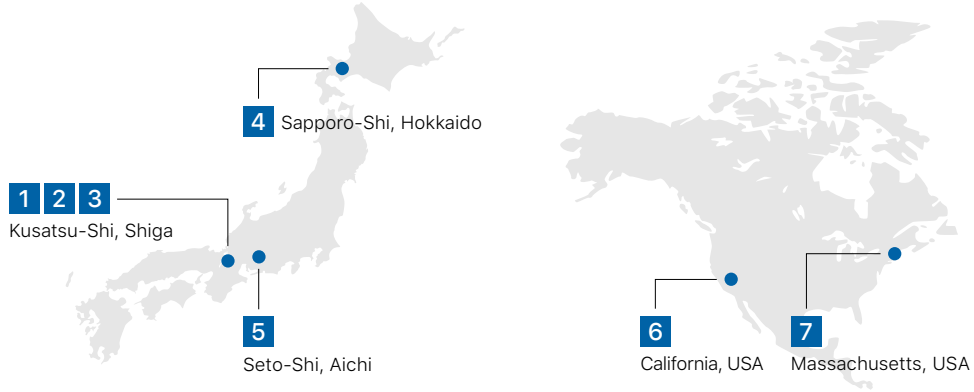
Under such circumstances, we will expand sales of high-quality products according to new Chinese standard and advance market introduction of sterilized syringe D2F™, VIALEX®, and reconstitution and administration devices for the development of new drugs (biological preparations). As for Chinese traditional medicines, we are also expanding the sales of oral liquid vials.

Management Foundation

Research and Development Activities

Contributing to Innovation in Medical Care through Original Technologies and Ideas

Nipro has 7 research and development sites, centered on the Research and Development Institute and Pharmaceutical Research Laboratories in Japan and United States.
We continually address the needs and issues of medical professionals and patients as we work to develop and provide high-value-added products.



1 Research and Development Institute

Number of employees
207

Research theme
- Cellular and regenerative medicine products
- Orthopedic surgery-related 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

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 throughout the world.

2 Pharmaceutical Research Laboratories

Number of employees
163

Research theme
- Injection products
- Oral solids
- Medical supplies for external application
- Cancer drugs and biosimilars
- High-performance medical containers

3 Production Technology Center

Number of employees
48

Research theme
The establishment of new production technology and the design development of equipment to increase production, which are for the enhancement of productivity.

4 Regenerative Medicine R&D Center

Number of employees
69

Research theme
Manufacturing equipment and consumables for the realization of regenerative medicine using autologous bone marrow cells for strokes and spinal cord injuries.

Status of industry-academia collaboration
Conclusion of collaboration research agreement concerning strokes and spinal cord injuries, and license agreement on regenerative medicine patents with Sapporo Medical University.

5 Goodman Medical Innovation

Number of employees
71

Research theme
- Catheters and accessories for cardiac and circulatory organ inspection and therapy
- Catheters and stents for cerebral blood vessel therapy
- Vascular access catheters

Status of industry-academia collaboration
- Performance of physician-led clinical trials with the National Cerebral and Cardiovascular Center.
- Implementation of research in collaboration with Hiroshima University.

6 AVANTEC VASCULAR CORPORATION

Number of employees
30

Research theme
- Hemorrhagic & ischemic stroke therapies
- Vascular retrieval system
- Endovascular/peripheral embolization
- CTO catheterization technologies
- Specialty coronary catheters
- Vascular access technologies
- Orthopedic & spinal access

7 Infraredx, Inc.

Number of employees
91

Research theme
- IVUS + NIRS Intravascular Imaging
- Thin cap algorithm
- IVUS auto-detection software

Status of industry-academia collaboration
- University of Pennsylvania

Management Foundation

Progress of Research and Development

1. Medical-Related Business

Nipro conducts research and development (R&D) in the following fields, with our R&D Institute playing a pivotal role.
Expenses related to R&D in this business segment were ¥8,291 million.

Division of Cell Drugs

Positive results that may lead to new cell drug production have been obtained after the completion of an industry-academia-government collaboration research project (for the development of the cell production / processing system), in which we participated.

In addition, we are aiming at practical application of regenerative medicine using autologous bone marrow cells for the treatment of cerebral infarction and spinal cord injury. For early commercialization, we have entered into a license agreement with Sapporo Medical University, promoting joint research and development mainly at the Regenerative Medicine R&D Center.

This spring, STEMIRAC® for Injection, a regenerative medicine for spinal cord injury, was launched. We will promote our research and development of this product for stable supply and expansion of indications.

Division of Medical Devices

Anesthetics: New SUREFUSER™ + PCA SET was launched overseas in May 2018. This device is for the continuous infusion of an anesthetic controlled by a patient according to the level of pain. It is designed to be easy to grab and fit in a palm, with a larger button as the switch for injection of drug solution. In Latin America and Australia, SUREFUSER™ Amber Type was launched in September 2018. This was developed to provide light shielding effects to prevent drugs from generating deposits or deteriorating under ultraviolet rays.

Dialysis: A blood tubing set with a gamma sterilized needleless access port was launched in August 2018 for limited use in particular medical institutions.

Division of Diagnostics and Inspections

Diagnostic products: A second-generation diagnostic agent for drug-resistant tuberculosis was approved for production and sales in Japan, Indonesia and Vietnam. We are also preparing to expand the supply network of this diagnostic product to overseas, which can detect the disease from sputum with few microbial colonies, mainly to Southeast Asia.

Inspection products: A rheometer that can readily measure subcutaneous peripheral blood flow was approved for production and sales. The application for approval was submitted for Multileaf®, which can test different parameters with a drop of blood.

Division of Functional Pharmaceutical Containers

A new half kit was launched in July 2018. This new product was developed to enhance the functionality of the old half kit, which has been on the market for more than 20 years. Compared to the previous one, the new half kit has additional features, such as preventive mechanisms against tilting vials and leakage due to a repelled needle during vial removal, as well as enhancements in bottle transparency and thermostability. In line with the product modification, a new production line, which can produce 20 million kits per year, was built to realize mass production.

The production of Alime Bag™ α was started in December 2018. The production of this new product has eliminated anxieties for the production line that is more than 30 years old, while reducing the chances of leakage during needle removal with the use of a rubber plug, instead of a membrane tube, for enteral infusion set connection. Change in the bag material from ethylene vinyl acetate (EVA) copolymer to polyethylene (PE) has enabled production in a clean environment with low costs.

A less invasive pharyngeal swab with adjusted handle strength and a device for dose adjustment for hemophilia drugs were also launched in fiscal 2018.

Management Foundation

Progress of Research and Development

1. Medical-Related Business

Division of Circulatory and Interventional Products

Balloon catheters and drug-coated stents are used for the treatment of coronary artery diseases, including acute myocardial infarction and coronary occlusion. In this field of percutaneous coronary intervention (PCI), we have been selling GUIDEPLUS® as a rapid exchange (RX)-type catheter that penetrates the coronary artery stenosis and guides deliverability of balloon catheters and drug-coated stents. the treatment of stenosis.

GUIDE PLUS has now been improved to GUIDEPLUS® II ST™, with a larger inner diameter, which increases the applicability of penetrating devices (e.g., stents and intravascular ultrasound [IVUS] catheters) while maintaining the superior deliverability to distal lesions over competitors' products, and GUIDEPLUS® II EL™ with an even larger inner diameter, a diameter comparable with the competitors' products, and enhanced deliverability.

FILTRAP® is a thrombus-trapping catheter that prevents the phenomena called "no flow" or "slow flow" caused by scattered thrombi or debris to peripheral blood vessels in the treatment of stenosed lesions. For enhanced deliverability to distal lesions and easier removal of the filter through a stent, FILTRAP® II was developed and is now available in the market.

In the field of percutaneous peripheral intervention (PPI), Japan's first tapered balloon catheter for percutaneous transluminal angioplasty (PTA) was approved. This device has enhanced applicability to balloon pulmonary angioplasty (BPA) in the treatment of pulmonary arterial hypertension.

The tapered balloon catheter is scheduled to be launched in fiscal 2019.

Division of Artificial Organs

Artificial Organs:	A one-year clinical trial for an extracorporeal continuous-flow ventricular assisting system for 30-day use was completed in October 2018. Application for the approval of this system is scheduled for early fiscal 2019. "The world's smallest and lightest artificial heart-lung assisting machine (that is, an ultracompact heart-lung assisting machine)" is currently under development. This product is expected to be used for emergency cares, treating such urgent diseases as myocardial infarctions and acute respiratory failures. Clinical study of this product is planned to begin by the end of March 2020. This "ultracompact heart-lung machine" received a "Technology Award" from the Japanese Society for Artificial Organs at the Annual Meeting of 2018.
Hemo-catharsis:	A slow continuous hemodiafiltration system was launched in February 2019. It is characterized by high antithrombogenicity and human safety, used for prolonged corporeal circulation to treat acute renal insufficiency.

Division of Surgical Devices

Surgical devices include products used for different types of surgeries, such as orthopedic, cardiac, and abdominal surgeries. In these fields, we mainly focus on the development of implantable medical devices. Using our proprietary technology for processing bioabsorbable materials, we have been developing regenerative medicine products without using cells.

Also, together with our affiliate, NexMed International Co., Ltd., we are developing orthopedic surgery products for less-invasive surgeries.

We are continuing the joint development of products for endoscopy with Machida Endoscope Co., Ltd., which has become one of our group companies.

Management Foundation

Progress of Research and Development

2. Pharmaceutical-Related Business

Nipro is conducting research and development (R&D) in the following fields, with our Pharmaceutical Research Laboratories playing a pivotal role. R&D expenditures were ¥8,235 million in fiscal 2019.

Injectable Drugs

In addition to ordinary vial formulations and bag formulations, we are actively pursuing the development of kit formulations designed for better operational efficiency in clinical practice.

We are focusing on the development of extended release injections and other products that are relatively challenging to develop, such as our dual chamber pre-filled syringe containing leuprorelin acetate (one-month extended release product) for treating prostate cancer and premenopausal breast cancer, which is already on the market (Original: LEUPLIN® by Takeda Pharmaceutical Company Limited).

During the fiscal year under review, generic drugs for an infusion bag product, a vial product, and a pre-filled syringe product were launched.

Oral Drugs

In addition to ordinary oral drugs (e.g., tablets, granules), value-added products are currently being developed, such as orally disintegrating (OD) tablets or OD film preparations with reduced bitterness, which can be taken without water.

Meanwhile, in order to enhance improved efficiency in clinical practice, we also provide technically unique products, such as tablets printed with the name of active ingredients, and more useful packages, such as individual packages and aluminum pillows.

During the fiscal year ended March 2019, 6 compounds in 17 generic products were launched, including one OD-film preparation. Furthermore, manufacturing and marketing approval for 2 compounds in 7 products were obtained.

External Use Products

Several generic products, such as patches, are under development. Microneedles, characterized by the novel concept of a "transdermal injection", are also under development. New production lines for investigational drugs have already been constructed.

Biosimilars

While the biosimilar market is rapidly expanding in Japan, NHI (National Health Insurance) prices for biosimilars are generally high, and thus the need for much lower NHI prices is increasing, from the viewpoint of healthcare cost reduction.

Based on such circumstances, we have partnered with a biological drug substances company that can supply us with high quality and price-competitive biosimilars comparable to that of competitors' products, and endeavor to develop in-house biosimilars.

Others

During the fiscal year ended March 2019, manufacturing and marketing approval for an inhaler was obtained.

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.

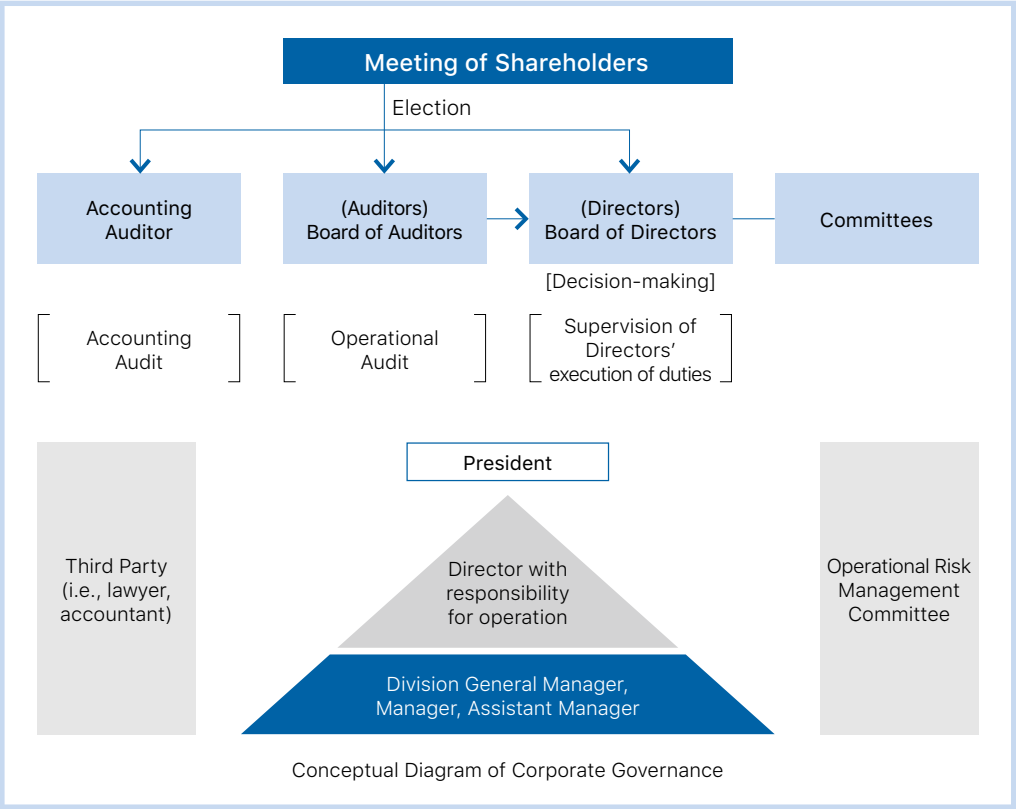
(2) Internal Control Systems

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.

Management Foundation

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: 14
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	¥ 624	¥ 188	¥ 388	¥ 48	30
Internal Audit & Supervisory Board Members	7	7	—	—	1
Outside Directors, Outside Audit & Supervisory Board Members	16	16	—	—	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	*$ 69,363*	*$ 20,877*	*$ 43,080*	*$ 5,405*	*30*
Internal Audit & Supervisory Board Members	*799*	*799*	—	—	*1*
Outside Directors, Outside Audit & Supervisory Board Members	*1,798*	*1,798*	—	—	*4*

Management Foundation

Outside Directors' Messages

Yoshiko Tanaka
Outside Director

Bringing a clinical-site perspective to management by using my experience of managing a hospital and working as a pharmacist

I have been an external director of this company since 2014. For many years, I was responsible for purchasing drugs, medical devices, and medical consumables and for personnel and general affairs at the headquarters of a major medical institution. With this experience, I am currently working as a consultant in medical management. My business relationship with NIPRO began when I was in charge of purchasing medical devices. In comparison to other companies, NIPRO was characterized by their commitment to solving users' needs. After being appointed an external director, I have been trying to convey my feelings to the management about matters even outside the drug and healthcare fields.

External directors are required to play supervisory and advisory roles. For this, I need to obtain accurate information about clinical sites. I actively take part in various meetings besides the board of directors and visit clinical sites to hear from the persons in charge of the sites and obtain the necessary information. NIPRO has a culture of openness which enables such exchange.

The board of directors spent too much time on large numbers of business reports, and as a result we did not have enough time to deliberate important matters. To solve this issue, in January 2019, two external directors submitted an agenda with an improvement plan: to introduce "Matters to be deliberated" in addition to "Matters to be resolved" and "Matters to be reported." As a result, we now have active deliberations on important matters and also freely exchange our opinions on other important subjects such as management risks.

President Sano has the foresight to incorporate such external opinions and make the most of them in management over the next 5 or 10 years. NIPRO is currently making advance investments to expand the business, aiming to become a corporate group with annual sales of 1 trillion yen by 2030. To become a big company, however, both scale and profitability are important. I need to closely supervise each business and provide appropriate advice when the sales greatly increase so that a system that generates sufficient profits can be established.

NIPRO is currently opening dialysis facilities and training centers worldwide. It is also NIPRO's social mission to build facilities for dialysis treatment and develop local healthcare professionals primarily in developing countries. I will contribute to the future of healthcare along with the development of our business.

Minako Oomizu
Outside Director

Contributing to NIPRO's growth from the perspective of human development

I had worked as a nurse at a major medical institution and been involved in hospital management as a director of the nursing department and a deputy director of the hospital. Currently, as an expert in human resource development, I deliver lectures based on the Fish! Philosophy at various institutions.

My relationship with NIPRO started when I was a head nurse. A sales representative made a proposal for organizing a workshop on healthcare and nursing. The workshop was a success, and subsequently it was organized for the entire hospital group. It particularly impressed me that NIPRO's sales representatives did not prioritize the sales activities for their products in those workshops. They stuck to the concept of prioritizing healthcare for patients. This workshop is still routinely conducted, and NIPRO's culture has also been transferred to these institutions.

I advocate use of the Fish! Philosophy to improve performance in clinical settings. The Fish! Philosophy is a management approach that aims to vitalize the organization by working with 4 ideas: "play," "make their day," "be there," and "choose your attitude." I introduced this management approach to NIPRO, and even after being appointed as an external director, I have been promoting this approach at various sites at the request of NIPRO's departments and board of directors.

One of the major roles of external directors is to prevent some directors from making decisions or acting without consulting about an objective decision made outside the company. NIPRO's board of directors used to spend a lot of time on voluminous business reports, but now, the form of deliberation has been improved and we can deepen discussions on important issues. There are two female external directors, and both of us have extensive expertise in the medical field, which helps stimulate discussions.

NIPRO is proceeding with globalization to achieve annual sales of 1 trillion yen by 2030. In my view, what is important is that "people" make up an organization. The components of business, such as development and sales, are carried out by people. Therefore, I think development of human resources will become an increasingly important issue in the future. I would like to be actively involved in overseas business to disseminate human resource management practices globally.

Management Foundation

Board of Directors and Audit & Supervisory Board Members

As of August 1, 2019

Minako Oomizu
Outside Director

Yoshiko Tanaka
Outside Director

Kazuhiko Sano
Managing Director

Yasushi Oyama
Managing Director

Kenichi Nishida
Managing Director

Takehito Yogo
Managing Director

Kimihito Minoura
Managing Director

Toshiaki Masuda
Managing Director

Kiyotaka Yoshioka
Managing Director

Yoshihiko Sano
President & Representative Director

Kazuo Wakatsuki
Managing Director

Kyoetsu Kobayashi
Managing Director

Tsuyoshi Yamazaki
Managing Director

Management Foundation

Board of Directors and Audit & Supervisory Board Members

As of August 1, 2019

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 Development Division

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 Headquarters

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 Management Department; 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/Data Section

Financial Review

Overview

During the consolidated fiscal year under review, the sense of uncertainty about the future heightened in the global economy due to the impact from US-China trade frictions and movements in the UK's Brexit negotiations, as countries turned inwards in response to US protectionist policies. Regarding foreign exchange movements, while major currencies remained within a relatively small fluctuation range throughout the year, some emerging economy currencies saw significant falls. Meanwhile, in the Japanese economy, corporate earnings continued to recover steadily.

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

Consolidated Business Results

Relevant quantitative data for the period under review has been converted at the rate of US$1.00 = ¥110.99 (the rate of exchange as of March 31, 2019).

Net Sales

Net sales for the current term were ¥426,399 million (US$3,841.7 million). Sales increased 7.8% year on year.

Cost of Sales

The cost of sales increased 10.2% compared with the previous fiscal year to ¥295,767 million (US$2,664.8 million). This increase corresponded to the increase in net sales. The ratio of cost of sales to net sales increased by 1.5 percentage points compared with the previous fiscal year to 69.3%.

As a result, gross profit increased by 2.7% compared with the previous fiscal year to ¥130,631 million (US$1,176.9 million).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 6.7% compared with the previous fiscal year to ¥106,804 million (US$962.2 million). This is mainly due to an increase of depreciation expenses and Expenses for regenerative products.

Operating Income

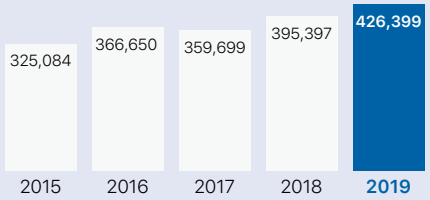
As a result of the aforementioned factors, operating income was down 12.0% compared with the previous fiscal year to ¥23,827 million (US$214.6 million). The ratio of operating income to net sales was down 1.26 percentage points to 5.58%.

Other Income (Expenses)

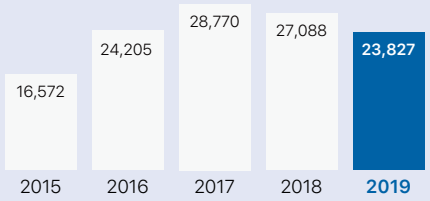
We recorded other expenses of ¥2,496 million (US$22.4 million), ¥7,565 million lower compared with other expenses in the previous fiscal year. In the period under review, we recorded ¥1,121 million (US$10.1 million) in exchange losses, while we reported ¥2,561 million in exchange losses in the previous period.

(Years ended March 31)

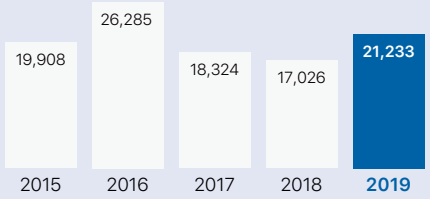
Net sales
(Millions of yen)



Operating income
(Millions of yen)



Income before income taxes
(Millions of yen)



Financial/Data Section

Financial Review

Income before Income Taxes

As a result of the factors outlined above, income before income taxes increased by 24.7% compared with the previous fiscal year to ¥21,233 million (US$191.3 million).

Income Taxes

Income taxes, including deferred taxes, increased by 97.9%, compared with the previous fiscal year to ¥9,357 million (US$84.3 million). The effective tax rate was 44.1%, higher than the rate of 27.8% for the previous fiscal year. This increase is mainly owing to the reduction in loss-making subsidiaries.

Net Income (Loss) Attributable to Non-controlling Interests

Net income attributable to non-controlling interests amounted to ¥-260 million (US$-2.3 million).

Net Income Attributable to Owners of Parent

Net income attributable to owners of parent increased by 2.5% compared with the previous fiscal year to ¥12,136 million (US$109.3 million). Basic earnings per share increased to ¥73.6 (US$0.7) from ¥71.1 for the previous fiscal year. Return on equity increased 0.3 percentage points to 7.3% from 7.0% for the previous fiscal year.

Net Sales by Geographic Segment

Japan

In Japan, net sales increased by 7.9% compared with the previous fiscal year to ¥260,967 million (US$2,351.2 million) mainly thanks to the increase of sales in the Medical-Related business.

Americas

In the Americas, net sales increased by 5.5% compared with the previous fiscal year to ¥59,836 million (US$539.1 million) mainly thanks to the increase of sales in the Medical-Related business.

Europe

In Europe, net sales increased by 10.0% compared with the previous fiscal year to ¥51,042 billion (US$459.8 million) mainly thanks to the increase of sales in the Medical-Related business.

Asia

In Asia, net sales increased by 7.9% compared with the previous fiscal year to ¥54,552 million (US$491.5 million) mainly thanks to the increase of sales in the Medical-Related business.

Financial Position

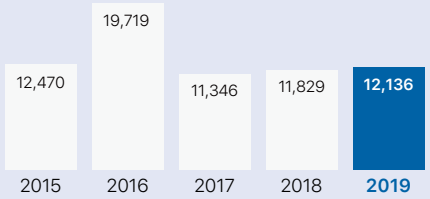
Total assets increased ¥19,062 million year on year to ¥845,821 million (US$7,620.6 million). Current assets increased ¥6,906 million and noncurrent assets increased ¥12,156 million. The increase of current assets was mainly due to increases of ¥8,458 million in trade notes and accounts receivable and ¥8,707 million in inventories, and the increase of noncurrent assets was mainly due to an increase of ¥13,007 million in buildings and structures.

Total liabilities increased ¥30,717 million year on year to ¥673,990 million (US$6,072.5 million). Current liabilities increased ¥23,091 million and long-term liabilities

(Years ended March 31)

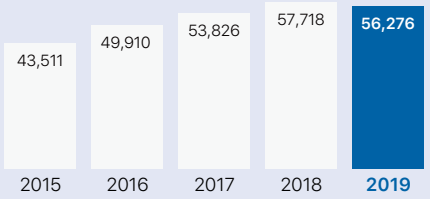
Net income attributable to owners of parent

(Millions of yen)



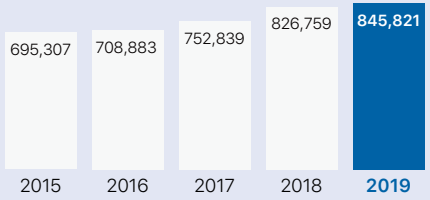
Capital expenditures

(Millions of yen)



Total assets

(Millions of yen)



Financial/Data Section

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increased ¥7,625 million. The main reason for the increase in current liabilities was an increase of ¥22,458 million in current portion of long-term debt, and the primary reason for the increase in long-term liabilities was a ¥6,400 million increase in bonds payable.

Total net assets decreased ¥11,655 million year on year to ¥171,830 million (US$1,548.1 million). Shareholders' equity increased by ¥2,327 million and accumulated other comprehensive income decreased by ¥13,460 million.

As a result, the equity ratio decreased by 1.8 of a percentage point compared with the end of the previous fiscal year, to 19.1%.

Cash Flow

Net cash provided by operating activities amounted to ¥41,362 million (US$372.6 million). The major cash inflows were income before income taxes and depreciation and amortization.

Net cash used in investing activities came to ¥64,712 million (US$583.0 million). The principal cash outflow was purchases of property, plant and equipment.

Net cash provided by financing activities amounted to ¥12,646 million (US$113.9 million). The main account of cash inflow was proceeds from long-term loans.

As a result, cash and cash equivalents stood at ¥120,310 million (US$1,083.9 million) as of March 31, 2019.

Staff

The total number of employees as of the end of the period under review increased by 995 compared with the end of the previous fiscal year, to 29,325. Employees in Japan increased by 454, to 8,275, and the number of overseas employees increased by 541 to 21,050.

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

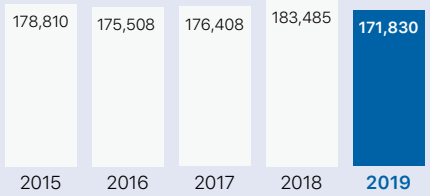
The following are risks that may have an effect on the Nipro Group's operational results and/or financial condition. The items concerned were determined as of March 31, 2019.

(1) Risks Related to Product Safety

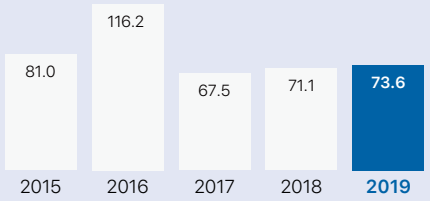
The Nipro Group brings all of its capabilities to bear in ensuring product safety in the design, development and manufacturing of medical devices and pharmaceutical products. There are still the risks, however, that accidental defects or adverse effects could result in damages to a third party and our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

(Years ended March 31)

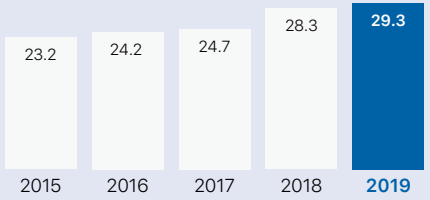
Net assets
(Millions of yen)



Basic earnings per share
(yen)



Number of employees
(Thousand)



Financial/Data Section

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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.

(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

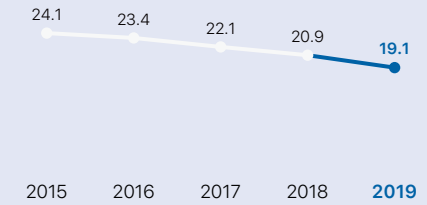
The products manufactured by the Nipro Group include some that are made from petrochemical products such as plastics. Should the cost of raw materials such as petrochemicals rise, there could be a material adverse effect on our operational results and/or financial condition.

(6) Risks Related to Overseas Expansion

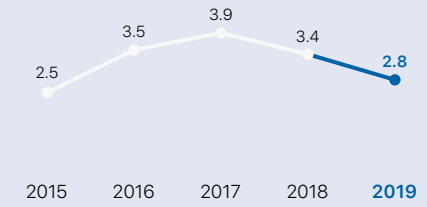
The Nipro Group maintains manufacturing bases and sales offices around the world for the production and supply of its products. Should there be unexpected revisions to legal regulations or political or economic changes in these countries or regions, there could be a material adverse effect on our operational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

(Years ended March 31)

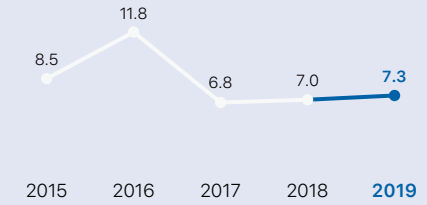
Equity ratio
(%)



Return on assets
(%)



Return on equity
(%)



Financial/Data Section

Ten-Year Summary

Nipro Corporation and its Consolidated Subsidiaries
Years ended March 31

	Millions of yen										Thousands of U.S. dollars (Note 1)
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2019
Income Statement Data:											
Net sales	¥ 426,399	¥ 395,397	¥ 359,699	¥ 366,650	¥ 325,084	¥ 300,753	¥ 241,021	¥ 212,013	¥ 195,943	¥ 177,830	*$3,841,783*
Medical-Related (*1)	327,359	300,117	262,198	272,168	237,777	221,363	169,971	145,082	132,817	118,517	*2,949,451*
Pharmaceutical-Related (*1)	63,482	66,846	69,140	62,266	57,372	51,508	66,212	59,715	38,005	34,528	*571,962*
PharmaPackaging (*1)	35,526	28,404	28,331	32,184	29,830	27,611	4,603	6,954	24,704	24,338	*320,089*
Other (*1)	31	29	29	32	105	271	235	262	417	447	*279*
Cost of sales	295,767	268,272	244,602	250,773	225,525	213,221	175,314	149,253	137,768	126,145	*2,664,814*
Selling, general and administrative expenses	106,804	100,036	86,326	91,672	82,987	75,242	54,336	46,935	40,950	33,591	*962,289*
Operating income	23,827	27,088	28,770	24,205	16,572	12,290	11,371	15,825	17,225	18,094	*214,679*
Medical-Related (*2)	36,722	36,522	30,638	28,204	23,813	20,436	14,287	17,078	18,437	19,923	*330,865*
Pharmaceutical-Related (*2)	10,662	13,104	14,135	12,060	10,553	8,013	3,988	4,940	1,658	2,102	*96,064*
PharmaPackaging (*2)	778	(1,308)	(1,313)	(1,618)	(2,889)	(2,183)	601	454	2,701	3,103	*7,010*
Other (*2)	146	75	(10)	61	131	216	222	230	88	64	*1,320*
Income before income taxes	21,233	17,026	18,324	26,285	19,908	12,891	18,060	11,022	7,432	13,872	*191,311*
Net income attributable to owners of parent	12,136	11,829	11,346	19,719	12,470	2,861	10,232	4,586	2,456	7,253	*109,351*
Increase in tangible and intangible fixed assets	64,394	61,990	58,310	57,101	47,698	35,093	37,997	39,525	23,323	15,209	*580,185*
Depreciation and amortization	35,252	32,565	31,128	30,147	27,668	25,151	21,210	21,581	21,244	18,421	*317,616*
R&D expenses	16,526	16,113	11,517	10,269	8,646	7,891	6,464	5,957	4,977	4,846	*148,900*
Balance Sheet Data:											
Total assets	¥ 845,821	¥ 826,759	¥ 752,839	¥ 708,883	¥ 695,307	¥ 619,655	¥ 579,302	¥ 499,687	¥ 476,510	¥ 383,397	*$7,620,699*
Property, plant and equipment—net	284,483	270,273	244,222	223,757	220,195	191,594	174,703	145,679	128,506	124,209	*2,563,141*
Working capital	168,676	184,861	134,983	115,970	71,945	45,405	74,216	61,346	40,621	41,725	*1,519,736*
Current liabilities	274,277	251,186	251,792	252,148	278,402	250,715	213,758	189,090	176,401	138,204	*2,471,195*
Long-term liabilities	399,712	392,087	324,639	281,227	238,095	232,979	236,781	196,646	191,071	129,122	*3,601,340*
Common stock	84,397	84,397	84,397	84,398	84,398	84,398	84,398	84,398	28,663	28,663	*760,409*
Capital surplus	—	—	—	—	635	689	636	636	29,973	29,973	—
Net assets	171,830	183,485	176,408	175,508	178,810	135,961	128,763	113,951	109,038	116,071	*1,548,163*

(*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 the financial year 2012, and the presentation for the prior financial years are not restated. Also, effective from 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 business which was formerly known as Glass-Related business by the corporate reorganization. Segment information after 2014 is based on this reclassification.

From the fiscal year ended March 31, 2019, the Company has conducted a reorganization for the purpose of doing synthetic PharmaPackaging business and increasing synergies with Pharmaceutical-Related business. As a result of this reorganization, some business divisions included in Pharmaceutical-Related business were changed to PharmaPackaging business. The presentations for prior fiscal years are not restated.

(*2) Operating income at the operating segment level is not adjusted for intra-segment transactions. See Note 13. "Segment Reporting" to the consolidated financial statements.

Financial/Data Section

Ten-Year Summary

Nipro Corporation and its Consolidated Subsidiaries
Years ended March 31

	Yen										U.S. dollars (Note 1)
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2019
Per Share Data:											
Basic earnings (*3)	¥ 73.6	¥ 71.1	¥ 67.5	¥ 116.2	¥ 81.0	¥ 18.2	¥ 60.0	¥ 35.3	¥ 19.4	¥ 114.4	$ 0.66
Diluted earnings (*3)	66.7	64.5	61.3	114.7	—	16.3	54.1	31.0	17.4	114.1	0.60
Cash dividends	28.0	28.5	29.0	33.5	32.5	30.5	27.5	23.5	50.0	53.0	0.25
Equity (*3)	990.1	1,037.2	999.5	977.6	988.8	832.1	703.5	643.9	839.7	1,802.3	8.92
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	171,459,479	63,878,505	63,878,505	
Number of employees	29,325	28,330	24,715	24,243	23,153	21,826	19,327	14,566	12,017	9,939	
Selected Data and Ratios:											
Equity ratio (*4) (%)	19.1	20.9	22.1	23.4	24.1	20.2	20.7	22.0	22.4	29.8	
Return on assets (*4) (%)	2.8	3.4	3.9	3.5	2.5	2.1	2.1	3.2	4.0	5.1	
Return on equity (*4) (%)	7.3	7.0	6.8	11.8	8.5	2.3	8.9	4.2	2.2	6.9	
Price earnings ratio (*4) (times)	19.3	21.6	23.2	9.2	14.1	51.0	14.0	17.5	42.5	15.8	

(*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 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 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.

Financial/Data Section

Consolidated Balance Sheets

Nipro Corporation and its Consolidated Subsidiaries
As of March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets			
Current assets:			
Cash and cash equivalents	¥ 120,310	¥ 135,599	$ 1,083,974
Time deposits (over three months)	9,127	6,341	82,240
Trade notes and accounts receivable	148,970	140,511	1,342,196
Allowance for doubtful receivables	(1,248)	(1,437)	(11,250)
Inventories (Note 3)	137,925	129,218	1,242,685
Deferred income taxes (Note 4)	—	6,959	—
Other current assets	27,867	18,854	251,084
Total current assets	442,953	436,047	3,990,931
Property, plant and equipment (Note 5):			
Land	¥ 36,480	¥ 32,079	$ 328,686
Buildings and structures	220,205	207,198	1,984,008
Machinery and equipment	338,391	316,947	3,048,847
Construction in progress	36,638	37,537	330,103
	631,715	593,763	5,691,645
Accumulated depreciation	(347,232)	(323,489)	(3,128,504)
Property, plant and equipment—net	284,483	270,273	2,563,141
Intangible assets (Note 5):			
Goodwill	¥ 19,327	¥ 27,358	$ 174,137
Other intangible assets	20,071	18,635	180,836
Total intangible assets	39,398	45,994	354,974
Investments and other assets:			
Investment in unconsolidated subsidiaries and an affiliate accounted for by the equity method	¥ 8,690	¥ 4,150	$ 78,300
Investment securities (Note 6)	52,683	58,794	474,664
Lease deposits	1,687	1,896	15,208
Deferred income taxes (Note 4)	11,335	3,706	102,131
Other assets	4,589	5,896	41,346
Total investments and other assets	78,986	74,443	711,651
Total	¥ 845,821	¥ 826,759	$ 7,620,699

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 5 and 9)	¥ 55,803	¥ 54,245	$ 502,779
Current portion of long-term debt (Notes 5 and 9)	87,093	64,635	784,700
Trade notes and accounts payable	69,646	62,105	627,504
Accrued income taxes	4,068	4,993	36,654
Accrued expenses	31,337	29,036	282,345
Commercial paper (Note 9)	—	10,000	—
Notes and accounts payable for plant and equipment	12,695	15,246	114,386
Other current liabilities	13,632	10,923	122,824
Total current liabilities	274,277	251,186	2,471,195
Long-term liabilities:			
Long-term debt (Notes 5 and 9)	¥385,512	¥380,517	$3,473,402
Net defined benefit liability (Note 10)	5,101	4,530	45,963
Deferred income taxes (Note 4)	204	783	1,842
Other long-term liabilities	8,893	6,255	80,132
Total long-term liabilities	399,712	392,087	3,601,340
Commitments and contingent liabilities (Note 11)			
Net Assets (Note 12):			
Common stock	¥ 84,397	¥ 84,397	$ 760,409
Authorized: 400,000,000 shares			
Issued: 171,459,479 shares			
Retained earnings	90,719	83,570	817,369
Less cost of common shares of treasury stock	(10,826)	(6,004)	(97,546)
(8,361,856 shares in 2019 and 5,037,124 shares in 2018)			
Total shareholders' equity	164,291	161,963	1,480,232
Unrealized gain (loss) on available-for-sale securities	(5,173)	(712)	(46,616)
Deferred gains or losses on hedges	(54)	(69)	(491)
Foreign currency translation adjustments	2,625	11,404	23,657
Remeasurements of defined benefit plans	(199)	36	(1,795)
Accumulated other comprehensive income	(2,802)	10,658	(25,246)
Non-controlling interests	10,341	10,863	93,176
Total net assets	171,830	183,485	1,548,163
Total	¥845,821	¥826,759	$7,620,699

The accompanying notes are an integral part of these statements.

Financial/Data Section

Consolidated Statements of Income

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	¥426,399	¥395,397	*$3,841,783*
Cost of sales	295,767	268,272	*2,664,814*
Gross profit	130,631	127,125	*1,176,969*
Selling, general and administrative expenses (Notes 15 and 16)	106,804	100,036	*962,289*
Operating income	23,827	27,088	*214,679*
Other income (expenses):			
Interest and dividend income	2,559	2,221	*23,063*
Interest expense	(3,347)	(3,543)	*(30,156)*
Loss on sale and disposal of property, plant and equipment—net	(41)	(718)	*(377)*
Exchange gain (loss)	(1,121)	(2,561)	*(10,100)*
Equity in profit (loss) of an affiliated company	78	113	*704*
Gain (loss) on sale of subsidiaries and affiliates' stocks	147	736	*1,327*
Loss on impairment of fixed assets (Note 17)	(915)	(2,216)	*(8,252)*
Other income (loss)—net	46	(4,093)	*1,298*
Income before income taxes	21,233	17,026	*191,311*
Income taxes (Note 4):			
Current	8,605	7,708	*77,535*
Deferred	751	(2,980)	*6,770*
Net income	11,876	12,298	*107,005*
Net income (loss) attributable to non-controlling interests	(260)	468	*(2,346)*
Net income attributable to owners of parent	¥ 12,136	¥ 11,829	*$ 109,351*

	Yen		U.S. dollars (Note 1)
Amounts per common share:			
Basic earnings	¥ 73.6	¥ 71.1	*$ 0.7*
Diluted earnings	66.7	64.5	*0.6*
Cash dividends	28.0	28.5	*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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	¥11,876	¥12,298	*$107,005*
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	(4,460)	(2,301)	*(40,190)*
Deferred gains or losses on hedges	15	72	*135*
Foreign currency translation adjustment	(8,891)	2,882	*(80,106)*
Remeasurements of defined benefit plans	(250)	628	*(2,257)*
Share of other comprehensive income of entities accounted for using equity method	(127)	(87)	*(1,150)*
Comprehensive income	¥ (1,838)	¥13,492	*$ (16,564)*
Comprehensive income attributable to:			
Owners of parent	(1,323)	12,983	*(11,928)*
Non-controlling interests	(514)	508	*(4,636)*

The accompanying notes are an integral part of these statements.

Financial/Data Section

Consolidated Statements of Changes in Net Assets

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018 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	Remeasurements of defined benefit plans	Accumulated other comprehensive income	Non-controlling interests	Total net assets
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
Net income attributable to owners of parent			12,136		12,136							12,136
Increase (decrease) in retained earnings due to inclusion of new subsidiaries in consolidation												
Cash dividends			(4,957)		(4,957)							(4,957)
Purchase of treasury stock				(5,000)	(5,000)							(5,000)
Disposal of treasury stock				178	178							178
Change in the scope of consolidation												
Decrease of retained earnings (Other)			(29)		(29)							(29)
Other net change during the year						(4,461)	15	(8,778)	(236)	(13,460)	(522)	(13,983)
Balance at March 31, 2019	171,459	¥84,397	¥90,719	¥(10,826)	¥164,291	¥(5,173)	¥ (54)	¥ 2,625	¥(199)	¥ (2,802)	¥10,341	¥171,830

	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	Remeasurements of defined benefit plans	Accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2018	*171,459*	*$760,409*	*$752,951*	*$(54,102)*	*$1,459,257*	*$ (6,419)*	*$(626)*	*$102,748*	*$ 331*	*$ 96,033*	*$97,882*	*$1,653,173*
Net income attributable to owners of parent			*109,351*		*109,351*							*109,351*
Increase (decrease) in retained earnings due to inclusion of new subsidiaries in consolidation												
Cash dividends			*(44,668)*		*(44,668)*							*(44,668)*
Purchase of treasury stock				*(45,051)*	*(45,051)*							*(45,051)*
Disposal of treasury stock				*1,607*	*1,607*							*1,607*
Decrease of retained earnings (Other)			*(265)*		*(265)*							*(265)*
Other net change during the year						*(40,197)*	*135*	*(79,091)*	*(2,127)*	*(121,280)*	*(4,705)*	*(125,985)*
Balance at March 31, 2019	*171,459*	*$760,409*	*$817,369*	*$(97,546)*	*$1,480,232*	*$(46,616)*	*$(491)*	*$ 23,657*	*$(1,795)*	*$ (25,246)*	*$93,176*	*$1,548,163*

The accompanying notes are an integral part of these statements.

Financial/Data Section

Consolidated Statements of Cash Flows

Nipro Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes	¥ 21,233	¥ 17,026	$ 191,311
Depreciation and amortization	35,252	32,565	317,616
Impairment loss	915	2,216	8,252
Amortization of goodwill	3,372	3,431	30,387
Equity in loss of affiliated companies	(78)	(113)	(704)
Allowance for doubtful receivables	(699)	443	(6,301)
Exchange gain	1,385	559	12,478
Gain (loss) on sales of available-for-sale securities	(147)	(791)	(1,327)
State subsidy	(1,036)	(1,613)	(9,340)
Loss on reduction of non-current assets	865	1,500	7,799
Gain on bargain purchase	(317)	—	(2,860)
Trade receivables	(12,278)	(7,331)	(110,623)
Inventories	(11,448)	(4,902)	(103,146)
Trade payables	11,814	(3,821)	106,447
Other current assets	(5,393)	1,755	(48,590)
Other current liabilities	5,544	6,454	49,955
Other, net	552	995	4,974
Accrued income taxes	(8,175)	(7,329)	8,979
Net cash provided by operating activities	41,362	41,046	372,664
Investing activities:			
Deposit (Over three months)	(3,430)	4,957	(30,904)
Purchases of available-for-sale securities	(875)	(549)	(7,887)
Proceeds from sales of marketable securities	110	4,480	999
Purchases of investment in unconsolidated subsidiaries and affiliates	(1,413)	(921)	(12,738)
Proceeds from investment in unconsolidated subsidiaries and affiliates	—	384	—
Purchases of investments in consolidated subsidiaries affecting scope of consolidation	—	(11,888)	—
Proceeds from sale of investments in consolidated subsidiaries affecting scope of consolidation	2,294	—	20,674
Payments for transfer of business	(5,126)	—	(46,190)
Purchases of property, plant and equipment	(55,980)	(62,382)	(504,373)
Proceeds from sales of property, plant and equipment	1,008	655	9,082
Other, net	(1,299)	1,124	(11,707)
Net cash used in investing activities	(64,712)	(64,140)	(583,046)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Financing activities:			
Net increase (decrease) in short-term loans	¥ 3,264	¥ 8,825	$ 29,416
Net decrease in commercial paper	(10,000)	—	(90,098)
Proceeds from long-term loans	88,813	135,110	800,196
Repayment of long-term loans	(68,368)	(74,903)	(615,984)
Proceed from issuance of bonds	9,933	993	89,501
Repayment of bonds	(1,215)	(15,160)	(10,946)
Proceeds from disposal of treasury stock	178	240	1,607
Proceeds from sales of treasury stock	(5,000)	(22)	(45,051)
Cash dividends paid	(4,983)	(6,505)	(44,904)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(114)	(56)	(1,028)
Other, net	136	(1,180)	1,231
Net cash provided by financing activities	12,646	47,341	113,939
Effect of exchange rate changes on cash and cash equivalents	(4,659)	(695)	(41,983)
Net increase (decrease) in cash and cash equivalents	(15,363)	23,552	(138,425)
Cash and cash equivalents, beginning of period	135,599	112,046	1,221,728
Cash and cash equivalents of newly consolidated subsidiary, beginning of period	74	—	671
Cash and cash equivalents, end of period	¥120,310	¥135,599	$1,083,974

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 ¥110.99 = US$1, the approximate exchange rate on March 31, 2019. 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, 2019 for the Company and for consolidated domestic subsidiaries, and December 31, 2018 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 APR 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.

Some consolidated subsidiaries amortize its actuarial gains and losses all at once in the fiscal 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)
Interest rate swap	Interest on short-term and long-term debt

<Hedge policy>

The Company uses interest rate swaps to reduce interest volatility risk.

<Method for assessing hedge effectiveness>

Hedge effectiveness is not assessed when substantial items and conditions of hedging instruments and the hedged transactions are the same, and is not assessed when cash flow can be completely offset for whole hedge period.

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)
	2019	2018	*2019*
Finished goods and merchandise	¥ 95,103	¥ 88,710	*$ 856,865*
Raw materials	25,278	22,789	*227,754*
Work in process	12,347	12,666	*111,252*
Packing and other	5,195	5,052	*46,812*
Total	¥137,925	¥129,218	*$1,242,685*

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 30.6% and 30.8% for the years ended March 31, 2019 and 2018.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Deferred tax assets			
Tax loss carryforwards	¥ 10,898	¥ 8,323	$ 98,196
Intercompany profits	2,037	2,242	18,355
Valuation loss on inventories	1,237	897	11,150
Allowance for bonuses to employees	1,234	1,197	11,119
Sales allowance	341	327	3,073
Loss on impairment of fixed assets	395	184	3,564
Excess of allowance for doubtful accounts over tax allowable amounts	1,272	1,801	11,464
Net defined benefit liability	1,366	1,275	12,313
Accrued enterprise taxes	426	400	3,846
Unrealized loss on available-for-sale securities	2,857	787	25,746
Goodwill	54	242	495
Loss on liquidation of business	257	283	2,315
Other	4,045	3,752	36,452
Gross deferred tax assets	26,426	21,716	238,096
Less: Valuation allowance for the Net Operating Loss Carry Forwards (*2)	(8,173)	—	(73,640)
Less: Valuation allowance for the deductible temporary differences	(3,464)	—	(31,213)
Total Less: Valuation allowance (*1)	(11,637)	(9,086)	(104,853)
Total deferred tax assets	14,788	12,630	133,242
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	450	350	4,061
Revaluation reserve for land	783	675	7,058
Revaluation reserve for intangible assets	—	2	—
Revaluation reserve for fixed assets—other	687	1,068	6,198
Retained earnings on foreign subsidiaries	551	51	4,966
Other	1,184	599	10,669
Total deferred tax liabilities	3,657	2,748	32,953
Net deferred tax assets (liabilities) (*1)	¥ 11,131	¥ 9,881	$ 100,289

(*1) In fiscal year ended in 2018, March, Valuation allowance was increased by ¥2,551 million. The main reason of this increase is that Valuation allowance for the Net Operating Loss Carry Forwards was increased by ¥3,059 million (US$27,565 thousand) in Goodman Co., Ltd.
(*2) Balance of the deferred tax assets on the Net Operating Loss Carry Forwards by the expiration year.

Millions of yen

	2018						
	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years	Total
Net Operating Loss Carry Forwards (*A)	¥ 451	¥ 550	¥ 800	¥1,191	¥ 757	¥ 7,147	¥10,898
Valuation allowance	(306)	(334)	(402)	(704)	(525)	(5,899)	(8,173)
Deferred Tax Asset	144	216	398	486	231	1,247	2,725(*B)

Thousands of U.S. dollars (Note 1)

	2018						
	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years	Total
Net Operating Loss Carry Forwards	$ 4,064	$ 4,959	$ 7,215	$10,732	$ 6,824	$ 64,399	$ 98,196
Valuation allowance	(2,760)	(3,011)	(3,623)	(6,349)	(4,737)	(53,157)	(73,640)
Deferred Tax Asset	1,303	1,948	3,592	4,383	2,086	11,242	24,556

(*A) Each Net Operating Loss Carry Forwards amount is multiplied by Statutory tax rate.
(*B) We recorded ¥2,725 million (US$24,556 thousand) Deferred Tax Asset for ¥10,898 million (US$98,196 thousand) Net Operating Loss Carry Forwards (multiplied by Statutory tax rate). This Deferred Tax Asset is mainly recognized for the balance of Net Operating Loss Carry Forwards in PT. NIPRO INDONESIA JAYA (multiplied by Statutory tax rate). We have not recognized Valuation allowance for this Net Operating Loss Carry Forwards because we assessed this amount is collectable as a result of tax scheduling.

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

	2019	2018
Statutory tax rate	30.6%	30.8%
Expenses not deductible for tax purposes	1.8	2.5
Non-taxable dividend income	(1.2)	(1.3)
Effect of tax rate change	—	2.0
Amortization of goodwill	3.0	6.3
Tax credits primarily for research and development costs	(4.3)	(7.5)
Valuation allowance	3.0	(9.1)
Retained earnings on foreign subsidiaries	2.4	(0.6)
Unrealized Gain	4.5	0.4
Other	4.3	4.3
Effective income tax rate	44.1%	27.8%

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)
	2019	2018	*2019*
Buildings and structures	¥ 8,855	¥ 9,422	*$ 79,788*
Land	3,137	3,137	*28,267*
Other	418	445	*3,772*
Total	¥12,411	¥13,005	*$111,828*

The above assets were pledged against the following liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	*2019*
Short-term bank loans	¥1,220	¥1,249	*$10,993*
Current portion of long-term debt	1,618	1,520	*14,584*
Long-term debt	1,563	3,855	*14,087*
Total	¥4,402	¥6,625	*$39,664*

6. Investment Securities

Investment securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	*2019*
Non-current:			
Marketable:			
Marketable equity securities	¥51,083	¥56,678	*$460,255*
Investment trust funds and other	—	—	—
Subtotal	51,083	56,678	*460,255*
Non-marketable securities	1,599	2,116	*14,409*
Total	¥52,683	¥58,794	*$474,664*

The carrying amounts and aggregate fair values of marketable securities for investments as of March 31, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	¥59,013	¥4,163	¥12,092	¥51,083
Debt securities and other	—	—	—	—
Total	¥59,013	¥4,163	¥12,092	¥51,083

	Thousands of U.S. dollars (Note 1)			
	2019			
	Cost	Unrealized gain	Unrealized loss	Fair Value
Available-for-sale securities				
Equity securities	*$531,702*	*$37,508*	*$108,955*	*$460,255*
Debt securities and other	—	—	—	—
Total	*531,702*	*37,508*	*108,955*	*460,255*

	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

Proceeds from sales of securities and gross realized gains or losses on those sales for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	*2019*
Proceeds	¥110	¥4,480	*$999*
Gains on sales	0	736	*0*
Losses on sales	—	—	—

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 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, 2019 and 2018 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		
	2019		
	Book value	Fair value	Difference
Cash and cash equivalents, time deposits	¥129,438	¥129,438	¥ —
Trade notes and accounts receivable, net of allowance for doubtful receivables	147,721	147,721	—
Investment securities	51,083	51,083	—
Assets total	¥328,243	¥328,243	¥ —
Trade notes and accounts payable	¥ 69,646	¥ 69,646	¥ —
Short-term bank loans, current portion of long-term debt, and commercial paper	142,897	142,897	—
Other notes and account payable (*1)	31,169	31,169	—
Long-term debt	360,512	359,397	(1,115)
Convertible bond	25,000	27,537	2,537
Lease obligations (*2)	6,728	6,548	(180)
Liabilities total	¥635,955	¥637,196	¥ 1,241
Delivatives (*3)	¥ (51)	¥ (51)	¥ —

Notes to Consolidated Financial Statements

	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)	¥ —

	Thousands of U.S. dollars (Note 1)		
	2019		
	Book value	Fair value	Difference
Cash and cash equivalents, time deposits	*$1,166,215*	*$1,166,215*	*$ —*
Trade notes and accounts receivable, net of allowance for doubtful receivables	*1,330,946*	*1,330,946*	*—*
Investment securities	*460,255*	*460,255*	*—*
Assets total	*$2,957,416*	*$2,957,416*	*$ —*
Trade notes and accounts payable	*$ 627,504*	*$ 627,504*	*$ —*
Short-term bank loans, current portion of long-term debt, and commercial paper	*1,287,479*	*1,287,479*	*—*
Other notes and account payable (*1)	*280,835*	*280,835*	*—*
Long-term debt	*3,248,157*	*3,238,103*	*(10,053)*
Convertible bond	*225,245*	*248,107*	*22,862*
Lease obligations (*2)	*60,620*	*58,997*	*(1,623)*
Liabilities total	*$5,729,843*	*$5,741,028*	*$ 11,185*
Delivatives (*3)	*$ (461)*	*$ (461)*	*—*

(*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)
	2019	2018	*2019*
Unlisted equity securities	¥10,281	¥6,258	*$92,638*

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)
	2019	2018	*2019*
	Within 1 year	Within 1 year	Within 1 year
Cash and cash equivalents, time deposits	¥129,438	¥141,940	*$1,166,215*
Trade notes and accounts receivable	147,721	139,073	*1,330,946*

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, 2019 are as follows:

	Millions of yen					
	2019					
	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	¥142,897	¥ —	¥ —	¥ —	¥ —	¥ —
Other notes and account payable	—	—	—	—	—	—
Long-term debt	—	55,797	70,203	57,897	33,230	143,382
Convertible bond	—	25,000	—	—	—	—
Lease obligations	1,693	1,231	1,031	565	1,727	477
Total	¥144,591	¥82,029	¥71,235	¥58,463	¥34,958	¥143,860

	Thousands of U.S. dollars (Note 1)					
	2019					
	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	*$1,287,479*	$ —	$ —	$ —	$ —	$ —
Other notes and account payable	—	—	—	—	—	—
Long-term debt	—	*502,727*	*632,525*	*521,649*	*299,402*	*1,291,852*
Convertible bond	—	—	—	—	—	—
Lease obligations	*15,261*	*11,099*	*9,292*	*5,095*	*15,567*	*4,304*
Total	*$1,302,741*	*$513,826*	*$641,817*	*$526,745*	*$314,969*	*$1,296,156*

	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

Notes to Consolidated Financial Statements

8. Derivatives

The Company and its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2019 and 2018.

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

Currency related

		Millions of yen		
		2019		
	Type of Derivative	Contract amount	Over 1 year out-of-contract amount	Fair Value
Transaction other than market transaction	NDF	¥888	¥—	¥3

		Thousands of U.S. dollars (Note 1)		
		2019		
	Type of Derivative	Contract amount	Over 1 year out-of-contract amount	Fair Value
Transaction other than market transaction	NDF	*$8,000*	*$—*	*$29*

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

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 2019 and 2018

(b) Interest related

			Millions of yen		
			2019		
Method of hedge accounting	Type of Derivative	Principal Hedge Item	Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Interest rate swap	Long-term loans	¥ 4,388	¥ 3,828	¥(54)
Exceptional accounting method for interest rate swap	Interest rate swap	Long-term loans	15,000	15,000	(*1)

			Thousands of U.S. dollars (Note 1)		
			2019		
Method of hedge accounting	Type of Derivative	Principal Hedge Item	Contract amount	Over 1 year out-of-contract amount	Fair Value
Principle method	Interest rate swap	Long-term loans	*$ 39,543*	*$ 34,494*	*$(491)*
Exceptional accounting method for interest rate swap	Interest rate swap	Long-term loans	*135,147*	*135,147*	*(*1)*

			Millions of yen		
			2018		
Method of hedge accounting	Type of Derivative	Principal Hedge Item	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)

(*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)
	2019	2018	2019
0.61% unsecured bonds due 2019 (*1)	¥ —	¥ 400	$ —
0.57% unsecured bonds due 2020	3,000	3,000	27,029
	[3,000]	—	[27,029]
0% unsecured bonds due 2021	25,000	25,000	225,245
0.674% unsecured bonds due 2028	10,000	—	90,098
0.021%~0.810% unsecured bonds due from 2017 to 2023 (*1) (*2)	2,000	2,800	18,019
	[600]	[800]	[5,405]
0.33% unsecured bonds due 2018 (*1) (*3)	—	15	—
	—	[15]	—
Long-term bank loans due through 2077, with weighted-average interest rate of 0.5992% for the year ended March 31, 2019, and of 0.6433% for the year ended March 31, 2018	432,606	413,937	3,897,710
Less current portion of long-term debt	(87,093)	(64,635)	(784,700)
Total	¥385,513	¥380,517	$3,473,402

(*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 2014, the Company issued ¥2,000 million (US$18,019 thousand) of 0.61% unsecured bonds due 2019.
In March 2015, the Company issued ¥3,000 million (US$27,029 thousand) of 0.57% unsecured bonds due 2020.
In January 2016, the Company issued ¥25,000 million (US$225.245 thousand) of 0% unsecured bonds due 2021.
In October 2018, the Company issued ¥10,000 million (US$90,098 thousand) of 0.674% unsecured bonds due 2028.
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, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2019	2019
2019	¥ 87,093	$ 784,700
2020	80,797	727,973
2021	70,203	632,525
2022 and thereafter	234,511	2,112,904
Total	¥472,604	$4,258,103

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)
	2019	2018	2019
Obligation at April 1	¥14,544	¥14,184	$131,047
Service cost	1,251	1,089	11,274
Interest cost	94	94	855
Actuarial gains and losses	291	142	2,626
Prior service cost	0	(604)	0
Benefit payments	(631)	(520)	(5,687)
Increasing by change from the simplified method to the principle method	—	165	—
Other (foreign currency translation adjustments, etc.)	(22)	(6)	(200)
Obligation at March 31	¥15,529	¥14,544	$139,916

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)
	2019	2018	2019
Fair value of plan assets at April 1	¥10,177	¥ 9,595	$91,697
Expected return on plan assets	162	164	1,466
Actuarial gains and losses	(126)	136	(1,141)
Company contribution	740	694	6,675
Benefit payments	(430)	(364)	(3,879)
Other (foreign currency translation adjustments, etc.)	(23)	(49)	(212)
Fair value of plan assets at March 31	¥10,500	¥10,177	$94,605

(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)
	2019	2018	2019
Liabilities for retirement benefit at April 1	¥185	¥ 305	$1,674
Retirement benefit cost	21	37	196
Retirement payments	(11)	(13)	(102)
Contribution for the plan	(1)	(4)	(10)
Decreasing by sale of subsidiary shares	(98)	—	(889)
Increasing by change from the simplified method to the principle method	—	(165)	—
Other (foreign currency translation adjustments, etc.)	(23)	25	(215)
Liabilities for retirement benefit at March 31	¥ 72	¥ 185	$ 652

(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)
	2019	2018	2019
Benefit obligation on funded scheme	¥ 13,786	¥ 13,090	$124,216
Plan assets	(10,500)	(10,223)	(94,605)
	3,286	2,867	29,611
Benefit obligations on non-funded scheme	1,814	1,663	16,351
Net assets (liabilities) on the consolidated balance sheet	5,101	4,530	45,963
Net defined benefit liability	5,101	4,530	45,963
Net assets (liabilities) on the consolidated balance sheet	¥ 5,101	¥ 4,530	$ 45,963

(*) 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)
	2019	2018	2019
Service cost	¥1,251	¥1,089	$11,274
Interest cost	94	94	855
Expected return on plan assets	(162)	(164)	(1,466)
Amortization of actuarial gains and losses	233	241	2,102
Amortization of past service obligation	(88)	(3)	(800)
Retirement benefit cost based on the simplified method	21	37	196
Other	4	(7)	37
Total	¥1,353	¥1,286	$12,198

(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)
	2019	2018	2019
Prior service cost	¥ (0)	¥604	$ (0)
Actuarial gains and losses	(371)	295	(3,350)
Total	¥(371)	¥900	$(3,351)

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)
	2019	2018	*2019*
Unrecognized prior service cost	¥ 517	¥ 606	*$ 4,659*
Unrecognized actuarial loss	(824)	(541)	*(7,427)*
Total	¥(307)	¥ 64	*$(2,767)*

(h) Items concerning the pension assets

1. The breakdown of the pension assets

The ratio of the plan assets are as follows:

	2019	2018
Bonds	41%	39%
Equities	23%	23%
General account	30%	32%
Others	6%	6%
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:

	2019	2018
Discount rate	Primarily 0.2%	Primarily 0.3%
Expected long-term rate of return	Primarily 1.5%	Primarily 1.5%
Assumed wage increase rate	Primarily 5.3%	Primarily 5.3%

(2) Defined Contribution Retirement Plans

The amounts of necessary contributions to defined contribution retirement plans within the Company and consolidated subsidiaries were ¥609 million (US$5,488 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)
	2019	2018	*2019*
Liabilities for guarantees			
Export drafts discounted	¥4	¥4	*$40*
Total	¥4	¥4	*$40*

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 ¥4,768 million (US$42,959 thousand) as of March 31, 2019, and its additional paid-in capital, which is included in capital surplus, amounted to ¥635 million (US$5,723 thousand) as of March 31, 2019.

13. 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 pharmaceutical products with containers for combination products (injectable kit 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, glass for lighting and containers for combination products (injectable kit products). Overseas subsidiaries manufacture and sell tube glass and glass mainly for syringes, vials and ampoules for medical use.

From fiscal year ended March 31, 2019, the Company has conducted reorganization for the purpose of doing synthetic PharmaPackaging business and increasing synergy for Pharmaceutical-Related business. As a result of this reorganization, some business divisions included in Pharmaceutical-Related business were changed to PharmaPackaging business.

The presentation for the prior fiscal year is not restated.

Notes to Consolidated Financial Statements

Business segment information for the years ended March 31, 2019 and 2018 was as follows:

Millions of yen

2019

	Reportable Segment				Other (*1)	Total	Adjustment (*2)	Consolidated financial statements
	Medical-Related	Pharmaceutical-Related	PharmaPackaging	Total				
Net sales:								
Outside	¥327,359	¥ 63,482	¥35,526	¥426,368	¥ 31	¥426,399	¥ —	¥426,399
Intersegment	6,724	18,311	5,099	30,135	1,463	31,598	(31,598)	—
Total	334,083	81,793	40,625	456,503	1,494	457,997	(31,598)	426,399
Operating income (loss)	36,722	10,662	778	48,162	146	48,309	(24,482)	23,827
Identifiable assets	428,943	172,691	74,521	676,155	3,815	679,970	165,850	845,821
Other items								
Depreciation and amortization	15,931	11,646	3,712	31,289	165	31,455	3,796	35,252
Amortization of goodwill	3,036	0	335	3,372	—	3,372	—	3,372
Increase in tangible and intangible fixed assets	¥ 25,208	¥ 21,138	¥ 6,488	¥ 52,835	¥ 757	¥ 53,592	¥ 10,802	¥ 64,394

Thousands of U.S. dollars (Note 1)

2019

	Reportable Segment				Other (*1)	Total	Adjustment (*2)	Consolidated financial statements
	Medical-Related	Pharmaceutical-Related	PharmaPackaging	Total				
Net sales:								
Outside	*$2,949,451*	*$ 571,962*	*$320,089*	*$3,841,504*	*$ 279*	*$3,841,783*	*$ —*	*$3,841,783*
Intersegment	*60,583*	*164,984*	*45,944*	*271,511*	*13,181*	*284,693*	*(284,693)*	*—*
Total	*3,010,035*	*736,946*	*366,033*	*4,113,016*	*13,461*	*4,126,477*	*(284,693)*	*3,841,783*
Operating income (loss)	*330,865*	*96,064*	*7,010*	*433,939*	*1,320*	*435,260*	*(220,581)*	*214,679*
Identifiable assets	*3,864,701*	*1,555,917*	*671,421*	*6,092,040*	*34,373*	*6,126,413*	*1,494,285*	*7,620,699*
Other items								
Depreciation and amortization	*143,539*	*104,928*	*33,448*	*281,916*	*1,491*	*283,408*	*34,208*	*317,616*
Amortization of goodwill	*27,360*	*—*	*—*	*27,360*	*—*	*27,360*	*—*	*30,387*
Increase in tangible and intangible fixed assets	*$ 227,119*	*$ 190,458*	*$ 58,456*	*$ 476,034*	*$ 6,822*	*$ 482,856*	*$ 97,328*	*$ 580,185*

Notes to Consolidated Financial Statements

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

(*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, 2019 and 2018 include ¥(2,380) million (US$(21,444) thousand) and ¥(704) million of adjustment for unrealized gain and ¥(22,102) million (US$(199,136) thousand) and ¥(20,601) 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, 2019 and 2018 include ¥(15,637) million (US$(140,894) thousand) and ¥(9,114) million of elimination of inter-segment transaction and ¥181,488 million (US$1,635,180 thousand) and ¥180,162 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, 2019 and 2018 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

	2019						
	Reportable Segment						
	Medical-Related	Pharmaceutical-Related	Pharma-Packaging	Total	Other	Adjustment (*3)	Total
Loss on impairment of fixed assets	¥ 2	¥—	¥913	¥ 915	¥—	¥—	¥ 915
Unamortized balance of goodwill	18,481	—	845	19,327	—	—	19,327

Thousands of U.S. dollars (Note 1)

	2019						
	Reportable Segment						
	Medical-Related	Pharmaceutical-Related	Pharma-Packaging	Total	Other	Adjustment (*3)	Total
Loss on impairment of fixed assets	*$ 24*	*$—*	*$8,227*	*$ 8,252*	*$—*	*$—*	*$ 8,252*
Unamortized balance of goodwill	*166,517*	*—*	*7,620*	*174,137*	*—*	*—*	*174,137*

(*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

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

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

Millions of yen

	2019				
	Japan	Americas	Europe	Asia	Total
Net sales	¥260,967	¥59,836	¥51,042	¥54,552	¥426,399
Property, plant and equipment	189,571	10,998	21,801	62,110	284,483

Thousands of U.S. dollars (Note 1)

	2019				
	Japan	Americas	Europe	Asia	Total
Net sales	*$2,351,272*	*$539,112*	*$459,886*	*$491,512*	*$3,841,783*
Property, plant and equipment	*1,708,009*	*99,098*	*196,426*	*559,607*	*2,563,141*

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

Notes to Consolidated Financial Statements

14. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	*2019*
Salaries	¥20,115	¥20,111	*$181,236*

15. Research and Development Expenses

Research and development expenses for the years ended March 31, 2019 and 2018 were ¥16,526 million (US$148,900 thousand) and ¥16,113 million, respectively.

16. Impairment Loss

In the years ended March 31, 2019 and 2018, the Company and its consolidated subsidiaries recorded impairment loss of ¥915 million (US$8,252) and ¥2,216 million, respectively.

The following table presents the major impaired assets.

			Millions of yen	Thousands of U.S. dollars (Note 1)
			2019	*2019*
Purpose of use	Location	Type of assets	Amount	Amount
Business use	Anyang Nipro Changda Pharmaceutical Packaging Co., Ltd.	Buildings and structures, Machinery and equipment	¥552	*$4,976*
Business use	Jilin Nipro Jiaheng Pharmaceutical Packaging Co., Ltd.	Buildings and structures, Machinery and equipment	335	*3,024*

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
			2018
Purpose of use	Location	Type of assets	Amount
Business use	Nipro PharmaPackaging France S.A.S.	Goodwill	¥810
Business use	Nipro PharmaPackaging India Private Limited	Construction in progress, Machinery and equipment and others	450
Business use	Nipro Pharma Glass AG	Goodwill	353
Business use	Nipro PharmaPackaging Ural LLC	Buildings and structures, Construction in progress and others	261

Notes to Consolidated Financial Statements

17. 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)
	2019	2018	2019
Cash paid during the year for:			
Interest	¥3,211	¥3,299	$28,935
Income tax	8,175	7,329	73,662

18. Other

Material Litigation

In February 2018, Trividia Health, Inc. (hereinafter, 'THI') filed a request for arbitration at the International Court of Arbitration of the International Chamber of Commerce, seeking a decision on THI being able to claim damages due to a loss of product sales if the Company's purchase volume did not reach the annual minimum purchase volume in the third to fifth years of the International Distributor Agreement executed between the Company and THI in October 2015, in which a minimum annual purchase obligation was imposed for each year of the 5-year agreement period. In March 2019, THI notified the Company of the termination of the agreement, citing failure to fulfil the third year's minimum purchase obligation imposed in such agreement. In addition, in May 2019, THI, attributing the termination of the agreement to the Company's failure to purchase the minimum purchase obligation for the third year, made an additional claim for damages for estimated losses due to unfulfillment of the minimum purchase obligation for the third to fifth years of the agreement and abuse of trademark rights held by THI owing to the Company's violation of the agreement.

The Company considers both claims and requests to have no justifiable reasons and will insist on the legitimacy of our Company in the arbitration procedure.

Financial/Data Section

Corporate Information

(As of March 31, 2019)

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	3,893
Consolidated subsidiaries	25,432
Total	29,325

Common Stock

Authorized	400,000,000 shares
Issued	171,459,479 shares
Outstanding	163,097,623 shares
Number of Shareholders	56,566

Stock Listings

Tokyo Stock Exchange, First Section
Ticker Code: 8086

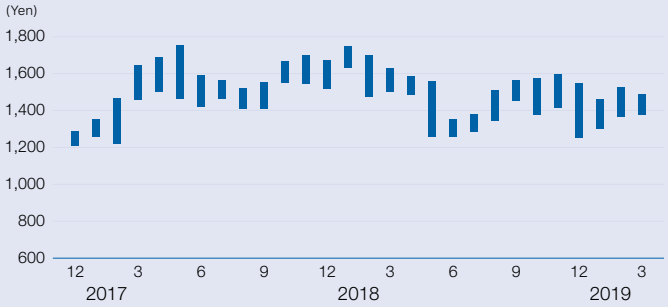
Transfer Agent

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.	20,225	12.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,565	5.25
Japan Trustee Services Bank, Ltd. (Trust Account)	8,113	4.97
Resona Bank Limited	4,414	2.71
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,714	1.66
SSBTC CLIENT OMNIBUS ACCOUNT	2,548	1.56
Japan Post Insurance Co., Ltd.	2,322	1.42
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,246	1.38
Kazumi Sano	1,910	1.17
JP Morgan Chase Bank 385151	1,833	1.12
Total	54,895	33.66

Stock Price Range (Tokyo Stock Exchange)



Major Group Companies (As of June 30, 2019)

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 Co., Ltd.	Manufacturing and marketing of pharmaceuticals
		Cell Science & Technology Institute, Inc.	Development and manufacturing of cell culture media
		NexMed International Co., Ltd.	Development, manufacturing and marketing 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 (China) Holdings Co., Ltd.	Business management
		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
		Infraredx, Inc.	Development, manufacturing and marketing of medical devices
	Canada	CardioMed Supplies INC.	Manufacturing and marketing of medical devices
	Belgium	Nipro Europe Group Companies N.V.	Business management
		Nipro Medical 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