

(English Translation)

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2015 (under Japan GAAP)

August 11, 2014

Company name: Nichi-Iko Pharmaceutical Co., Ltd. Stock exchange listings:
Tokyo Stock Exchange

Securities code: 4541 (URL <http://www.nichiiko.co.jp/>)

Representative: Yuichi Tamura
President and CEO

Contact: Noboru Inasaka Tel: 076-432-2121
Managing Executive Officer and
Director, General Manager of
Management Division

Scheduled date of filing of quarterly report: August 13, 2014

Scheduled date of commencement of dividend payment: -

Presentation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial presentation meeting: No

(Note that all amounts have been rounded down to the nearest one million yen.)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2015 (From April 1, 2014 to June 30, 2014)

(1) Consolidated Results of Operations (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Net sales	Operating income	Ordinary income	Net income
First quarter of fiscal year ending March 31, 2015	¥30,400 million (23.6%)	¥2,593 million (17.2%)	¥2,549 million (12.6%)	¥1,913 million (55.1%)
First quarter of fiscal year ended March 31, 2014	¥24,587 million (6.3%)	¥2,213 million (4.9%)	¥2,263 million (3.3%)	¥1,233 million (-3.3%)

(Note)

Comprehensive income:

First Quarter of Fiscal Year Ending March 31, 2015: 2,210 million yen (65.9%)

First Quarter of Fiscal Year Ended March 31, 2014: 1,332 million yen (6.3%)

	Net income per share	Net income (fully diluted) per share
First quarter of fiscal year ending March 31, 2015	¥32.01	¥31.99
First quarter of fiscal year ended March 31, 2014	¥30.95	¥30.93

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
First quarter of fiscal year ending March 31, 2015	¥125,513 million	¥67,726 million	53.9%	¥1,137.18
Fiscal year ended March 31, 2014	¥129,130 million	¥66,195 million	51.2%	¥1,112.19

(Reference)

Equity:

First Quarter of Fiscal Year Ending March 31, 2015: 67,641 million yen

Fiscal Year Ended March 31, 2014: 66,115 million yen

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2014	¥-	¥16.00	¥-	¥12.30	¥28.30
Fiscal year ending March 31, 2015	¥-				
Fiscal year ending March 31, 2015 (forecast)		¥12.30	¥-	¥14.30	¥26.60

(Note)

Revisions to recently announced dividends forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2015 (From April 1, 2014 to March 31, 2015)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
Second quarter (cumulative total)	¥59,200 million (19.5%)	¥4,000 million (7.6%)	¥3,800 million (5.2%)	¥2,500 million (11.4%)	¥41.81
Annual	¥123,000 million (18.7%)	¥9,300 million (25.9%)	¥9,000 million (27.0%)	¥5,900 million (28.6%)	¥98.68

(Note)

Revisions to recently announced forecast of financial results: None

***Notes**

- (1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): None

(Note)

For details, please refer to "(1) Changes in Significant Subsidiaries during the Consolidated Cumulative Quarter under Review" in "2. Matters Related to Summary Information (Notes)" on page 3 of the Attachment.

- (2) Application of accounting treatment specific to preparation of quarterly consolidated financial statements: Applicable

(Note)

For details, please refer to "(2) Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements" in "2. Matters Related to Summary Information (Notes)" on page 3 of the Attachment.

- (3) Changes in accounting policies and changes in accounting estimates and restatement of prior period financial statements after error corrections

- | | |
|--|-----|
| (i) Changes in accounting policies due to revisions to accounting standards and other regulations, etc.: | Yes |
| (ii) Changes in accounting policies due to other reasons: | Yes |
| (iii) Changes in accounting estimates: | Yes |
| (iv) Restatements of prior period financial statements after error corrections: | No |

(Note)

For details, please refer to "(3) Changes in Accounting Policies and Changes in Accounting Estimates and Restatement of Prior Period Financial Statements after Error Corrections" in "2. Matters Related to Summary Information (Notes)" on page 3 of the Attachment.

- (4) Total number of issued shares (common stock)

- | | |
|---|-------------------|
| (i) Total number of issued shares as of the end of the period (including treasury stock): | |
| As of June 30, 2014: | 60,662,652 shares |
| As of March 31, 2014: | 60,662,652 shares |
| (ii) Number of treasury stock as of the end of the period: | |
| As of June 30, 2014: | 1,064,117 shares |
| As of March 31, 2014: | 1,081,597 shares |
| (iii) Average number of shares during the period (cumulative quarter): | |
| First quarter of fiscal year ending March 31, 2015 | 59,787,195 shares |
| First quarter of fiscal year ended March 31, 2014 | 39,852,913 shares |

(Note)

Number of treasury stock as of the end of the period includes shares held by Employee Shareholding Incentive Plan.

*** Presentation of implementation status for quarterly review procedures**

This quarterly financial summary is not included in quarterly review procedures under the Financial Instruments and Exchange Act. The reviewing procedures for quarterly consolidated financial statements under the Financial Instruments and Exchange Act have not been completed at the time of release of this quarterly financial summary.

*** Explanation on the appropriate usage of forecast of financial results, and other specific matters**

(Considerations on forward-looking statements)

1. The forward-looking statements including forecast of financial results contained in these materials are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. As such, they do not constitute the Company's guarantee that such results would be achieved. Actual business and other results may differ substantially from the forecasts provided in these materials as a result of various factors. For a description of the conditions underlying the forecast of financial results and considerations on usage of forecast of financial results, please refer to "*(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements*" in "*1. Qualitative Information on Financial Results for the Quarter under Review*" on page 2 of the Attachment.
2. Supplementary materials for financial results will be provided on the website of the Company on Monday, August 11, 2014.

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1. Qualitative Information on Financial Results for the Quarter under Review

(1) Explanation on Operating Results

The Japanese economy during the first quarter consolidated cumulative period showed a general trend of moderate economic improvement, although there continued to be concerns about a recoil from the last-minute demand preceding the rise in consumption tax.

In the pharmaceuticals industry, with the revision to drug prices being implemented in April 2014, and the revisions to the system simultaneously implemented have further spurred the promotion of the use of generic drugs through such means as increasing the points for the generic drug dispensing incentives and adding generic drug share by volume as a new coefficient to the function evaluation coefficient II for evaluation of hospitals with the DPC payment system.

Given this environment, the company began operation of the Shizuoka Plant of its subsidiary, Nichi-Iko Pharma Tech Co., Ltd. with the aim of establishing a system for producing 10 billion tablets and 90 million injections in order to reach the target of generic drugs accounting for 60% of the volume of drugs by the end of March 2018 as set forth in the Roadmap for Promotion of Use of Generic Pharmaceuticals announced by the Ministry of Health, Labor and Welfare. Along with this, we performed an interim revision of the 6th Medium-term Business Plan "Pyramid" based on changes in the environment surrounding the Company and promotion of the Group's business such as acceleration of the promotion of the biosimilar business and acceleration of overseas expansion, and are aiming for net sales of 137.2 billion yen and operating income of 12.5 billion yen in the year ending March 2016, which is the final year of the plan.

Also, with respect to the products listed on the supplemental official drug list of June 2014, the Company started the distribution of high-volume listing Valsartan Tablets 20mg "Nichiiko", 40mg "Nichiiko", 80mg "Nichiiko" and 160mg "Nichiiko", Losarhyd LD "Nichiiko", Zoledronic Acid Injection 4mg/100mL Bag "Nichiiko" and Injection 4mg/5mL "Nichiiko", DECADRON Tablets 4mg, Pramlukast Capsules 225mg "Nichiiko", Atorvastatin Tablets 20mg "Nichiiko" and Tocopherol Nicotinate Capsules 200mg "Nichiiko".

Consequently, the results of the first quarter consolidated cumulative period showed increased revenue and earnings with net sales of 30,400 million yen (23.6% increase from the same period of the previous fiscal year), operating income of 2,593 million yen (17.2% increase from the same period of the previous fiscal year), ordinary income of 2,549 million yen (12.6% increase from the same period of the previous fiscal year), net income of 1,913 million yen (55.1% increase from the same period of the previous fiscal year).

(2) Explanation on Financial Position

As of the end of this first quarter under review, total assets decreased 3,616 million yen from the previous fiscal year-end and ran up to 125,513 million yen. This was attributable to cash and deposits decreasing by 13,088 million yen, inventories increasing by 2,546 million yen, buildings and structures by 2,107 million yen, land by 1,667 million yen, machinery and equipment by 949 million yen, and notes and accounts receivable by 800 million yen.

Liabilities decreased by 5,147 million yen from the previous fiscal year-end and ran up to 57,787 million yen. This was due loans payable decreasing by 10,077 million yen, notes and accounts payable increasing by 2,358 million yen, accrued expenses by 1,132 million and electronically recorded debts by 975 million yen.

Net assets increased by 1,531 million yen to 67,726 million yen due to retained earnings increasing by 1,199 million yen and valuation difference on available-for-sale securities increasing by 373 million yen.

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements

There is no change to the forecast of consolidated financial results announced on May 12, 2014.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Consolidated Cumulative Quarter under Review

Nichi-Iko Pharma Tech Co., Ltd. was included in the scope of consolidation due to stock acquisition which took place in the first quarter consolidated cumulative period.

(2) Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements

Tax expenses are calculated by multiplying the net income for the term before provision for income taxes by an estimated effective tax rate that is reasonably estimated after applying tax effect accounting to the net income before provision for income taxes for the consolidated fiscal year including the first quarter under review.

Income taxes - deferred are included in total income taxes and recorded.

(3) Changes in Accounting Policies and Changes in Accounting Estimates and Restatement of Prior Period Financial Statements after Error Corrections

(Changes in accounting policies)

(Application of Accounting Standard for Retirement Benefits)

The Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012. Hereafter, "Retirement Benefits Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012. Hereafter, "Guidance on Retirement Benefits") have been applied to the language in Paragraph 35 of the Retirement Benefits Accounting Standard and the language in Paragraph 67 of the Guidance on Retirement Benefits from the first quarter consolidated period, revising the method for recognizing retirement benefit obligations and service costs to change the method of calculating the period of attribution of projected retirement benefits from being based on a fixed amount for the period to being based on the calculation of benefits, and changing the method for determining the discount rate from a method based on the approximated average number of years of service remaining to a method using a single weighted average discount rate reflecting the projected payment period for retirement benefits and the amount for each projected payment period.

The application of the Retirement Benefit Accounting Standard and the related Guidance adhere to the staged application stipulated in Paragraph 37 of the Retirement Benefit Accounting Standard, and adjustments for the impact resulting from the changes in the method of calculating retirement benefit obligations and service costs were taken into account in retained earnings at the start of the first quarter consolidated period.

As a result, net defined benefit liability decreased by 28 million yen at the start of the first quarter consolidated period, and retained earnings increased by 18 million yen. Furthermore, the impact of the change on operating income, ordinary income and net income before provision for income taxes during the first quarter consolidated period is minimal.

(Application of Handling of Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

The Company applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Solution No. 30, December 25, 2013) from the first quarter consolidated period. Accounting pertaining to the trust agreement concluded before the start of the first year the Practical Solution was applied has no impact on the quarterly consolidated financial statements due to application of the Practical Solution as a result of the continuation of the existing method in accordance with the staged application stipulated in Paragraph 20 of the Practical Solution.

(Change in the Method of Depreciation of Property, Plant and Equipment)

In the past, the Company and its consolidated subsidiaries primarily used the declining balance method as the method of depreciation of property, plant and equipment (however, the straight-line method was used for buildings (excluding accompanying facilities) acquired on or after April 1, 1998), but this was changed to the straight-line method from the first quarter consolidated period.

Accordingly, as a result of consideration of the use of property, plant and equipment by the Group due to the full-scale implementation of the capital investment plan included in the four-year medium-term business plan "Pyramid" announced by the Group in March 2012, new investment and strengthening of property, plant and equipment was confirmed to contribute to more stable operation because property, plant and equipment is generally operated stably in the Group and the products manufactured thereby bring about stable earnings in the long term. Therefore, allocation of expenses by amortization by straight-line method over the useful life was deemed to reflect the Group's actual usage of property, plant and equipment more accurately, and a decision was made to change to the straight-line method from the first quarter consolidated period.

As a result, operating income, ordinary income and net income before provision for income taxes in the first quarter consolidated period each increased by 180 million yen.

3. Quarterly Consolidated Financial Statements
 (1) Quarterly Consolidated Balance Sheet

	(in millions of yen)	
	Fiscal year ended March 31, 2014 (as of March 31, 2014)	First quarter of fiscal year ending March 31, 2015 (as of June 30, 2014)
Assets		
Current assets		
Cash and deposits	21,695	8,607
Notes and accounts receivable	27,857	28,657
Securities	1	1
Merchandise and finished goods	19,480	20,934
Work in process	5,985	5,790
Raw materials and supplies	7,183	8,470
Deferred tax assets	522	520
Other current assets	909	995
Allowance for doubtful accounts	(63)	(61)
Total current assets	<u>83,572</u>	<u>73,917</u>
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,818	16,925
Machinery and equipment, net	6,963	7,913
Tools, furniture and fixtures, net	711	914
Land	4,439	6,107
Lease assets, net	1,894	2,191
Construction in progress	922	160
Total property, plant and equipment	<u>29,750</u>	<u>34,213</u>
Intangible assets		
Goodwill	1,287	1,235
Lease assets	519	466
Other intangible assets	1,755	2,942
Total intangible assets	<u>3,563</u>	<u>4,644</u>
Investments and other assets		
Investment securities	8,568	9,182
Long-term loans receivable	1,932	1,992
Deferred tax assets	488	263
Other assets	1,401	1,508
Allowance for doubtful accounts	(147)	(209)
Total investments and other assets	<u>12,244</u>	<u>12,738</u>
Total fixed assets	<u>45,558</u>	<u>51,596</u>
Total assets	<u>129,130</u>	<u>125,513</u>

	(in millions of yen)	
	Fiscal year ended March 31, 2014 (as of March 31, 2014)	First quarter of fiscal year ending March 31, 2015 (as of June 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable	12,996	15,354
Electronically recorded debts	9,939	10,915
Short-term loans payable	11,856	2,650
Current portion of long-term loans payable	3,512	3,512
Lease debts	966	1,029
Other payable	5,078	5,121
Accrued expenses	473	1,605
Income taxes payable	729	934
Deposits payable	59	209
Allowance for sales returns	85	78
Allowance for bonuses	558	243
Other current liabilities	465	359
Total current liabilities	<u>46,721</u>	<u>42,015</u>
Fixed liabilities		
Long-term loans payable	10,975	10,103
Lease debts	1,616	1,828
Deferred tax liabilities	13	192
Deferred tax liabilities for land revaluation	255	255
Net defined benefit liability	3,290	3,315
Asset retirement obligations	55	72
Other fixed liabilities	7	6
Total fixed liabilities	<u>16,213</u>	<u>15,772</u>
Total liabilities	<u>62,935</u>	<u>57,787</u>
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,678	18,676
Retained earnings	28,061	29,260
Treasury stock	(1,753)	(1,721)
Deposit on subscriptions to treasury stock	0	-
Total shareholders' equity	<u>64,962</u>	<u>66,191</u>
Other comprehensive income		
Valuation difference on available-for-sale securities	161	534
Revaluation reserve for land	297	297
Foreign currency translation adjustment	792	709
Accumulated adjustments in retirement benefits	(97)	(91)
Total other comprehensive income	<u>1,153</u>	<u>1,450</u>
Stock acquisition rights	<u>79</u>	<u>84</u>
Total net assets	<u>66,195</u>	<u>67,726</u>
Total liabilities and net assets	<u>129,130</u>	<u>125,513</u>

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

(Quarterly Consolidated Statements of Income)

(First Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First quarter of previous fiscal year (from April 1, 2013 to June 30, 2013)	First quarter of current fiscal year (from April 1, 2014 to June 30, 2014)
Net sales	24,587	30,400
Cost of sales	15,066	19,199
Gross profit	9,521	11,200
Allowance for sales returns	19	-
Reversal of allowance for sales returns	-	7
Gross profit, net	9,502	11,207
Selling, general and administrative expenses	7,288	8,614
Operating income	2,213	2,593
Non-operating income		
Interest income	3	7
Dividends income	14	18
Foreign exchange gains	5	61
Income from subsidiaries	60	0
Others	75	51
Total non-operating income	159	140
Non-operating expenses		
Interest payment	32	30
Commissions paid	10	10
Loss on sales of accounts receivables	22	32
Equity in losses of affiliates	34	101
Others	9	9
Total non-operating expenses	109	184
Ordinary income	2,263	2,549
Extraordinary income		
Gains on negative goodwill	-	270
Gain on sales of fixed assets	0	-
Total extraordinary income	0	270
Extraordinary loss		
Loss on disposal of fixed assets	0	0
Impairment loss	310	-
Total extraordinary loss	310	0
Net income before provision for income taxes	1,952	2,818
Income taxes	719	904
Income before minority interests	1,233	1,913
Net income	1,233	1,913

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First quarter of previous fiscal year (from April 1, 2013 to June 30, 2013)	First quarter of current fiscal year (from April 1, 2014 to June 30, 2014)
Income before minority interests	1,233	1,913
Other comprehensive income		
Valuation difference on available-for-sale securities	10	388
Adjustments in retirement benefits	-	6
Share of other comprehensive income of affiliates accounted for using equity method	88	(97)
Total other comprehensive income	99	297
Comprehensive income	1,332	2,210
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	1,332	2,210
Comprehensive income attributable to minority interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on premise of going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.