

(English Translation)

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2017 (under Japan GAAP)

August 8, 2016

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
Board of Senior Director, Head of
Administrative Division

Scheduled date of filing of quarterly report: August 12, 2016

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, 2017 (From April 1, 2016 to June 30, 2016)

(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 attributable to shareholders of the parent company
First quarter of fiscal year ending March 31, 2017	¥38,029 million (8.5%)	¥3,036 million (-4.2%)	¥2,526 million (-21.9%)	¥2,000 million (-12.8%)
First quarter of fiscal year ended March 31, 2016	¥35,049 million (15.3%)	¥3,169 million (22.2%)	¥3,234 million (26.9%)	¥2,295 million (20.0%)

(Note)

Comprehensive income:

First Quarter of Fiscal Year Ending March 31, 2017: 1,912 million yen (-54.2%)

First Quarter of Fiscal Year Ended March 31, 2016: 4,175 million yen (88.9%)

	Net income per share	Net income (fully diluted) per share
First quarter of fiscal year ending March 31, 2017	¥34.69	¥34.59
First quarter of fiscal year ended March 31, 2016	¥38.39	¥38.32

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
First quarter of fiscal year ending March 31, 2017	¥155,640 million	¥76,543 million	48.9%	¥1,337.12
Fiscal year ended March 31, 2016	¥161,128 million	¥82,597 million	51.1%	¥1,377.53

(Reference)

Equity:

First Quarter of Fiscal Year Ending March 31, 2017: 76,157 million yen

Fiscal Year Ended March 31, 2016: 82,336 million yen

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2016	¥-	¥13.30	¥-	¥16.70	¥30.00
Fiscal year ending March 31, 2017	¥-				
Fiscal year ending March 31, 2017 (forecast)		¥15.00	¥-	¥15.00	¥30.00

(Notes)

1. Revisions to recently announced dividends forecast: None

2. Breakdown of Year-end Dividends for Fiscal Year Ended March 31, 2016:

Ordinary dividend, 13.30 yen

Bonus dividend, 3.40 yen

**3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017
(From April 1, 2016 to March 31, 2017)**

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

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company	Net income per share
Second quarter (cumulative total)	¥75,000 million (8.7%)	¥6,000 million (3.2%)	¥6,000 million (16.8%)	¥4,000 million (10.7%)	¥69.70
Annual	¥159,000 million (10.8%)	¥14,200 million (10.0%)	¥14,200 million (15.5%)	¥9,000 million (-18.4%)	¥157.34

(Note)

Revisions to recently announced forecast of financial results: None

(Note)

For details, 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 3 of the Attachment.

***Notes**

(1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): No

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

(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.: No

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(iv) Restatements of prior period financial statements after error corrections: No

(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, 2016: 60,662,652 shares
 - As of March 31, 2016: 60,662,652 shares
- (ii) Number of treasury shares as of the end of the period:
 - As of June 30, 2016: 3,697,900 shares
 - As of March 31, 2016: 880,204 shares
- (iii) Average number of shares during the period (cumulative quarter):
 - First quarter of fiscal year ending March 31, 2017: 57,685,385 shares
 - First quarter of fiscal year ended March 31, 2016: 59,796,983 shares

(Note)

Number of treasury shares as of the end of the period includes shares held by the 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 3 of the Attachment.
2. The impact of the acquisition of U.S.-based Sagent Pharmaceuticals, Inc. announced on July 11, 2016 has not been included in the forecast of consolidated financial results. If it is necessary to revise the forecast of results due to the acquisition, notification will be promptly provided after the acquisition is completed and the accounting associated with the acquisition is finalized.
3. Supplementary materials for financial results will be provided on the website of the Company on Monday, August 8, 2016.

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

(1) Explanation on Operating Results

In the consolidated cumulative first quarter under review, there has been a growing sense of uncertainty concerning the global economy due to the slowing of growth in emerging economies such as China and the exit of the United Kingdom from the EU. Although there is some positive information about the Japanese economy such as an improvement in the employment situation and the firming of capital investment, some have voiced concerns about the future partially due to the ongoing appreciation of yen.

In the pharmaceuticals industry, the National Health Insurance (NHI) drug price scheme underwent a revision in April 2016. On the other hand, the use of generic drugs is being promoted with the implementation of measures including the revisions of Generic Drugs Index in Functional Evaluation Coefficient II for DPC hospitals and indicators of Premiums for Constructing Systems for Generic Use with the aim of increasing the share of generic drugs to 80% or more by volume as early as possible between FY2018 and FY2020.

Under such circumstances, in May 2016, the Company formulated the 7th Medium-term Business Plan "Obelisk" covering the three-year period from April 2016 to March 2019. It presents a vision of "Use our creativity to establish a commanding presence and expand in the global marketplace" with three basic strategies: "Expansion" to grow domestic market share to 15%, "Production" to lift annual production capacity to 18.5 billion premium quality tablets, and "Development" to turn to the U.S. market to develop the new business field of biosimilar products.

Furthermore, in July, the Company concluded an agreement with U.S.-based Sagent Pharmaceuticals, Inc. to acquire the company as a milestone in the expansion of development by securing a platform for entry into the U.S. generic drugs market and establishing a presence in injectable drugs.

The Company commenced sales of the supplementary items listed in June 2016, including Olanzapine OD tablets 5mg "Nichiiko" and 10mg "Nichiiko," Cilostazol OD tablets 50mg "Nichiiko" and 100mg "Nichiiko" with improvements in distinguishability; and Olanzapine Tablets 2.5mg "Nichiiko," 5mg "Nichiiko" and 10mg "Nichiiko," Bicalutamide OD tablets 80mg "Nichiiko," and Amvalo combination OD tablets "Nichiiko" with improvements in convenience.

Profits during the first quarter were lower on year-on-year basis due to the impact of NHI price revisions and increased expenses, but an effort is being made to further improve performance in the first year of the 7th Medium-term Business Plan in which we aim to become a Global Top 10 Generic Pharmaceutical Company.

As a result, the first quarter consolidated cumulative period showed increased revenue and decreased earnings with net sales of 38,029 million yen (8.5% increase year-on-year), operating income of 3,036 million yen (4.2% decrease year-on-year), ordinary income of 2,526 million yen (21.9% decrease year-on-year), and net income attributable to shareholders of the parent company of 2,000 million yen (12.8% decrease year-on-year).

(2) Explanation on Financial Position

As of the end of the first quarter under review, total assets on a consolidated basis decreased by 5,487 million yen from the previous fiscal year-end to 155,640 million yen. This was mainly attributable to cash and deposits decreasing by 9,716 million yen, raw materials and supplies increasing by 2,211 million yen, and merchandise and finished goods increasing by 1,567 million yen. Liabilities on a consolidated basis increased by 566 million yen from the previous fiscal year-end and ran up to 79,097 million yen. This was mainly attributable to notes and accounts payable increasing by 3,013 million yen, accrued expenses increasing by 1,569 million yen, and income taxes payable decreasing by 2,977 million yen. Net assets on a consolidated basis decreased by 6,054 million yen from the previous fiscal year-end to 76,543 million yen mainly due to the purchase of 7,000 million yen of treasury stock.

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

On July 11, 2016, the Company announced the conclusion of an acquisition agreement with U.S.-based Sagent Pharmaceuticals, Inc.; however the impact on consolidated financial results has not been included in this forecast. If it is necessary to revise the forecast of results due to the acquisition, notification will be promptly released after the acquisition is completed and the accounting associated with the acquisition is finalized.

2. Matters Related to Summary Information (Notes)

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

Not applicable.

Although it does not fall under changes in specified subsidiaries, NIXS Corporation has been included in the scope of consolidation from the first quarter due to its increased significance.

(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) Additional Information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) has been applied from the first quarter under review.

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

	(in millions of yen)	
	Fiscal year ended March 31, 2016 (as of March 31, 2016)	First quarter of fiscal year ending March 31, 2017 (as of June 30, 2016)
Assets		
Current assets		
Cash and deposits	28,179	18,462
Notes and accounts receivable	25,217	25,367
Electronically recorded monetary claims	919	1,246
Merchandise and finished goods	26,092	27,659
Work in process	9,177	9,426
Raw materials and supplies	10,071	12,283
Deferred tax assets	1,458	1,445
Other current assets	2,240	1,731
Allowance for doubtful accounts	(1,731)	(1,737)
Total current assets	101,624	95,886
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	17,734	18,213
Machinery and equipment, net	9,890	10,181
Tools, furniture and fixtures, net	1,183	1,340
Land	6,299	6,299
Lease assets, net	1,940	1,801
Construction in progress	1,739	1,576
Total property, plant and equipment	38,786	39,413
Intangible assets		
Goodwill	634	591
Lease assets	237	218
Marketing rights	2,760	2,684
Other intangible assets	2,847	3,087
Total intangible assets	6,479	6,582
Investments and other assets		
Investment securities	8,700	8,541
Long-term loans receivable	4,619	4,218
Deferred tax assets	490	564
Other assets	514	514
Allowance for doubtful accounts	(89)	(81)
Total investments and other assets	14,237	13,758
Total fixed assets	59,503	59,754
Total assets	161,128	155,640

	(in millions of yen)	
	Fiscal year ended March 31, 2016 (as of March 31, 2016)	First quarter of fiscal year ending March 31, 2017 (as of June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable	15,993	19,006
Electronically recorded debts	14,200	15,094
Short-term loans payable	14,720	14,750
Current portion of long-term loans payable	3,781	3,684
Lease debts	942	905
Other payable	6,959	7,166
Accrued expenses	669	2,239
Income taxes payable	3,813	836
Deposits payable	1,520	1,426
Allowance for sales returns	47	41
Allowance for bonuses	1,128	292
Other current liabilities	485	267
Total current liabilities	<u>64,262</u>	<u>65,711</u>
Fixed liabilities		
Long-term loans payable	9,047	8,239
Lease debts	1,417	1,279
Deferred tax liabilities	112	115
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,413	3,475
Asset retirement obligations	54	55
Other fixed liabilities	1	1
Total fixed liabilities	<u>14,267</u>	<u>13,385</u>
Total liabilities	<u>78,530</u>	<u>79,097</u>
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,796	18,808
Retained earnings	42,589	43,419
Treasury stock	(1,397)	(8,337)
Deposit on subscriptions to treasury stock	0	0
Total shareholders' equity	<u>79,964</u>	<u>73,866</u>
Other comprehensive income		
Valuation difference on available-for-sale securities	1,269	1,290
Revaluation reserve for land	333	333
Foreign currency translation adjustment	897	791
Accumulated adjustments in retirement benefits	(127)	(123)
Total other comprehensive income	<u>2,371</u>	<u>2,291</u>
Stock acquisition rights	260	385
Total net assets	<u>82,597</u>	<u>76,543</u>
Total liabilities and net assets	<u>161,128</u>	<u>155,640</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, 2015 to June 30, 2015)	First quarter of current fiscal year (from April 1, 2016 to June 30, 2016)
Net sales	35,049	38,029
Cost of sales	21,929	23,948
Gross profit	13,120	14,080
Reversal of allowance for sales returns	16	5
Gross profit, net	13,137	14,085
Selling, general and administrative expenses	9,967	11,049
Operating income	3,169	3,036
Non-operating income		
Interest income	26	21
Dividends income	25	31
Foreign exchange gains	42	-
Income from subsidies	17	17
Others	85	44
Total non-operating income	197	115
Non-operating expenses		
Interest payment	27	32
Commissions paid	21	4
Loss on sales of accounts receivables	33	40
Foreign exchange losses	-	446
Equity in losses of affiliates	43	92
Others	7	8
Total non-operating expenses	133	625
Ordinary income	3,234	2,526
Extraordinary income		
Gain on sales of fixed assets	-	0
Gain on change in equity	-	320
Gain on sales of investment securities	0	-
Total extraordinary income	0	320
Extraordinary loss		
Loss on disposal of fixed assets	1	4
Loss on valuation of investment securities	-	93
Others	0	-
Total extraordinary loss	2	98
Net income before provision for income taxes	3,232	2,748
Income taxes	936	747
Net income	2,295	2,000
Net income attributable to shareholders of the parent company	2,295	2,000

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First quarter of previous fiscal year (from April 1, 2015 to June 30, 2015)	First quarter of current fiscal year (from April 1, 2016 to June 30, 2016)
Net income	2,295	2,000
Other comprehensive income		
Valuation difference on available-for-sale securities	1,720	(177)
Foreign currency translation adjustment	-	18
Adjustments in retirement benefits	9	7
Share of other comprehensive income of affiliates accounted for using equity method	150	63
Total other comprehensive income	1,879	(88)
Comprehensive income	4,175	1,912
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	4,175	1,912
Comprehensive income attributable to non-controlling 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)

The Company purchased 2,846,800 shares of treasury stock pursuant to the resolution at the meeting of the Board of Directors held on April 4, 2016. As a result, treasury stock increased by 6,939 million yen in the first quarter, and treasury stock totaled 8,337 million yen as of the end of the first quarter under review.

(Significant subsequent events)

(Acquisition of companies through the acquisition of shares)

At the meeting of the Board of Directors held on July 11, 2016, the Company resolved to conclude an acquisition agreement (the "Agreement") to acquire all of the shares of U.S.-based Sagent Pharmaceuticals, Inc. ("Sagent") through a tender offer and subsequent merger with cash for consideration to make it a wholly-owned subsidiary, and concluded the Agreement with Sagent on the same day, Japan Standard Time.

(1) Purpose of the acquisition of shares

The Company has established three strategies of expansion, production and development in its Medium-term Business Plan, and is establishing a corporate foundation for supporting efforts to become a global top 10 generic pharmaceutical company. "Expansion" aims at growing domestic market share to 15%, "Production" aims at lifting annual production capacity to 18.5 billion premium quality tablets, and "Development" aims at turning to the U.S. market to develop the new business field of biosimilar products.

The acquisition is a milestone in the expansion of development by securing a platform for entry into the U.S. generic drugs market and establishing a presence in injectable drugs, and is positioned as an important initiative for improving medium- to long-term corporate value of the Company.

(2) Name, businesses and size of company acquired

- (i) Name: Sagent Pharmaceuticals, Inc.
- (ii) Location: 1901 N. Roselle Road, Suite 700, Schaumburg, Illinois
- (iii) Name and position of representative: Allan Oberman, CEO
- (iv) Businesses: Manufacture and sale of generic drugs centered on injectable drugs
- (v) Shareholders' equity: USD 253,451 thousand (as of March 31, 2016)
- (vi) Established: 2006
- (vii) Total number of issued shares: 32,838,743 (as of April 29, 2016)

(3) Period of acquisition (scheduled)

August to September 2016

(4) Acquisition price

USD 21.75 per common share

(5) Change in percentage holding due to the acquisition (scheduled)

(i) Percentage holding prior to change: 0.00%

(ii) Percentage holding after change: 100.00%

(6) Funds required for acquisition

Approx. USD 736 million

The amount shown is the amount required for the purchase of all of Sagent's issued shares and payments related to the options, warrants and other securities.

(7) Method of funding of the acquisition

Cash on hand and bank loans will be used for the acquisition.