

(English Translation)

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2018 (under Japan GAAP)

August 9, 2017

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 10, 2017

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, 2018 (From April 1, 2017 to June 30, 2017)

(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, 2018	¥48,513 million (27.6%)	¥3,180 million (4.7%)	¥3,202 million (26.8%)	¥1,964 million (-1.8%)
First quarter of fiscal year ended March 31, 2017	¥38,029 million (8.5%)	¥3,036 million (-4.2%)	¥2,526 million (-21.9%)	¥2,000 million (-12.8%)

(Note)

Comprehensive income:

First Quarter of Fiscal Year Ending March 31, 2018: 2,263 million yen (18.4%)
First Quarter of Fiscal Year Ended March 31, 2017: 1,912 million yen (-54.2%)

	Net income per share	Net income (fully diluted) per share
First quarter of fiscal year ending March 31, 2018	¥34.91	¥34.85
First quarter of fiscal year ended March 31, 2017	¥34.69	¥34.59

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
First quarter of fiscal year ending March 31, 2018	¥265,912 million	¥84,699 million	31.8%	¥1,499.72
Fiscal year ended March 31, 2017	¥270,890 million	¥87,580 million	32.2%	¥1,552.67

(Reference)

Equity:

First Quarter of Fiscal Year Ending March 31, 2018: 84,466 million yen

Fiscal Year Ended March 31, 2017: 87,346 million yen

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2017	¥-	¥15.00	¥-	¥15.00	¥30.00
Fiscal year ending March 31, 2018	¥-				
Fiscal year ending March 31, 2018 (forecast)		¥15.00	¥-	¥15.00	¥30.00

(Note)

Revisions to recently announced dividends forecast: None

**3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018
(From April 1, 2017 to March 31, 2018)**

(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)	¥99,000 million (31.7%)	¥4,400 million (8.9%)	¥4,200 million (26.7%)	¥2,700 million (23.9%)	¥47.95
Annual	¥206,000 million (26.1%)	¥9,000 million (5.2%)	¥8,600 million (2.2%)	¥5,500 million (14.9%)	¥97.60

(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): No

New: -

Excluded: -

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

(Note)

For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements

(Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)” in “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 8 of the Attachment.

(3) Changes in accounting policies, 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, 2017: 60,662,652 shares

As of March 31, 2017: 60,662,652 shares

(ii) Number of treasury shares as of the end of the period:

As of June 30, 2017: 4,341,000 shares

As of March 31, 2017: 4,407,030 shares

(iii) Average number of shares during the period (cumulative quarter):

First quarter of fiscal year ending March 31, 2018: 56,274,220 shares

First quarter of fiscal year ended March 31, 2017: 57,685,385 shares

(Note)

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

*** Quarterly financial summary is not included in quarterly review**

*** Explanation on the appropriate usage of forecast of financial results, and other specific matters**
(Considerations on forward-looking statements)

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.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be provided on the website of the Company on Wednesday, August 9, 2017.

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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, the tone of moderate economic recovery has continued in Japan against a backdrop of improvements in corporate earnings and the employment environment despite heightened uncertainty in overseas economies due to the movements of the Trump administration in the US and UK's negotiations to exit the EU.

In the generic drug industry, in response to the target for generic drugs' quantitative share (80% or more as early as possible by the end of FY2020) under the "Basic Policies for Economic and Fiscal Management and Structural Reform" ("Basic Policies 2015") in June 2015, the share had reached 65.5% by the period from April 2016 to March 2017 (announced by the Japan Generic Medicines Association on June 29, 2017). On the other hand, the government indicated the new policy of annual drug price revisions on December 2016 and it gave rise to concerns about the major impact on the earnings environment.

Under such circumstances, the Company formulated "Profit Management Plan 2019" to respond to the fundamental reform of the drug pricing system through continuous cost improvements, and will endeavor to improve profits by lowering production costs and increasing productivity.

Furthermore, the Company has already filed for an application of the manufacturing and marketing approval of a "infliximab biosimilar" as implementation of "Development," one of the three basic strategies ("Expansion", "Production" and "Development") under the 7th Medium-term Business Plan "Obelisk", and Infliximab BS for I.V. Infusion 100mg "Nichiiko" was reviewed by the Pharmaceutical Affairs and Food Sanitation Council's Second Committee on Drugs on July 27, 2017. At the same time, a licensing agreement was officially concluded with AYUMI Pharmaceutical Corporation for marketing rights of Infliximab BS for I.V. Infusion 100mg "AYUMI" for which YAKUHAN Pharmaceutical Co., Ltd., a subsidiary of the Company, has been seeking the marketing approval, based on the assumption that approval will be obtained. It is believed that the agreement will lead to maximize the value of the infliximab biosimilar drugs developed by the Company.

Moreover, the Company has made steady efforts toward the goal of being a global top 10 generic pharmaceutical company, such as new release of 7 products with 19 strengths including Telmisartan Tablets "Nichiiko" in June 2017 as implementation of "Expansion," and the construction of the "Obelisk Building" which is planned to commence operation in January 2018 as improvement of "Production."

In addition, the first quarter under review for Sagent Pharmaceuticals, Inc., which was acquired last year, saw net sales increase by 37.5% year-on-year to 10,655 million yen due to factors such as the approvals for 8 new products.

As a result, the first quarter consolidated cumulative period showed increased revenue and decreased earnings with net sales of 48,513 million yen (27.6% increase year-on-year), operating income of 3,180 million yen (4.7% increase year-on-year), ordinary income of 3,202 million yen (26.8% increase year-on-year), and net income attributable to shareholders of the parent company of 1,964 million yen (1.8% 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 4,978 million yen from the previous fiscal year-end to 265,912 million yen. This was mainly attributable to notes and accounts receivable decreasing by 946 million yen, merchandise and finished goods decreasing by 750 million yen, goodwill decreasing by 2,460 million yen, long-term loans receivable decreasing by 1,981 million yen, and raw materials and supplies increasing by 2,572 million yen. Liabilities on a consolidated basis decreased by 2,096 million yen from the previous fiscal year-end to 181,213 million yen. This was mainly attributable to notes and accounts payable decreasing by 3,168 million yen, electronically recorded debts decreasing by 1,834 million yen, other payable decreasing by 1,724 million yen, accrued expenses increasing by 2,270 million yen, and long-term loans payable increasing by 2,758 million yen. Net assets on a consolidated basis decreased by 2,881 million yen from the previous fiscal year-end to 84,699 million yen mainly due to the foreign currency translation adjustment decreasing by 2,758 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 10, 2017.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	First quarter of fiscal year ending March 31, 2018 (as of June 30, 2017)
Assets		
Current assets		
Cash and deposits	14,894	14,602
Notes and accounts receivable	26,304	25,357
Electronically recorded monetary claims	1,680	1,689
Merchandise and finished goods	41,632	40,882
Work in process	9,143	8,362
Raw materials and supplies	16,811	19,384
Deferred tax assets	838	838
Other current assets	3,842	3,757
Allowance for doubtful accounts	(433)	(317)
Total current assets	114,714	114,557
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	19,211	18,786
Machinery and equipment, net	12,665	12,411
Tools, furniture and fixtures, net	1,521	1,636
Land	6,433	6,432
Lease assets, net	2,603	2,592
Construction in progress	5,004	8,532
Total property, plant and equipment	47,439	50,393
Intangible assets		
Goodwill	41,152	38,692
Lease assets	125	117
Marketing rights	23,766	22,813
In-process research and development	22,697	21,536
Other intangible assets	5,368	5,232
Total intangible assets	93,111	88,392
Investments and other assets		
Investment securities	9,954	8,988
Long-term loans receivable	2,971	990
Deferred tax assets	866	814
Other assets	3,452	3,424
Allowance for doubtful accounts	(1,620)	(1,650)
Total investments and other assets	15,625	12,568
Total fixed assets	156,175	151,354
Total assets	270,890	265,912

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	First quarter of fiscal year ending March 31, 2018 (as of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable	22,853	19,685
Electronically recorded debts	17,646	15,812
Short-term loans payable	23,789	23,540
Current portion of long-term loans payable	6,444	7,412
Lease debts	964	926
Other payable	8,471	6,746
Accrued expenses	3,338	5,608
Income taxes payable	389	1,251
Deposits payable	1,499	1,404
Allowance for sales returns	909	1,070
Allowance for bonuses	1,244	445
Other current liabilities	277	396
Total current liabilities	87,829	84,300
Fixed liabilities		
Long-term loans payable	80,104	82,863
Lease debts	1,994	2,016
Deferred tax liabilities	5,862	5,566
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,489	3,502
Asset retirement obligations	55	56
Other fixed liabilities	3,754	2,688
Total fixed liabilities	95,480	96,913
Total liabilities	183,309	181,213
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,838	18,816
Retained earnings	45,350	45,085
Treasury stock	(9,401)	(9,268)
Deposit for subscriptions to treasury stock	-	0
Total shareholders' equity	74,764	74,609
Other comprehensive income		
Valuation difference on available-for-sale securities	1,378	1,411
Revaluation reserve for land	333	333
Foreign currency translation adjustment	10,975	8,216
Accumulated adjustments in retirement benefits	(105)	(103)
Total other comprehensive income	12,582	9,857
Stock acquisition rights	234	232
Total net assets	87,580	84,699
Total liabilities and net assets	270,890	265,912

(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, 2016 to June 30, 2016)	First quarter of current fiscal year (from April 1, 2017 to June 30, 2017)
Net sales	38,029	48,513
Cost of sales	23,948	31,814
Gross profit	14,080	16,699
Reversal of allowance for sales returns	5	1
Gross profit, net	14,085	16,701
Selling, general and administrative expenses	11,049	13,521
Operating income	3,036	3,180
Non-operating income		
Interest income	21	14
Dividends income	31	32
Income from subsidiaries	17	-
Compensation income	6	504
Others	38	52
Total non-operating income	115	603
Non-operating expenses		
Interest payment	32	166
Commissions paid	4	17
Loss on sales of accounts receivables	40	54
Foreign exchange losses	446	46
Equity in losses of affiliates	92	286
Others	8	9
Total non-operating expenses	625	580
Ordinary income	2,526	3,202
Extraordinary income		
Gain on sales of fixed assets	0	-
Gain on change in equity	320	132
Total extraordinary income	320	132
Extraordinary loss		
Loss on disposal of fixed assets	4	7
Loss on valuation of investment securities	93	-
Total extraordinary loss	98	7
Net income before provision for income taxes	2,748	3,327
Income taxes	747	1,363
Net income	2,000	1,964
Net income attributable to shareholders of the parent company	2,000	1,964

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First quarter of previous fiscal year (from April 1, 2016 to June 30, 2016)	First quarter of current fiscal year (from April 1, 2017 to June 30, 2017)
Net income	2,000	1,964
Other comprehensive income		
Valuation difference on available-for-sale securities	(177)	125
Foreign currency translation adjustment	18	151
Adjustments in retirement benefits	7	5
Share of other comprehensive income of affiliates accounted for using equity method	63	16
Total other comprehensive income	(88)	299
Comprehensive income	1,912	2,263
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	1,912	2,263
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)

Not applicable.

(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.

(Additional Information)

(Notes on Changes in Scope of Consolidation or Scope of Application of Equity Method)

(Change in Fiscal Year-end, etc. of Consolidated Subsidiaries)

In preparing the consolidated financial statements for consolidated subsidiaries such as Sagent Pharmaceuticals, Inc. whose closing date of the fiscal year was originally December 31, the financial statements as of December 31 were used while necessary adjustments have been made for major transactions occurring between that day and the end of the consolidated period, but the end of the fiscal year has been changed to March 31 from the first quarter under review.

As a result of this change in the fiscal year, the consolidated financial statements reflect the business results of the aforementioned consolidated subsidiaries for the three months from April 1, 2017 to June 30, 2017.

Profit and loss for the consolidated subsidiaries from January 1, 2017 to March 31, 2017 has been adjusted as increase or decrease of retained earnings.