

(English Translation)

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

February 8, 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: February 14, 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 Third Quarter of the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to December 31, 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
Third quarter of fiscal year ending March 31, 2017	¥117,275 million (8.3%)	¥6,841 million (-40.5%)	¥6,459 million (-42.5%)	¥3,058 million (-70.7%)
Third quarter of fiscal year ended March 31, 2016	¥108,320 million (13.0%)	¥11,496 million (45.9%)	¥11,242 million (44.4%)	¥10,442 million (101.3%)

(Note)

Comprehensive income:

Third Quarter of Fiscal Year Ending March 31, 2017: 2,438 million yen (-73.3%)
Third Quarter of Fiscal Year Ended March 31, 2016: 9,148 million yen (46.4%)

	Net income per share	Net income (fully diluted) per share
Third quarter of fiscal year ending March 31, 2017	¥53.52	¥53.43
Third quarter of fiscal year ended March 31, 2016	¥174.60	¥174.21

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Third quarter of fiscal year ending March 31, 2017	¥247,885 million	¥75,595 million	30.4%	¥1,340.30
Fiscal year ended March 31, 2016	¥161,128 million	¥82,597 million	51.1%	¥1,377.53

(Reference)

Equity:

Third Quarter of Fiscal Year Ending March 31, 2017: 75,369 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	¥-	¥15.00	¥-		
Fiscal year ending March 31, 2017 (forecast)				¥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
Annual	¥167,000 million (16.4%)	¥6,600 million (-48.9%)	¥5,700 million (-53.6%)	¥2,400 million (-78.2%)	¥42.15

(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): Yes
New: 1 company (company name) Sagent Pharmaceuticals, Inc.
Excluded: - (company name)

(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 4 of the Attachment.

- (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 4 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 December 31, 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 December 31, 2016: 4,430,600 shares

As of March 31, 2016: 880,204 shares

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

Third quarter of fiscal year ending March 31, 2017: 57,155,294 shares

Third quarter of fiscal year ended March 31, 2016: 59,805,267 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. Supplementary materials for financial results will be provided on the website of the Company on Wednesday, February 8, 2017.

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

(1) Explanation on Operating Results

During the first three consolidated quarters of the current fiscal year, there was a tone of economic recovery in Japan due to factors such as steady consumer spending and the depreciation of the yen since November.

In the pharmaceuticals industry, the government announced the "Basic Policy for Fundamental Reform of Drug Pricing System" focusing on the Annual National Health Insurance (NHI) Drug Price Revisions on December 20, 2016. This policy is expected to undergo in-depth discussions, giving rise to concerns about the impact on the earnings environment.

Under the environment, the Company appointed a new chief executive officer and disposed three staff members to Sagent Pharmaceuticals, Inc., a U.S. manufacturer and seller of generic drugs that the Company acquired in August 2016, to promote stronger and faster integration. In addition, with the aim of developing synergies, the Company established the FDA Affairs Office in the Production Division with the outlook of exporting the Company's products to the United States.

In Japan, we began selling the following 4 products with 7 strengths as new generic products in December 2016. For the purpose of improving convenience and distinguishability, these new products have (i) pre-dispensed small (28 tablets) package with Nichi-Iko's logo, which can be easily administered to patients (ii) tablets with printings of "generic name", "strength" and "company name" on both sides for easier identification, (iii) tablets with different color printings by strengths and (iv) cut-off labels on individual packaging boxes that can be used as labels on medicine shelves.

- * (i) Montelukast tablets "Nichi-Iko"
- * (ii) Montelukast tablets "Nichi-Iko," VALHYDIO[®] combination tablets "Nichi-Iko" and Sertraline tablets "Nichi-Iko"
- * (iii) Pitavastatin Calcium OD tablets "Nichi-Iko"
- * (iv) Montelukast tablets "Nichi-Iko," Pitavastatin Calcium OD tablets "Nichi-Iko," VALHYDIO[®] combination tablets "Nichi-Iko" and Sertraline tablets "Nichi-Iko"

Furthermore, the Company purchased 777,200 shares of treasury stock through the reintroduction of the Trust-type Employee Shareholding Incentive Plan (E-Ship[®]) in November 2016, and acquired 100,000 shares of treasury stock as part of its returns to shareholders in December 2016.

As a result, consolidated net sales for the first three quarters of the current fiscal year were 117,275 million yen (8.3% increase year-on-year), operating income was 6,841 million yen (40.5% decrease year-on-year), ordinary income was 6,459 million yen (42.5% decrease year-on-year), and net income attributable to shareholders of the parent company was 3,058 million yen (70.7% decrease year-on-year).

In the year-on-year comparison, net sales increased by 8,954 million yen due to increased revenues from generic drugs in Japan and sales contributed by Sagent in the United States. Meanwhile, net income attributable to shareholders of the parent company declined by 7,383 million yen due to several factors including the decline in the gross profit margin ratio, the expenses related to the acquisition of Sagent, increased development expenses, and also the gain on sales of investment securities in the previous fiscal year.

(2) Explanation on Financial Position

As of the end of the third quarter under review, total assets on a consolidated basis increased by 86,757 million yen from the previous fiscal year-end to 247,885 million yen. This was mainly attributable to goodwill increasing by 55,514 million yen, inventories assets increasing by 19,053 million yen, marketing rights increasing by 7,017 million yen, deferred tax assets increasing by 6,279 million yen, machinery and equipment increasing by 3,075 million yen, buildings and structures increasing by 1,522 million yen and cash and deposits decreasing by 16,105 million yen.

Liabilities on a consolidated basis increased by 93,759 million yen from the previous fiscal year-end and ran up to 172,290 million yen. This was mainly attributable to short-term loans payable increasing by 80,336 million yen, notes and accounts payable increasing by 7,062 million yen, electronically recorded debts increasing by 3,992 million yen, accrued expenses increasing by 2,650 million yen, other payable increasing by 1,764 million yen and income taxes payable decreasing by 3,565 million yen.

Net assets on a consolidated basis decreased by 7,001 million yen from the previous fiscal year-end to 75,595 million yen mainly due to the purchase of 8,396 million yen of treasury stock.

(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 November 7, 2016.

2. Matters Related to Summary Information (Notes)

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

From the second quarter of fiscal year ending March 31, 2017, Sagent Pharmaceuticals, Inc. and others have been included in the scope of consolidation as a result of acquisition of shares. In preparing the consolidated financial statements, their financial statements as of September 30 is used because the closing date of the third quarter of their financial year is September 30, while necessary adjustments for consolidation have been reflected to major transactions occurring between the day and the end of the third quarter consolidated period, and profit and loss for approximately one month from the next day of the consolidation to September 30, 2016 is included in the third quarter consolidated cumulative period. Sagent Pharmaceuticals, Inc. falls under the category of our specified subsidiaries.

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 third 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 of the consolidated fiscal year.

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)	Third quarter of fiscal year ending March 31, 2017 (as of December 31, 2016)
Assets		
Current assets		
Cash and deposits	28,179	12,073
Notes and accounts receivable	25,217	25,500
Electronically recorded monetary claims	919	1,707
Merchandise and finished goods	26,092	36,329
Work in process	9,177	10,647
Raw materials and supplies	10,071	17,418
Deferred tax assets	1,458	2,662
Other current assets	2,240	4,557
Allowance for doubtful accounts	(1,731)	(400)
Total current assets	101,624	110,497
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	17,734	19,256
Machinery and equipment, net	9,890	12,965
Tools, furniture and fixtures, net	1,183	1,488
Land	6,299	6,418
Lease assets, net	1,940	2,813
Construction in progress	1,739	3,636
Total property, plant and equipment	38,786	46,579
Intangible assets		
Goodwill	634	56,148
Lease assets	237	156
Marketing rights	2,760	9,777
Other intangible assets	2,847	4,424
Total intangible assets	6,479	70,506
Investments and other assets		
Investment securities	8,700	9,687
Long-term loans receivable	4,619	3,290
Deferred tax assets	490	5,565
Other assets	514	3,215
Allowance for doubtful accounts	(89)	(1,457)
Total investments and other assets	14,237	20,302
Total fixed assets	59,503	137,388
Total assets	161,128	247,885

	(in millions of yen)	
	Fiscal year ended March 31, 2016 (as of March 31, 2016)	Third quarter of fiscal year ending March 31, 2017 (as of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable	15,993	23,055
Electronically recorded debts	14,200	18,192
Short-term loans payable	14,720	95,056
Current portion of long-term loans payable	3,781	3,661
Lease debts	942	1,054
Other payable	6,959	8,723
Accrued expenses	669	3,319
Income taxes payable	3,813	248
Deposits payable	1,520	1,028
Allowance for sales returns	47	740
Allowance for bonuses	1,128	560
Other current liabilities	485	507
Total current liabilities	64,262	156,149
Fixed liabilities		
Long-term loans payable	9,047	8,728
Lease debts	1,417	2,163
Deferred tax liabilities	112	1,179
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,413	3,517
Asset retirement obligations	54	55
Other fixed liabilities	1	276
Total fixed liabilities	14,267	16,141
Total liabilities	78,530	172,290
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,796	19,450
Retained earnings	42,589	43,620
Treasury stock	(1,397)	(9,439)
Deposit on subscriptions to treasury stock	0	1
Total shareholders' equity	79,964	73,609
Other comprehensive income		
Valuation difference on available-for-sale securities	1,269	1,578
Revaluation reserve for land	333	333
Foreign currency translation adjustment	897	(36)
Accumulated adjustments in retirement benefits	(127)	(115)
Total other comprehensive income	2,371	1,759
Stock acquisition rights	260	225
Total net assets	82,597	75,595
Total liabilities and net assets	161,128	247,885

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

(Quarterly Consolidated Statements of Income)

(Third Quarter Consolidated Cumulative Period)

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2015 to December 31, 2015)	Third quarter of current fiscal year (from April 1, 2016 to December 31, 2016)
Net sales	108,320	117,275
Cost of sales	66,883	75,155
Gross profit	41,437	42,120
Reversal of allowance for sales returns	12	7
Gross profit, net	41,450	42,127
Selling, general and administrative expenses	29,953	35,286
Operating income	11,496	6,841
Non-operating income		
Interest income	77	67
Dividends income	46	56
Reimbursement for joint development cost	11	-
Income from subsidies	17	50
Equity in earnings of affiliates	194	-
Others	167	274
Total non-operating income	514	447
Non-operating expenses		
Interest payment	94	159
Commissions paid	68	29
Loss on sales of accounts receivables	141	144
Foreign exchange losses	305	367
Equity in losses of affiliates	-	57
Others	158	70
Total non-operating expenses	767	828
Ordinary income	11,242	6,459
Extraordinary income		
Gain on sales of fixed assets	0	0
Gain on sales of investment securities	3,678	-
Gain on change in equity	454	324
Total extraordinary income	4,132	324
Extraordinary loss		
Loss on disposal of fixed assets	14	168
Amortization of goodwill	241	-
Loss on valuation of investment securities	-	39
Loss on valuation of golf club memberships	4	-
Loss on retirement of long-term prepaid expenses	760	-
Acquisition related expenses	-	1,435
Others	2	0
Total extraordinary loss	1,023	1,643
Net income before provision for income taxes	14,352	5,141
Income taxes	3,910	2,082
Net income	10,442	3,058
Net income attributable to shareholders of the parent company	10,442	3,058

(Quarterly Consolidated Statements of Comprehensive Income)

(Third Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	Third quarter of previous fiscal year (from April 1, 2015 to December 31, 2015)	Third quarter of current fiscal year (from April 1, 2016 to December 31, 2016)
Net income	10,442	3,058
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,837)	(7)
Foreign currency translation adjustment	-	(587)
Adjustments in retirement benefits	28	21
Share of other comprehensive income of affiliates accounted for using equity method	515	(46)
Total other comprehensive income	(1,293)	(620)
Comprehensive income	9,148	2,438
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	9,148	2,438
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 and 100,000 shares of treasury stock pursuant to the resolution at the meeting of the Board of Directors held on December 19, 2016. Furthermore, the Company purchased 777,200 shares of treasury stock due to the reintroduction of the Trust-type Employee Shareholding Incentive Plan (E-Ship[®]) in November 2016. As a result, treasury stock increased by 8,042 million yen in the third quarter consolidated cumulative period, and treasury stock totaled 9,439 million yen as of December 31, 2016.