

(English Translation)

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

November 7, 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: November 14, 2016

Scheduled date of commencement of dividend payment: December 9, 2016

Presentation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial presentation meeting: Yes

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to September 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
Second quarter of fiscal year ending March 31, 2017	¥75,151 million (8.9%)	¥4,039 million (-30.5%)	¥3,314 million (-35.5%)	¥2,178 million (-39.7%)
Second quarter of fiscal year ended March 31, 2016	¥68,987 million (13.2%)	¥5,816 million (31.9%)	¥5,136 million (17.5%)	¥3,614 million (20.2%)

(Note)

Comprehensive income:

Second Quarter of Fiscal Year Ending March 31, 2017: 2,067 million yen (-55.9%)

Second Quarter of Fiscal Year Ended March 31, 2016: 4,692 million yen (35.0%)

	Net income per share	Net income (fully diluted) per share
Second quarter of fiscal year ending March 31, 2017	¥37.94	¥37.87
Second quarter of fiscal year ended March 31, 2016	¥60.44	¥60.31

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Second quarter of fiscal year ending March 31, 2017	¥251,665 million	¥76,796 million	30.4%	¥1,341.77
Fiscal year ended March 31, 2016	¥161,128 million	¥82,597 million	51.1%	¥1,377.53

(Reference)

Equity:

Second Quarter of Fiscal Year Ending March 31, 2017: 76,578 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%)	¥41.91

(Note)

Revisions to recently announced forecast of financial results: Yes

(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): 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 September 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 September 30, 2016: 3,590,075 shares
 - As of March 31, 2016: 880,204 shares
- (iii) Average number of shares during the period (cumulative quarter):
 - Second quarter of fiscal year ending March 31, 2017: 57,421,756 shares
 - Second quarter of fiscal year ended March 31, 2016: 59,801,533 shares

(Note)

Number of treasury shares as of March 31, 2016 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. 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 for information on the impact of the acquisition of Sagent Pharmaceuticals, Inc. included in the forecast of consolidated financial results.
3. Supplementary materials for financial results will be provided on the website of the Company on Monday, November 7, 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 second quarter under review, the U.S. economy was solid, while Europe and emerging countries could not dispel the uncertainty of their economic environments. Under these circumstances, there are some concerns about the recovery of corporate earnings and future capital investment partly due to the appreciation of the yen, although there were some positive factors in Japan such as an improvement in the employment environment and rising wages due to continued monetary easing.

In the pharmaceuticals industry, the National Health Insurance (NHI) drug price scheme underwent a downward revision of 7.8% in April 2016 and measures including the revisions of Generic Drugs Index in Functional Evaluation Coefficient II for the DPC hospitals and indicators of Premiums for Constructing Systems for Generic Use were taken with the aim of promoting the use of generic drugs. Furthermore, efforts aimed at the reduction of medical expenses have been considered, as seen in heightened discussion about certain expensive drugs.

In this environment, the Company formulated its 7th Medium-term Business Plan "Obelisk" (covering the three-year period from April 2016 to March 2019) in May with a vision of "Use our creativity to establish a commanding presence and expand in the global marketplace." To execute one of the Plan's basic strategies, "Development" aiming for the market entry in the U.S. to develop the new business field of biosimilar products, we acquired Sagent Pharmaceuticals, Inc., a US-based generic injectable drugs manufacturer in August.

The acquisition is a milestone in the expansion of our "Development" capabilities by securing a platform for expanding the business in the U.S. through biosimilars, etc. and establishing a presence in injectable drugs. In addition, we are making efforts that will lead to strengthen our profitability as a group by realizing synergies through mutual utilization of products and information resources.

With regard to products portfolio, we began selling 3 products and 6 strengths (Thioderon[®], Aqupla[®] and Fildesin[®]) in the oncology area transferred in July, and also received marketing approval for 4 generic products and 7 strengths (Montelukast tablets 5mg "Nichiiko" and 10mg "Nichiiko," VALHYDIO[®] combination tablets MD "Nichiiko" and EX "Nichiiko," Pitavastatin Calcium OD tablets 1mg "Nichiiko" and 2mg "Nichiiko," and Sertraline tablets 100mg "Nichiiko") on August 15.

In the second quarter, although sales and gross profit increased from the previous year, operating income, ordinary income and net income attributable to shareholders of the parent company all fell below the previous year levels due to the occurrence of certain expenses related to the above mentioned acquisition of Sagent Pharmaceuticals, Inc. and an increase in development expenses caused by the change in development policy for biosimilar initially planned in the U.S. from joint development to independent. An effort is being made, however, 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 second quarter consolidated cumulative period showed increased revenue and decreased earnings with net sales of 75,151 million yen (8.9% increase year-on-year), operating income of 4,039 million yen (30.5% decrease year-on-year), ordinary income of 3,314 million yen (35.5% decrease year-on-year), and net income attributable to shareholders of the parent company of 2,178 million yen (39.7% decrease year-on-year).

(2) Explanation on Financial Position

As of the end of the second quarter under review, total assets on a consolidated basis increased by 90,537 million yen from the previous fiscal year-end to 251,665 million yen. This was mainly attributable to goodwill increasing by 56,203 million yen, inventories assets increasing by 17,193 million yen, marketing rights increasing by 7,284 million yen, notes and accounts receivable increasing by 2,959 million yen, machinery and equipment increasing by 2,391 million yen, buildings and structures increasing by 1,447 million yen and cash and deposits decreasing by 10,946 million yen.

Liabilities on a consolidated basis increased by 96,338 million yen from the previous fiscal year-end and ran up to 174,869 million yen. This was mainly attributable to short-term loans payable increasing by 80,422 million yen, notes and accounts payable increasing by 7,437 million yen, electronically recorded debts increasing by 4,166 million yen, other payable increasing by 3,710 million yen, accrued expenses increasing by 1,405 million yen, and income taxes payable decreasing by 2,298 million yen.

Net assets on a consolidated basis decreased by 5,801 million yen from the previous fiscal year-end to 76,796 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

Based on recent trends in performance, we revised the following forecast of consolidated financial results for the fiscal year ending March 31, 2017 announced on May 10, 2016 as follows.

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

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company	Net income per share
Previous forecast (A)	¥159,000 million	¥14,200 million	¥14,200 million	¥9,000 million	¥157.34
Revised forecast (B)	¥167,000 million	¥6,600 million	¥5,700 million	¥2,400 million	¥41.91
Change (B-A)	¥8,000 million	¥-7,600 million	¥-8,500 million	¥-6,600 million	
Ratio (%)	5.0	-53.5	-59.9	-73.3	
(Reference) Consolidated financial results of the previous fiscal year (Fiscal year ended march 31, 2016)	¥143,513 million	¥12,910 million	¥12,289 million	¥11,031 million	¥184.45

Because the acquisition of U.S. generic company Sagent Pharmaceuticals, Inc. took place on August 29, 2016, which is after the forecast initially announced in May 2016, net sales is expected to exceed the initial forecast by 8,000 million yen due to the addition of the company's

sales. However, the cost ratio increased because the initially planned sales composition was not achieved as planned due partly to the revision of the NHI price scheme, as well as due to other factors such as the occurrence of expenses related to the acquisition and the increase in selling, general and administrative expenses resulting from the increase in development expenses caused by the change in development policy for biosimilar in the U.S. from joint development, as initially planned, to independent development. Consequently, the forecast was revised with operating income down by 7,600 million yen to 6,600 million yen, ordinary income down 8,500 million yen to 5,700 million yen, and net income attributable to shareholders of the parent company down 6,600 million yen to 2,400 million yen.

The above forecast of financial results is a provisional calculation based on information available as of September 30, 2016 because the allocation of the purchase cost for the above acquisition of Sagent Pharmaceuticals, Inc. is not complete.

2. Matters Related to Summary Information (Notes)

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

Sagent Pharmaceuticals, Inc. and others have been included in the scope of consolidation in the second quarter under review, due to the acquisition of their shares. They were consolidated only in the balance sheet in the second quarter under review. 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 second 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)	Second quarter of fiscal year ending March 31, 2017 (as of September 30, 2016)
Assets		
Current assets		
Cash and deposits	28,179	17,232
Notes and accounts receivable	25,217	28,177
Electronically recorded monetary claims	919	1,144
Merchandise and finished goods	26,092	37,804
Work in process	9,177	9,173
Raw materials and supplies	10,071	15,557
Deferred tax assets	1,458	1,448
Other current assets	2,240	3,976
Allowance for doubtful accounts	(1,731)	(1,783)
Total current assets	101,624	112,730
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	17,734	19,181
Machinery and equipment, net	9,890	12,282
Tools, furniture and fixtures, net	1,183	1,431
Land	6,299	6,419
Lease assets, net	1,940	2,341
Construction in progress	1,739	3,831
Total property, plant and equipment	38,786	45,487
Intangible assets		
Goodwill	634	56,837
Lease assets	237	186
Marketing rights	2,760	10,044
Other intangible assets	2,847	4,609
Total intangible assets	6,479	71,677
Investments and other assets		
Investment securities	8,700	9,610
Long-term loans receivable	4,619	4,262
Deferred tax assets	490	6,674
Other assets	514	1,304
Allowance for doubtful accounts	(89)	(83)
Total investments and other assets	14,237	21,769
Total fixed assets	59,503	138,935
Total assets	161,128	251,665

	(in millions of yen)	
	Fiscal year ended March 31, 2016 (as of March 31, 2016)	Second quarter of fiscal year ending March 31, 2017 (as of September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable	15,993	23,430
Electronically recorded debts	14,200	18,366
Short-term loans payable	14,720	95,142
Current portion of long-term loans payable	3,781	3,647
Lease debts	942	995
Other payable	6,959	10,670
Accrued expenses	669	2,075
Income taxes payable	3,813	1,515
Deposits payable	1,520	1,389
Allowance for sales returns	47	855
Allowance for bonuses	1,128	1,171
Other current liabilities	485	624
Total current liabilities	64,262	159,885
Fixed liabilities		
Long-term loans payable	9,047	8,107
Lease debts	1,417	1,755
Deferred tax liabilities	112	1,201
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,413	3,508
Asset retirement obligations	54	55
Other fixed liabilities	1	134
Total fixed liabilities	14,267	14,983
Total liabilities	78,530	174,869
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,796	18,839
Retained earnings	42,589	43,596
Treasury stock	(1,397)	(8,102)
Deposit on subscriptions to treasury stock	0	0
Total shareholders' equity	79,964	74,309
Other comprehensive income		
Valuation difference on available-for-sale securities	1,269	1,553
Revaluation reserve for land	333	333
Foreign currency translation adjustment	897	504
Accumulated adjustments in retirement benefits	(127)	(121)
Total other comprehensive income	2,371	2,269
Stock acquisition rights	260	217
Total net assets	82,597	76,796
Total liabilities and net assets	161,128	251,665

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Second Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2015 to September 30, 2015)	First half of current fiscal year (from April 1, 2016 to September 30, 2016)
Net sales	68,987	75,151
Cost of sales	43,226	47,870
Gross profit	25,761	27,280
Reversal of allowance for sales returns	17	8
Gross profit, net	25,778	27,289
Selling, general and administrative expenses	19,961	23,249
Operating income	5,816	4,039
Non-operating income		
Interest income	52	44
Dividends income	29	35
Income from subsidiaries	17	33
Reimbursement for joint development cost	6	-
Others	128	113
Total non-operating income	234	226
Non-operating expenses		
Interest payment	62	79
Commissions paid	40	13
Loss on sales of accounts receivables	97	87
Equity in losses of affiliates	134	31
Foreign exchange losses	442	705
Others	137	33
Total non-operating expenses	914	951
Ordinary income	5,136	3,314
Extraordinary income		
Gain on sales of fixed assets	0	0
Gain on sales of investment securities	0	-
Gain on change in equity	-	320
Total extraordinary income	0	320
Extraordinary loss		
Loss on disposal of fixed assets	7	165
Loss on valuation of investment securities	-	37
Loss on valuation of golf club memberships	4	-
Others	2	-
Total extraordinary loss	15	202
Net income before provision for income taxes	5,121	3,432
Income taxes	1,507	1,253
Net income	3,614	2,178
Net income attributable to shareholders of the parent company	3,614	2,178

(Quarterly Consolidated Statements of Comprehensive Income)

(Second Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2015 to September 30, 2015)	First half of current fiscal year (from April 1, 2016 to September 30, 2016)
Net income	3,614	2,178
Other comprehensive income		
Valuation difference on available-for-sale securities	668	(138)
Foreign currency translation adjustment	-	21
Adjustments in retirement benefits	19	14
Share of other comprehensive income of affiliates accounted for using equity method	390	(8)
Total other comprehensive income	1,078	(110)
Comprehensive income	4,692	2,067
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	4,692	2,067
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2015 to September 30, 2015)	First half of current fiscal year (from April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Net income before provision for income taxes	5,121	3,432
Depreciation	2,456	2,780
Amortization of goodwill	105	86
Increase (decrease) in allowance for doubtful accounts	156	24
Increase (decrease) in net defined benefit liability	33	115
Increase (decrease) in allowance for sales returns	(17)	(8)
Increase (decrease) in allowance for bonuses	17	(186)
Interest and dividends income	(82)	(79)
Interest payment	62	79
Loss (gain) on valuation of investment securities	-	37
Loss (gain) on disposal of fixed assets	7	165
Equity in (earnings) losses of affiliates	134	31
Loss (gain) on change in equity	(9)	(320)
Foreign exchange losses (gains)	442	679
(Increase) decrease in accounts receivable	(1,013)	645
(Increase) decrease in inventories assets	(3,732)	(7,791)
Increase (decrease) in accounts payable	(4,005)	7,370
Increase (decrease) in accrued expenses	31	40
Others	738	829
Sub-total	447	7,931
Interest and dividends received	104	167
Interest payment	(62)	(79)
Income taxes paid	(2,443)	(3,631)
Net cash provided by (used in) operating activities	(1,953)	4,388
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6,079)	(3,951)
Acquisition of intangible assets	(1,325)	(2,338)
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	-	(72,947)
Proceeds from loans receivable	1,330	50
Others	(54)	(629)
Net cash used in investing activities	(6,129)	(79,817)

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2015 to September 30, 2015)	First half of current fiscal year (from April 1, 2016 to September 30, 2016)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	7,050	75,330
Repayment of long-term loans payable	(1,956)	(1,958)
Acquisition of treasury stock	(1)	(7,000)
Sales of treasury stock	95	76
Proceeds from exercise of stock option	3	2
Repayments of finance lease debts	(465)	(603)
Dividends paid	(853)	(997)
Others	(0)	(0)
Net cash provided by financing activities	3,872	64,848
Effect of exchange rate change on cash and cash equivalents	(100)	(369)
Net increase (decrease) in cash and cash equivalents	(4,310)	(10,949)
Cash and cash equivalents at beginning of period	13,609	27,754
Cash and cash equivalents of newly consolidated companies at beginning of period	-	3
Cash and cash equivalents at end of period	9,299	16,807

(4) 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 6,705 million yen in the second quarter consolidated cumulative period, and treasury stock totaled 8,102 million yen as of September 30, 2016.