

Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2018 (Japan GAAP)

February 7, 2018

Name of Listed Company: **TSUMURA & CO.**

Exchange: Tokyo Stock Exchange

Code: 4540

URL: <http://www.tsumura.co.jp>

Representative: Position: President & Representative Director

Name: Terukazu Kato

Contact: Position: Head of Corporate Communications Dept.

Name: Noboru Suzuki

Telephone: 81-3-6361-7100

Scheduled date of submission: February 8, 2018

Scheduled date of dividend payment commencement: -

Preparation of supplementary materials for the quarterly financial statements: Yes.

Holding of the quarterly results briefing: No

(Figures are rounded down to the nearest one million yen.)

1. Consolidated business results for the third quarter of the fiscal year ending March 31, 2018

(From April 1, 2017 to December 31, 2017)

(1) Financial results (year to date)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine month period ended December 31, 2017	90,911	3.4	15,135	8.2	15,684	7.2	12,302	10.2
Nine month period ended December 31, 2016	87,959	1.6	13,985	-12.8	14,626	-10.2	11,163	4.9

(Note) Comprehensive income

Nine month period ended December 31, 2017: 15,149 million yen (103.6%)

Nine month period ended December 31, 2016: 7,441 million yen (-33.0%)

	Profit per share	Fully diluted profit per share
	Yen	Yen
Nine month period ended December 31, 2017	173.06	—
Nine month period ended December 31, 2016	159.85	—

(2) Consolidated financial condition

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of December 31, 2017	288,142	195,465	66.8
As of March 31, 2017	222,008	157,397	69.7

(Reference) Shareholders' equity:

As of December 31, 2017: 192,559 million yen

As of March 31, 2017: 154,783million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY 3/2017	— Yen	32.00 Yen	— Yen	32.00 Yen	64.00 Yen
FY 3/2018	—	32.00	—		
FY 3/2018 (Projection)			—	32.00	64.00

(Note) Revisions to dividends projection published most recently: No

3. Projections of consolidated business results for the fiscal year ending March 31, 2018 (From April 1, 2017 to March 31, 2018)
(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	120,700	5.0	17,600	10.1	18,100	10.4	12,700	1.7	175.60

(Note) Revisions to business results projection published most recently: No

Notes

(1) Important changes of subsidiaries during the term
(change of specified subsidiaries that lead to a change in the scope of consolidation) : No

(2) Application of special accounting practices in consolidated quarterly financial statements preparation: Yes

(3) Changes in accounting principles and procedures and the method for indication, etc.

1) Changes associated with the revision of accounting principles, etc.: No

2) Change other than 1): No

3) Accounting estimate change: No

4) Retrospective restatement: No

(4) Number of shares issued (common stock)

1) Number of shares issued at the end of the term
(including treasury stock) (shares)

2) Number of treasury stock at the end of the term
(shares)

3) Average number of shares during the term (shares)

FY 3/2018 3Q	76,758,362	FY 3/2017	70,771,662
FY 3/2018 3Q	300,282	FY 3/2017	1,989,282
FY 3/2018 3Q	71,085,085	FY 3/2017 3Q	69,835,972

* This Summary of our Quarterly Consolidated Financial Statements is exempt from the quarterly audit review.

* Explanation about the proper use of financial projections and other important notes

(Note about forward-looking information)

In these materials, earnings forecasts and other statements about the future are forward-looking statements based on the information currently available and certain assumptions that the company regards as reasonable. Accordingly, the Company cannot make promises to achieve such forecasts. Actual financial results may differ materially from these forecasts depending on a number of important factors. Please see "1. Qualitative information on quarterly results (3) Description of projections of consolidated business results" on page 2 for information regarding the forecast of consolidated financial results.

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1. Qualitative information on quarterly results

(1) Description of operating results

In the third quarter of the consolidated fiscal year (from April 1 to December 31, 2017), net sales rose 3.4% year on year, to 90,911 million yen.

Operating profit stood at 15,135 million yen, up 8.2% year on year, and ordinary profit at 15,684 million yen, up 7.2% year on year. Profit attributable to owners of parent was 12,302 million yen, up 10.2%. A gain on sales of investment securities of 1,498 million yen was posted as extraordinary income. The cost of sales ratio declined 1.0 percentage point year on year, and the ratio of selling, general and administrative expenses fell 0.2 percentage point year on year. The operating profit margin stood at 16.6%, up 0.7 percentage points from a year earlier.

Sales of prescription Kampo products increased 3.4% year on year. As healthcare professionals' needs for Kampo are diversified, the Company is focusing on meetings with doctors, presentations for medical institutions, and Kampo seminars. The Company is providing appropriate information on evidence in basic and clinical medicine, medical practice guidelines in which Kampo is described, and the use of different Kampo products.

The Company will provide more information on Kampo medicine and Kampo products and will seek to expand the Kampo market, which has large potential, focusing on three fields: geriatric field, cancer domain (supportive care), and gynecology field.

(2) Description of financial condition

The financial position at the end of the third quarter under review was as follows:

Total assets rose 66,134 million yen from the end of the previous fiscal year mainly due to an increase in cash and deposits, to 288,142 million yen.

Liabilities increased 28,065 million yen chiefly due to the issuance of bonds, to 92,677 million yen.

Net assets rose 38,068 million yen from the end of the previous fiscal year, mainly due to the issuance of new shares and disposal of treasury share by way of third-party allotment, to 195,465 million yen.

As a result, the equity ratio declined 2.9 percentage points, to 66.8%.

Cash flows in the third quarter under review were as follows:

Cash provided by operating activities stood at 14,655 million yen. Compared with the third quarter of the previous fiscal year, cash provided declined 677 million yen, mainly due to an increase in notes and accounts receivable-trade.

Cash used in investing activities came to 18,433 million yen. Cash used increased 13,356 million yen year on year.

Cash provided by financing activities was 50,416 million yen. Cash provided increased 59,912 million yen, mainly reflecting proceeds from the issuing of new shares and disposal of treasury share through third-party allotment as well as the issuing of bonds.

As a result, cash and cash equivalents at the end of the third quarter under review increased 46,672 million yen from the end of the previous fiscal year, to 76,573 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2018 published on May 11, 2017 remain unchanged.

2. Quarterly Consolidated Financial Statements and Key Notes
(1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	29,931	82,416
Notes and accounts receivable-trade	40,347	44,059
Securities	—	10,000
Merchandise and finished goods	8,122	7,088
Work in process	14,547	12,271
Raw materials and supplies	29,467	30,379
Other	12,266	12,552
Allowance for doubtful accounts	(4)	(4)
Total current assets	134,679	198,763
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,429	64,702
Other	71,301	78,557
Accumulated depreciation	(71,044)	(74,938)
Total property, plant and equipment	64,686	68,321
Intangible assets	266	441
Investments and other assets		
Investment securities	17,530	15,625
Net defined benefit asset	1,058	1,617
Other	3,786	3,373
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	22,376	20,616
Total non-current assets	87,329	89,379
Total assets	222,008	288,142
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,696	5,389
Short-term loans payable	12,581	25,314
Income taxes payable	1,901	1,997
Provision for sales returns	13	11
Other	10,691	11,164
Total current liabilities	31,883	43,875
Non-current liabilities		
Bonds payable	—	30,000
Long-term loans payable	24,376	9,376
Net defined benefit liability	84	92
Other	8,267	9,332
Total non-current liabilities	32,727	48,801
Total liabilities	64,611	92,677
Net assets		
Shareholders' equity		
Capital stock	19,487	30,142
Capital surplus	1,940	14,027
Retained earnings	129,937	137,837
Treasury shares	(5,393)	(814)
Total shareholders' equity	145,972	181,194
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,845	5,762
Deferred gains or losses on hedges	925	1,204
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	1,470	1,686
Remeasurements of defined benefit plans	(102)	38
Total accumulated other comprehensive income	8,811	11,365
Non-controlling interests	2,613	2,906
Total net assets	157,397	195,465
Total liabilities and net assets	222,008	288,142

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income / For the Third Quarter Consolidated Accumulative Term

(Unit: million yen)

	Nine month period ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	Nine month period ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Net sales	87,959	90,911
Cost of sales	37,423	37,755
Gross profit	50,535	53,155
Selling, general and administrative expenses	36,550	38,020
Operating profit	13,985	15,135
Non-operating income		
Interest income	49	107
Dividend income	382	379
Share of profit of entities accounted for using equity method	44	37
Foreign exchange gains	—	177
Other	317	273
Total non-operating income	793	974
Non-operating expenses		
Interest expenses	104	140
Bond issuance cost	—	143
Share issuance cost	—	108
Foreign exchange losses	35	—
Other	13	33
Total non-operating expenses	153	426
Ordinary profit	14,626	15,684
Extraordinary income		
Gain on sales of non-current assets	1	5
Gain on sales of investment securities	873	1,498
Total extraordinary income	874	1,503
Extraordinary losses		
Loss on sales of non-current assets	14	12
Loss on retirement of non-current assets	26	34
Loss on disaster	5	—
Total extraordinary losses	46	47
Profit before income taxes	15,453	17,140
Income taxes	4,072	4,570
Profit	11,381	12,569
Profit attributable to non-controlling interests	218	267
Profit attributable to owners of parent	11,163	12,302

Quarterly Consolidated Statements of Comprehensive Income / For the Third Quarter Consolidated Accumulative Term

(Unit: million yen)

	Nine month period ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	Nine month period ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Profit	11,381	12,569
Other comprehensive income		
Valuation difference on available-for-sale securities	(213)	1,917
Deferred gains or losses on hedges	1,071	279
Foreign currency translation adjustment	(4,857)	236
Remeasurements of defined benefit plans	153	141
Share of other comprehensive income (loss) of entities accounted for using equity method	(94)	5
Total other comprehensive income (loss)	(3,939)	2,579
Comprehensive income	7,441	15,149
Comprehensive income attributable to		
Owners of parent	7,802	14,856
Non-controlling interests	(360)	293

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: million yen)

	Nine month period ended December 31, 2016 (From April 1, 2016 to December 31, 2016)	Nine month period ended December 31, 2017 (From April 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit before income taxes	15,453	17,140
Depreciation	4,039	4,586
Increase (decrease) in allowance for doubtful accounts	(2)	0
Interest and dividend income	(431)	(486)
Interest expenses	104	140
Bond issuance cost	—	143
Share issuance cost	—	108
Share of (profit) loss of entities accounted for using equity method	(44)	(37)
Loss (gain) on sales and retirement of property, plant and equipment	40	42
Decrease (increase) in notes and accounts receivable - trade	(1,546)	(3,700)
Decrease (increase) in inventories	(565)	2,568
Increase (decrease) in notes and accounts payable - trade	1,369	(1,353)
Loss (gain) on sales of short-term and long-term investment securities	(873)	(1,498)
Decrease (increase) in net defined benefit asset	(211)	(307)
Increase (decrease) in net defined benefit liability	(65)	(40)
Other	3,077	784
Subtotal	<u>20,343</u>	<u>18,090</u>
Interest and dividend income received	452	492
Interest expenses paid	(103)	(132)
Income taxes paid	<u>(5,360)</u>	<u>(3,794)</u>
Net cash provided by (used in) operating activities	<u>15,332</u>	<u>14,655</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,926)	(8,527)
Proceeds from sales of property, plant and equipment	22	12
Purchase of intangible assets	(23)	(214)
Purchase of short-term and long-term investment securities	(8)	(10,008)
Proceeds from sales and redemption of short-term and long-term investment securities	1,874	6,154
Payments for investments in capital of subsidiaries and associates	(238)	—
Payments of loans receivable	(1)	(3)
Collection of loans receivable	3	4
Payments into time deposits	(26)	(6,537)
Proceeds from withdrawal of time deposits	24	708
Other	222	(22)
Net cash provided by (used in) investing activities	<u>(5,077)</u>	<u>(18,433)</u>
Cash flows from financing activities		
Decrease in short-term loans payable	—	(2,267)
Proceeds from issuance of bonds	—	29,856
Proceeds from issuance of common shares	—	21,201
Purchase of treasury shares	(5,001)	(0)
Proceeds from sales of treasury shares	—	6,012
Cash dividends paid	(4,413)	(4,303)
Dividends paid to non-controlling interests	(49)	(49)
Other	(33)	(33)
Net cash provided by (used in) financing activities	<u>(9,496)</u>	<u>50,416</u>
Effect of exchange rate change on cash and cash equivalents	<u>(1,497)</u>	<u>34</u>
Net increase (decrease) in cash and cash equivalents	<u>(738)</u>	<u>46,672</u>
Cash and cash equivalents at beginning of period	25,128	29,901
Increase in cash and cash equivalents from newly consolidated subsidiary	290	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	28	—
Cash and cash equivalents at end of period	<u>24,709</u>	<u>76,573</u>

(4)Notes to the Quaterly Consolidated Financial Statements

(Notes on premise of a going concern)

No relevant items.

(Notes on case of extreme change in shareholder's equity amount)

The Company issued new shares and disposed of treasury share by way of third-party allotment on October 13, 2017, pursuant to a resolution of a meeting of the Board of Directors held on September 22, 2017. As a result, during the first nine months of the consolidated fiscal year under review, capital stock and capital surplus increased 10,654 million yen and 12,087 million yen, respectively, while treasury share declined 4,579 million yen. At the end of the first nine months of the consolidated fiscal year under review, capital stock, capital surplus and treasury share stood at 30,142 million yen, 14,027 million yen and 814 million yen, respectively.

(Transfer of important subsidiaries during the quarter under review)

Though not a transfer of a specified subsidiary, Tsumura China Inc. has been consolidated due to the completion of investment in the company during the first quarter of the fiscal year under review.

(Application of specific accounting treatment to the preparation of quarterly financial statements)

(Deferment of cost variance)

Cost variance caused by seasonal changes in operation rates, etc. is expected to be eliminated for the most part by the end of the cost accounting period, which is, therefore, deferred as “current liabilities (other).”