



Summary of Consolidated Financial Statements for the Second Quarter of the Term Ending March 31, 2019 (Japan GAAP)

November 6, 2018

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Scheduled date of submission: November 7, 2018

Scheduled date of dividend payment commencement: December 5, 2018

Preparation of supplementary materials for the quarterly financial statements: Yes

Holding of the quarterly results briefing: Yes (for institutional investors, securities analysts and news media)

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

1. Consolidated business results for the second quarter of the term ending March 31, 2019

(From April 1, 2018 to September 30, 2018)

(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	%
Six-month period ended September 30, 2018	58,268	(0.0)	8,950	(0.4)	9,566	3.4	7,082	7.1
Six-month period ended September 30, 2017	58,282	3.4	8,985	14.2	9,248	25.6	6,614	24.5

(Note) Comprehensive income : Six-month period ended September 30, 2018: 7,197 million yen [(0.8)%]

Six-month period ended September 30, 2017: 7,254 million yen [- %]

	Profit per share		Fully diluted profit per share	
	Yen		Yen	
Six-month period ended September 30, 2018	92.63		—	
Six-month period ended September 30, 2017	96.16		—	

(2) Consolidated financial conditions

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2018	278,880	201,283	71.1
As of March 31, 2018	292,379	196,533	66.2

(Reference) Shareholders' equity: As of September 30, 2018: 198,273 million yen As of March 31, 2018: 193,599 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	32.00	—	32.00	64.00
Year ending March 31, 2019	—	32.00			
Year ending March 31, 2019 (Projection)			—	32.00	64.00

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

3. Projections of consolidated business results for the term ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(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	120,500	2.2	17,500	2.6	18,000	0.5	12,800	(11.8)	167.41

(Note) Revisions to dividends 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
(Note) Ping An Tsumura Inc. is included in the scope of consolidation in the quarter under review because its importance has increased, although the company does not meet the conditions for transfer of specific subsidiaries.
- (2) Application of special accounting practices in consolidated quarterly financial statements preparation: Yes
(Note) For details, see “2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to the Quarterly Consolidated Financial Statements (application of specific accounting treatment to the preparation of quarterly financial statements)” on page 9 of the material attached hereto.
- (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 3/2019 2Q	76,758,362	FY 3/2018	76,758,362
FY 3/2019 2Q	300,432	FY 3/2018	300,382
FY 3/2019 2Q	76,457,973	FY 3/2018 2Q	68,782,351

* This Summary of Quarterly Consolidated Financial Statements is exempt from quarterly review procedures.

* 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 first half of the consolidated fiscal year (from April 1 to September 30, 2018), net sales fell 14 million yen from the same period of the previous fiscal year to 58,268 million yen due to the effects of the revisions of drug prices undertaken in April 2018.

Looking at profit, operating profit was 8,950 million yen (down 0.4% year on year), ordinary profit was 9,566 million yen (up 3.4% year on year) and profit attributable to owners of parent was 7,082 million yen (up 7.1% year on year). The cost-to-sales ratio fell 1.5 percentage points year on year, due mainly to reduced costs related to crude drugs, which outweighed the cost increase arising from the drug price revisions. On the other hand, the cost-to-SGA ratio rose 1.5 percentage points year on year. As a result, the operating profit margin was 15.4%, on a par with the year-ago level.

Net sales of overall prescription Kampo products remained at the year-ago level. With diversifying needs for Kampo medicine among healthcare professionals, the Company conducts activities for providing appropriate information on evidence in basic and clinical medicine, medical practice guidelines in which Kampo is described and various uses for Kampo medicine prescriptions mainly through meetings with doctors, presentations for medical institutions and Kampo medicine seminars.

The Company will continue to collect and provide more information on Kampo medicine and Kampo products and work to expand the market for Kampo in the three key segments of geriatric field, cancer domain (supportive care) and gynecology field, tapping into the large potential market.

(2) Description of financial condition

The financial position at the end of the first half under review was as follows:

Accompanying the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. in the first quarter of the fiscal year, the Company made comparisons and analysis with the previous fiscal year in the details about financial position described below, using figures after adopting these revised standards retrospectively.

Total assets shrank 13,499 million yen from the end of the previous fiscal year, mainly due to a decrease in cash and deposits as a result of the repayment of the current portion of long-term loans payable, to 278,880 million yen.

Liabilities decreased 18,250 million yen chiefly due to repayment of the current portion of long-term loans payable, to 77,596 million yen.

Net assets rose 4,750 million yen from the end of the previous fiscal year, to 201,283 million yen. As a result, the equity ratio rose 4.9 percentage points, to 71.1%.

Cash flows in the first half under review were as follows:

Cash flow provided by operating activities was 4,479 million yen. In comparison to the first half of the previous fiscal year, cash inflow decreased 6,934 million yen, due largely to a decline in inventories and a rise in income taxes paid.

Cash used in investing activities was 4,534 million yen. In comparison to the first half of the previous fiscal year, cash outflow decreased 14,476 million yen, due largely to a decrease in the purchase of short-term and long-term investment securities and an increase in proceeds from sales and redemption of short-term and long-term investment securities.

Cash used in financing activities was 17,523 million yen. In comparison to the first half of the previous fiscal year, cash outflow increased 42,841 million yen, due largely to a decline in cash inflow resulting from bond issuance and a rise in expenditure resulting from repayment of the current portion of long-term loans payable.

As a result, cash and cash equivalents at the end of the first half under review decreased 18,299 million yen from the end of the previous fiscal year, to 60,014 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2019 published on May 10, 2018 remain unchanged.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Million yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	83,520	76,036
Notes and accounts receivable-trade	42,906	41,320
Securities	3,500	—
Merchandise and finished goods	8,008	9,415
Work in process	12,797	11,618
Raw materials and supplies	29,188	29,678
Other	10,971	16,450
Allowance for doubtful accounts	(4)	(4)
Total current assets	190,888	184,517
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,778	64,826
Other	82,327	84,524
Accumulated depreciation	(75,776)	(78,335)
Total property, plant and equipment	71,329	71,015
Intangible assets	526	682
Investment and other assets		
Investment securities	14,179	16,075
Net defined benefit asset	1,908	2,139
Other	13,547	4,450
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	29,634	22,664
Total non-current assets	101,491	94,363
Total assets	292,379	278,880

(Unit:Million yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,507	6,500
Short-term loans payable	10,314	10,314
Current portion of long-term loans payable	15,000	—
Income taxes payable	3,538	2,670
Provision for sales returns	10	11
Other	14,396	10,426
Total current liabilities	48,766	29,922
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	9,376	9,376
Net defined benefit liability	88	81
Other	7,616	8,216
Total non-current liabilities	47,080	47,673
Total liabilities	95,846	77,596
Net assets		
Shareholders' equity		
Capital stock	30,142	30,142
Capital surplus	14,027	14,027
Retained earnings	140,040	144,676
Treasury shares	(814)	(814)
Total shareholders' equity	183,396	188,031
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,748	6,002
Deferred gains or losses on hedges	323	506
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	2,301	869
Remeasurements of defined benefit plans	157	190
Total accumulated other comprehensive income	10,203	10,241
Non-controlling interests	2,933	3,010
Total net assets	196,533	201,283
Total liabilities and net assets	292,379	278,880

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

(Unit:Million yen)

	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net sales	58,282	58,268
Cost of sales	24,404	23,536
Gross profit	33,878	34,732
Selling, general and administrative expenses	24,893	25,782
Operating profit	8,985	8,950
Non-operating income		
Interest income	33	129
Dividend income	202	124
Share of profit of entities accounted for using equity method	35	35
Foreign exchange gains	104	319
Other	148	136
Total non-operating income	524	745
Non-operating expenses		
Interest expenses	90	87
Bond issuance cost	143	—
Other	27	41
Total non-operating expenses	261	129
Ordinary profit	9,248	9,566
Extraordinary income		
Gain on sales of non-current assets	4	0
Gain on sales of investment securities	25	324
Total extraordinary income	30	325
Extraordinary losses		
Loss on sales of non-current assets	12	0
Loss on retirement of non-current assets	28	46
Total extraordinary losses	40	46
Profit before income taxes	9,238	9,844
Income taxes	2,469	2,575
Profit	6,768	7,268
Profit attributable to non-controlling interests	153	186
Profit attributable to owners of parent	6,614	7,082

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

(Unit:Million yen)

	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Profit	6,768	7,268
Other comprehensive income		
Valuation difference on available-for-sale securities	549	1,254
Deferred gains or losses on hedges	296	182
Foreign currency translation adjustment	(446)	(1,515)
Remeasurements of defined benefit plans	94	33
Share of other comprehensive income (loss) of entities accounted for using equity method	(7)	(26)
Total other comprehensive income (loss)	486	(71)
Comprehensive income	7,254	7,197
Comprehensive income attributable to		
Owners of parent	7,154	7,120
Non-controlling interests	99	76

(3) Quarterly Consolidated Statements of Cash Flows

(Unit:Million yen)

	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Profit before income taxes	9,238	9,844
Depreciation	3,028	3,146
Increase (decrease) in allowance for doubtful accounts	0	(0)
Interest and dividend income	(236)	(254)
Interest expenses	90	87
Bond issuance cost	143	—
Share of (profit) loss of entities accounted for using equity method	(35)	(35)
Loss (gain) on sales and retirement of property, plant and equipment	36	45
Decrease (increase) in notes and accounts receivable - trade	(1,883)	1,555
Decrease (increase) in inventories	3,031	(1,152)
Increase (decrease) in notes and accounts payable - trade	(650)	1,073
Loss (gain) on sales of short-term and long-term investment securities	(25)	(324)
Decrease (increase) in net defined benefit asset	(192)	(193)
Increase (decrease) in net defined benefit liability	(43)	2
Other	415	(6,266)
Subtotal	12,916	7,528
Interest and dividend income received	238	286
Interest expenses paid	(61)	(94)
Income taxes paid	(1,680)	(3,241)
Net cash provided by (used in) operating activities	11,413	4,479
Cash flows from investing activities		
Decrease (increase) in time deposits	(4,620)	(1,000)
Purchase of property, plant and equipment	(4,315)	(6,049)
Proceeds from sales of property, plant and equipment	11	1
Purchase of intangible assets	(121)	(194)
Purchase of short-term and long-term investment securities	(10,006)	(3,806)
Proceeds from sales and redemption of short-term and long-term investment securities	39	7,501
Purchase of investments in capital of subsidiaries	—	(952)
Payments of loans receivable	(3)	(1)
Collection of loans receivable	2	1
Other	0	(33)
Net cash provided by (used in) investing activities	(19,011)	(4,534)

(Unit:Million yen)

	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from financing activities		
Decrease in short-term loans payable	(2,267)	—
Repayments of long-term loans payable	—	(15,000)
Proceeds from issuance of bonds	29,856	—
Cash dividends paid	(2,199)	(2,446)
Dividends paid to non-controlling interests	(49)	(54)
Other	(22)	(22)
Net cash provided by (used in) financing activities	25,317	(17,523)
Effect of exchange rate change on cash and cash equivalents	(181)	(720)
Net increase (decrease) in cash and cash equivalents	17,538	(18,299)
Cash and cash equivalents at beginning of period	29,901	78,313
Cash and cash equivalents at end of period	47,439	60,014

(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)

No relevant items.

(Transfer of important subsidiaries during the quarter under review)

No relevant items.

In this regard, Ping An Tsumura Inc. is included in the scope of consolidation in the quarter under review because its importance has increased, although the said company does not meet the conditions for transfer of specific subsidiaries.

(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).”

(Additional information)

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc.)

The Company adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. at the beginning of the first quarter under review. Accordingly, “deferred tax assets” is now included in “investment and other assets,” and “deferred tax liabilities” is now included in “non-current liabilities.”